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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-7882

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

Delaware
(State or other jurisdiction
of
incorporation or organization)

94-1692300
(I.R.S. Employer
Identification No.)

One AMD Place,
Sunnyvale, California
(Address of principal executive offices)

94086
(Zip Code)

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

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

| (Title of each class) | (Name of each exchange on which registered) |
|--|--|
| ----- \$.01 Par Value Common Stock | ----- New York Stock Exchange |

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

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

Aggregate market value of the voting stock held by non-affiliates as of February 25, 2002.

\$4,630,673,874

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

341,243,469 shares as of February 25, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Annual Report to Stockholders for the fiscal year ended December 30, 2001, are incorporated into Parts II and IV hereof.
- (2) Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2002, are incorporated into Part III hereof.

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AMD, Advanced Micro Devices, AMD-K6, AMD Athlon, AMD Duron, Am486, QuantiSpeed, 3DNow! and Elan are either our trademarks or our registered trademarks in the United States and/or other jurisdictions. Vantis is a trademark of Lattice Semiconductor Corporation. Legerity is a trademark of Legerity, Inc. Microsoft, Windows, Windows NT and MS-DOS are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other jurisdictions. Other terms used to identify companies and products may be trademarks of their respective owners.

PART I

ITEM 1. BUSINESS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report 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 from expectations. The forward-looking statements relate to, among other things: operating results; anticipated cash flows; capital expenditures; gross margins; adequacy of resources to fund operations and capital investments; our ability to produce AMD Athlon(TM) and AMD Duron(TM) microprocessors with the performance and in the volume required by customers on a timely basis; our ability to maintain average selling prices of seventh-generation microprocessors despite aggressive marketing and pricing strategies of our competitors; our ability to increase customer and market acceptance of our seventh- and eighth-generation microprocessors; our ability, and the ability of third parties, to provide timely infrastructure solutions (motherboards and chipsets) to support our microprocessors; a recovery in the communication and networking industries leading to an increase in the demand for Flash memory products; the effect of foreign currency hedging transactions; the process technology transition in our submicron integrated circuit manufacturing and design facility located in Dresden, Germany (Dresden Fab 30); and the financing, construction and utilization of the Fujitsu AMD Semiconductor Limited (FASL) manufacturing facilities. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Financial Condition" and "Risk Factors" sections set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2001 Annual Report to Stockholders and such other risks and uncertainties as set forth below in this report or detailed in our other Securities and Exchange Commission reports and filings.

General

Advanced Micro Devices, Inc. was incorporated under the laws of Delaware on May 1, 1969. Our mailing address and executive offices are located at One AMD Place, Sunnyvale, California 94086, and our telephone number is (408) 732-2400.

Unless otherwise indicated, references in this report to "AMD," "we" and "us" include our subsidiaries.

We are a semiconductor manufacturer with manufacturing facilities in the United States, Europe and Asia and sales offices throughout the world. Our products include a wide variety of industry-standard digital integrated circuits (ICs) that are used in many diverse product applications such as personal computers (PCs), workstations, servers, telecommunications equipment, data and network communications equipment and consumer electronics.

For financial information about geographic areas and for segment information with respect to sales, operating results and identifiable assets, refer to the information set forth in Note 9 of the Consolidated Financial Statements contained in our 2001 Annual Report to Stockholders.

For a discussion of the risk factors related to our business operations, please see the "Cautionary Statement Regarding Forward-Looking Statements," "Risk Factors" and "Financial Condition" sections set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2001 Annual Report to Stockholders.

The IC Industry

The IC market has grown dramatically over the past decade, driven primarily by the demand for electronic business and consumer products. Today, virtually all electronic products use ICs, including PCs and related peripherals, voice and data communications and networking products, facsimile and photocopy machines, home entertainment equipment, industrial control equipment and automobiles.

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The market for ICs can be divided into separate markets for digital and analog devices. We participate in the market for digital ICs. The three types of digital ICs used in most electronic systems are:

- . microprocessors, which are used for control and computing tasks, and complementary chipset devices;
- . memory circuits, which are used to store data and programming instructions; and
- . logic circuits, which are employed to manage the interchange and manipulation of digital signals.

A discussion of the principal areas of the digital IC market in which we participate follows.

The Microprocessor Market

The microprocessor market consists of two broad categories, which are based on the function of the products. A microprocessor that performs computing tasks is known as the Central Processing Unit (CPU) of a computer system. Microprocessors used for control applications are often referred to as embedded processors. AMD participates primarily in the CPU category, which is the largest category within the microprocessor market.

A CPU processor is an IC, generally consisting of millions of transistors, that serves as the brain of a computer system such as a PC. The CPU processor is typically the component most critical to the performance and efficiency of a PC. The CPU processor controls data flowing through the electronic system and manipulates data as specified by the hardware and software that controls the system. In 1981, International Business Machines Corporation (IBM) introduced its first PC containing a microprocessor based upon the x86 instruction set developed by Intel Corporation and utilizing the Microsoft Corporation MS-DOS(R) operating system. As circuit design and large scale integration

process technology have evolved, performance and functionality of each new generation of x86 microprocessors have increased. The x86 microprocessor market has been dominated by Intel since IBM's introduction of the PC.

The x86 microprocessor market is characterized by intense competition, short product life cycles and rapid advances in product design and process technology. Today, the greatest demand for microprocessors is from PC manufacturers. With few exceptions, PC manufacturers require x86 microprocessors that are compatible with the Microsoft Windows(R) operating system. Improvements in the performance characteristics of microprocessors and decreases in production costs resulting from advances in process technology have broadened the market for PCs and, as a result, increased the demand for microprocessors.

The market for PC original equipment manufacturers (OEMs) is highly competitive. Most PC suppliers have evolved from fully integrated manufacturers with proprietary system designs to vendors focused on building brand recognition and distribution capabilities. Almost all of these suppliers now rely on Intel or on third-party manufacturers for the major subsystems of their PCs, such as the motherboard and chipsets. These suppliers are also increasingly outsourcing the design and manufacture of complete systems. The third-party manufacturers of these subsystems, based primarily in Asia, are focused on providing PCs, motherboards and complementary chipset devices that incorporate the latest trends in features and performance at low prices. Increasingly, these third-party manufacturers are also supplying fully configured PC systems through alternative distribution channels.

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

The Memory Market

Memory ICs store data and instructions and are characterized as either volatile or non-volatile. Volatile devices lose their stored information after electrical power is shut off while non-volatile devices retain their

stored information. The three most significant categories of semiconductor memory devices are (1) Dynamic Random Access Memory (DRAM) and (2) Static Random Access Memory (SRAM), both of which are volatile memories, and (3) non-volatile memory, which includes Flash memory, Read-Only Memory (ROM), Erasable Programmable Read-Only Memory (EPROM), and Electrically Erasable Programmable Read-Only Memory (EEPROM) devices.

DRAM provides large capacity main memory, and SRAM provides specialized high-speed memory. We do not produce any DRAM products, which make up the largest part of the memory market, or SRAM products.

AMD produces Flash memory devices and EPROM devices. Flash and other non-volatile memory devices are used in applications in which data must be retained after power is turned off. Several factors have contributed to an increasing demand for memory devices in recent years, including the:

- . expanding unit sales of PCs in the business and consumer markets;
- . increasing use and functionality of cellular phones;
- . increasing use of PCs to perform memory-intensive graphics and multimedia functions;

- . volume of memory required to support faster microprocessors;
- . proliferation of increasingly complex PC software; and
- . increasing performance requirements of workstations, servers and networking and telecommunications equipment.

Flash memory devices are being utilized for an expanding range of uses. Flash memory devices have a size and cost advantage over EEPROM devices, which utilize a larger, more expensive memory cell. Flash memory devices also provide greater flexibility and ease of use when compared to other non-volatile memory devices, such as ROM and EPROM, because Flash memory devices can be electrically rewritten to update parameters or system software; ROM cannot be rewritten and EPROM requires information to be erased using ultraviolet light before it can be rewritten. Flash memory devices are used to store control programs and system-critical data in communication devices such as cellular telephones and routers, which are devices used to transfer data between local area networks. Flash memory devices are also used in PC cards, which are inserted into notebook and subnotebook computers or personal digital assistants to provide added data storage.

The Logic Market

Logic devices consist of structurally interconnected groupings of simple logical "AND" and logical "OR" functions, commonly described as "gates." Typically, complex combinations of individual gates are required to implement the specialized logic functions required for system applications. The greater the number of gates on a logic device, the higher that logic device's density and, in general, device cost (for a particular process and architecture). Logic devices are generally grouped into five families of products (from lowest density to highest density):

- . standard logic devices;
- . programmable logic devices (PLDs);
- . conventional gate-arrays;
- . standard cells; and
- . full custom ICs.

Conventional gate-arrays, standard cells and full-custom ICs are often referred to as application-specific ICs (ASICs).

Many manufacturers of electronic systems are striving to develop new and increasingly complex products to address rapidly evolving market opportunities. Achievement of this goal often precludes the use of standard logic ICs and ASICs. Standard logic ICs generally perform simple functions and cannot be customized, limiting a manufacturer's ability to adequately tailor an end-product system. Although ASICs can be manufactured to perform customized functions, they generally involve relatively high initial design, engineering and manufacturing costs and significant design risks, and may increase an end-product's time to market. As a result, ASICs are generally limited to high-volume products and products for which time to market may be less critical.

A growing category of the full custom IC market is Application Specific Standard Products (ASSPs). In this category, a full custom design, such as an Ethernet controller, is used to implement a particular function and is sold to multiple customers. Because the market requirements for these products have become increasingly standard, they can achieve the functional advantages of full custom design with the time to market advantages of a standard product. Almost all of our networking products are a part of the ASSP category.

Unlike ASICs and standard logic ICs, PLDs are standard products purchased by system manufacturers in an unprogrammed or blank state. Each system manufacturer may then program the PLDs to perform a variety of specific logic functions. Certain PLDs are reprogrammable. Compared to standard logic ICs and ASICs, PLDs allow system designers to design and implement custom logic more quickly.

On June 15, 1999, we sold Vantis Corporation, our PLD subsidiary, to Lattice Semiconductor Corporation. We now function as a foundry to Vantis and plan to continue to provide services to it through October 2002.

Product Segments

In 2001, we participated in all three technology areas within the digital IC market--microprocessors, memory circuits and logic circuits--through our Core Products and Foundry Services segments. Our Core Products segment includes our PC processors, memory products and other IC products. In 2001, PC processors included our seventh-generation microprocessors, the AMD Athlon(TM) and AMD Duron(TM) microprocessors, and our sixth-generation microprocessors. Memory products included Flash memory devices and EPROM devices. Other IC products included embedded processors, platform products, which primarily consist of chipsets, and networking products. Our Foundry Services segment consisted of service fees from Legerity, Inc., our former voice communication products subsidiary, and Vantis.

Core Products

Our Core Products segment (\$3.8 billion, or 97 percent, of our 2001 net sales) includes PC processor, memory and other IC products.

PC Processors

In 2001, our most significant microprocessor product sales were from the AMD Athlon and AMD Duron microprocessors, our seventh-generation microprocessors. We based AMD Athlon and AMD Duron microprocessors on superscalar RISC architecture and designed them to be compatible with operating system software such as Windows XP, Windows 2000, Windows NT(R), Windows 98 (and Windows predecessor operating systems), Linux, NetWare(R) and UNIX.

We introduced the AMD Athlon XP processor for high-performance desktop computers in October 2001. The AMD Athlon XP processor features QuantiSpeed(TM) architecture and 3DNow!(TM) Professional technology. We also announced plans to drive an initiative to develop a reliable processor performance metric. Historically, x86 microprocessors have improved both instructions (work) per clock and frequency compared to older generations. However, this is not true with some processors today. Therefore, megahertz cannot be solely relied upon as a measure of system performance. We therefore identify the AMD Athlon XP processor using model numbers, as opposed to clock speed in megahertz.

Maintaining PC processor sales levels in 2002 depends on a continuing successful technology transition in our manufacturing facility located in Dresden, Germany (Dresden Fab 30), our ability to maintain average selling prices for our seventh-generation microprocessors, continuing growth in unit shipments of our PC processors, and increasing market acceptance of the newest versions of the AMD Athlon and AMD Duron microprocessors.

We plan to continue to make significant capital expenditures to support our microprocessor and Flash memory products both in the near and long term. Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors, depends upon the continuing success of our seventh-generation and future generations of microprocessors, beginning with the eighth-generation family of microprocessors code-named "Hammer," that we currently plan to

introduce at the end of 2002. The Hammer microprocessors will be our first PC processors capable of 64-bit operation and are being designed to deliver leading-edge performance on both the 64-bit software used by high-end workstations and servers and the 32-bit software used by the majority of desktop users.

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 fast pace and offer higher performance microprocessors in significantly greater volumes. We also must achieve yield and volume goals while producing these higher performance microprocessors in order to offer these products at competitive prices.

Intel has dominated the market for microprocessors used in PCs for many years. As a result, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the market requires of Intel's competitors. In addition, the financial strength of Intel allows it to market its products aggressively, target our customers and our channel partners with special incentives and discipline customers who do business with us. These aggressive activities can result in lower average selling prices for us and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand and other marketing programs. As long as Intel remains in this dominant position, we may be materially and adversely affected by its:

- . pricing and allocation strategies;
- . product mix and introduction schedules;
- . product bundling, marketing and merchandising strategies;
- . control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system (BIOS) suppliers; and
- . user brand loyalty.

We expect Intel to maintain its dominant position in the marketplace as well as to continue to invest heavily in research and development, new manufacturing facilities and other technology companies.

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, distributors of 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, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

To compete with Intel in the microprocessor market in the future, we intend to continue to form close relationships with third-party designers and manufacturers of chipsets, motherboards, graphics chips, 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 processors and companion products. We cannot be certain, however, that our efforts will be successful.

We do not currently plan to develop microprocessors that are bus interface protocol compatible with Intel microprocessors because our patent cross-license agreement with Intel does not extend to microprocessors that are bus interface

protocol compatible with Intel's sixth and subsequent generation processors. Thus, the AMD Athlon and AMD Duron microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. The same will be true of our Hammer family microprocessors. Accordingly, our ability to compete with Intel in the market for seventh-generation and eighth-generation microprocessors will depend on our ability to ensure that the microprocessors can be used in PC platforms designed to support our microprocessors or that platforms are available that support both Intel processors and our microprocessors.

Memory Products

Flash Memory Devices. Our Flash memory devices are used in cellular telephones, networking equipment and other applications that require memory to be non-volatile and electrically rewritten. The ability of Flash memory devices to be electrically rewritten provides greater flexibility and ease of use when compared to EPROMs and other similar integrated circuits that do not share this feature.

Communications companies use Flash memory devices in cellular telephones and related equipment to enable users to add and modify frequently called numbers and to allow manufacturers to preprogram firmware and other information. In networking applications, Flash memory devices are used in hubs, switches and routers to enable systems to store firmware and reprogrammed Internet addresses and other routing information. Use of Flash memory devices is proliferating into a variety of other applications, such as set-top boxes, automotive control systems, personal digital assistants, digital cameras and other consumer electronic items. However, we expect competition in the market for Flash memory devices to increase in 2002 and beyond as existing manufacturers introduce new products and industry-wide production capacity increases.

In 2001, most of our Flash memory devices were produced in Japan through Fujitsu AMD Semiconductor Limited (FASL), our joint venture with Fujitsu Limited, with additional devices produced under FASL's foundry arrangements.

EPROM Devices. EPROMs represent an older generation of erasable, programmable read-only memory technology, which is used primarily in the electronic equipment industry. These devices are used in cellular telephones, wireless base stations, telecommunication switching equipment, automotive applications, PC hard disk drives, printer controllers, industrial machine controls and numerous other types of electronic equipment to store firmware, which controls the equipment's operation. EPROMs are generally preferred over more expensive Flash memory devices in applications where end users do not need to reprogram the information stored on the IC. We believe the market for EPROMs, which is significantly smaller than the market for Flash memory devices, will continue to decline as EPROMs are replaced in various applications by Flash memory devices.

Other ICs

Embedded Processors. Our embedded processors are x86 software compatible general purpose processors designed specifically for embedded applications. Our 16-bit family of E86 embedded processors are built around the C186/C188 processor with additional integrated features such as additional memory, serial ports, high-level data link control channels or universal serial bus ports. Our 32-bit E86 family of embedded processors includes the AMD-K6(R)-2E+, AMD-K6-IIIIE+ and Am486(R) discrete processors as well as the Elan(TM)SC400 and ElanSC520 fully integrated processors. Our Elan processors integrate the PC AT peripheral set on chip to serve small form factor applications.

Platform Products. Our platform products include chipsets and motherboard reference design kits designed to support AMD seventh-generation microprocessors for use in PCs. Since the AMD Athlon, AMD Duron and Hammer family microprocessors are not designed to function with chipsets and motherboards designed to work with Intel microprocessors, we must develop compatible platform products. We license the

design interface specifications for these products to third-party manufacturers to facilitate the sale of our microprocessors. It is possible that from time to time a third-party manufacturer will be unable to make chipset products available to the market at the same time our microprocessor products are introduced. Since the lack of availability of these third-party chipsets could impact our ability to sell our microprocessors, we manufacture a quantity of chipsets within our own fabrication facilities or our authorized foundries on a limited basis. We are then able to have a supply of products available for sale, should the need exist, until they are available from the third-party manufacturers.

Networking Products. Our networking products include logic devices that are used in the data communication and networking industry to establish and manage connectivity.

Our product portfolio encompasses the following local area network (LAN) products:

- . home networking controllers and physical layer products;
- . Ethernet controllers supporting the enterprise and small business networking areas;
- . Ethernet physical layer and repeater products which are used in enterprise and small business systems solutions; and
- . Ethernet physical layer and switch products which are used in enterprise, small business and telecommunication systems.

Foundry Services

Our Foundry Services segment (\$98 million, or 3 percent of our 2001 net sales) includes fees for services provided to Vantis and Legerity. We will no longer function as a foundry to Legerity after June 2002, in connection with the closure of Fabs 14 and 15 as detailed below under "Manufacturing Facilities." We plan to continue to provide foundry services to Vantis through October 2002.

Acquisition of Alchemy Semiconductor

On February 19, 2002, we acquired Alchemy Semiconductor, Inc., a privately held company that designs, develops and markets low power, high performance microprocessors for personal connectivity devices such as personal digital assistants, web tablets, and portable and wired Internet access devices and gateways. Employees of Alchemy will be part of our new Personal Connectivity Solutions group, which will be dedicated to delivering connectivity solutions for the non-PC devices listed above.

Research and Development; Manufacturing Technology

Our expenses for research and development were \$651 million in 2001, \$642 million in 2000 and \$636 million in 1999. These expenses represented 17 percent of net sales in 2001, 14 percent of net sales in 2000 and 22 percent of net sales in 1999.

Our research and development expenses are charged to operating expenses as they are incurred. Most of our research and development personnel are integrated into our engineering staff.

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

Our efforts concerning process technologies are focused in two major areas: logic technology used by our microprocessors and embedded processors and non-volatile memory technology used by Flash memory products. Our goals are to improve product performance, increase manufacturing volumes and reduce unit costs.

In order to remain competitive, we must continue to make substantial investments in the improvement of 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 microprocessor or Flash memory products should significantly deteriorate. In addition, if we are unable to remain competitive with respect to process technology, we will be materially and adversely affected.

Competition

The IC industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market and 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.

In each area of the digital IC market in which we participate, we face competition from different companies. With respect to microprocessors, Intel holds a dominant market position. With respect to Flash memory products, our principal competitors are Intel, STMicroelectronics N.V., Sharp Electronics Corporation, Atmel Corporation and Fujitsu, our joint venture partner in FASL.

Manufacturing Facilities

Our current IC manufacturing facilities are described in the chart set forth below:

| Facility Location | Wafer Size (Diameter in Inches) | Production Technology (in Microns) | Approximate Clean Room (Square Footage) |
|-----------------------|------------------------------------|---------------------------------------|--|
| Austin, Texas | | | |
| Fab 25..... | 8 | 0.18 | 120,000 |
| Fabs 14 and 15..... | 6 | 0.5 | 42,000 |
| Aizu-Wakamatsu, Japan | | | |
| FASL JV1/(1)/..... | 8 | 0.35 | 70,000 |
| FASL JV2/(1)/..... | 8 | 0.25 & 0.35 | 91,000 |
| FASL JV3/(1)/..... | 8 | 0.17 | 118,000 |
| Dresden, Germany | | | |
| Fab 30..... | 8 | 0.18 | 115,100 |

/(1)/ We own 49.992 percent of FASL. Fujitsu owns 50.008 percent of FASL.

In connection with a restructuring plan announced in September 2001, AMD

will close Fabs 14 and 15 at the end of the second quarter of 2002.

The FASL JV3 building and clean room were completed and released to production with volume revenue shipments beginning in the fourth quarter of 2001.

We also have foundry arrangements for the production of our products by third parties.

Research and development are conducted at our Submicron Development Center, a 42,000 square foot facility located in Sunnyvale, California, Fab 25 and Dresden Fab 30.

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

| Facility Location | Approximate Assembly & Test Square Footage | Activity |
|------------------------|--|-----------------|
| Penang, Malaysia..... | 377,000 | Assembly & Test |
| Bangkok, Thailand..... | 78,000 | Assembly & Test |
| Singapore..... | 162,000 | Test |
| Suzhou, China..... | 30,250 | Assembly & Test |

As set forth above, nearly all product assembly and final testing of our products are performed at our manufacturing facilities in Penang, Malaysia; Bangkok, Thailand; Suzhou, China; and Singapore; or by subcontractors in the United States and Asia. We also depend on foreign foundry suppliers and joint ventures for the manufacture of a portion of our finished silicon wafers and have international sales operations. The political and economic risks associated with our manufacturing facilities and other operations in foreign countries include:

- . expropriation;
- . changes in a specific country's or region's political or economic conditions;
- . trade protection measures and import or export licensing requirements;
- . difficulty in protecting our intellectual property;
- . changes in foreign currency exchange rates and currency controls;
- . changes in freight and interest rates;
- . disruption in air transportation between the United States and our overseas facilities; and
- . loss or modification of exemptions for taxes and tariffs.

Certain Material Agreements. Descriptions of certain material contractual relationships we have relating to FASL, Dresden Fab 30, Motorola and UMC are set forth below:

FASL. In 1993, we formed FASL, a joint venture with Fujitsu, for the development and manufacture of non-volatile memory devices. FASL operates advanced IC manufacturing facilities in Aizu-Wakamatsu, Japan (FASL JV1, FASL

JV2 and FASL JV3), for the production of Flash memory devices, which are sold to us and Fujitsu. FASL is continuing the facilitization of FASL JV2 and FASL JV3.

We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately \$1.5 billion of these costs had been funded by cash generated from FASL operations. However, to the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL, up to 25 billion yen (\$192 million). As of December 30, 2001, we had \$148 million in loan guarantees outstanding with respect to FASL third-party loans. These costs are incurred in Japanese yen and are, therefore, subject to change due to foreign exchange rate fluctuations. On December 30, 2001, the exchange rate was 128.02 yen to one U.S. dollar, the rate we used to translate the amounts denominated in yen into U.S. dollars.

In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted

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on any payment due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

In connection with FASL, AMD and Fujitsu have entered into various joint development, cross-license and investment arrangements. Pursuant to these agreements, the companies are providing their product designs and process and manufacturing technologies to FASL. In addition, both companies are collaborating in developing manufacturing processes and designing Flash memory devices for FASL. The right of each company to use the licensed intellectual property of the other with respect to certain products is limited both in scope and geographic areas. For instance, AMD and Fujitsu have cross-licensed their respective intellectual property to produce stand-alone Flash memory devices with geometrics of 0.5 micron or smaller within the joint venture. Furthermore, our ability to sell Flash memory products incorporating Fujitsu intellectual property, whether or not produced by FASL, is also limited in Japan. Fujitsu is likewise limited in its ability to sell Flash memory devices incorporating our intellectual property, whether or not produced by FASL, in the United States.

While the FASL joint venture has been successful to date, there can be no assurance that Fujitsu and AMD will elect to continue the joint venture in its present form or at all.

Dresden Fab 30. AMD Saxony Manufacturing GmbH (AMD Saxony), an indirect wholly owned German subsidiary of AMD, continues to facilitate Dresden Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are providing credit support for the project. We currently estimate construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. As of December 30, 2001, we had invested \$1.8 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 in order to finance the project. Because most of the amounts under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth below are subject to change based on applicable conversion rates. We used the exchange rate as of December 30, 2001, which was approximately 2.17 deutsche marks to one U.S. dollar, to value the amounts denominated in deutsche marks. 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 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, as of December 30, 2001, we have invested \$334 million in the form of subordinated loans to and equity investments in AMD Saxony. In addition to support from us, the consortium of banks referred to above has made available up to \$692 million in loans to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$602 million of such loans outstanding through December 30, 2001.

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 equal to the lesser of 65 percent of AMD Saxony bank debt or \$692 million;
- . capital investment grants and allowances totaling \$286 million; and

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- . interest subsidies totaling \$142 million.

Of these amounts, AMD Saxony had received approximately \$284 million in capital investment grants and allowances and \$64 million in interest subsidies through December 30, 2001. The grants and subsidies are subject to conditions, including meeting specified levels of employment by 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 December 30, 2001, we were in compliance with all of the conditions of the grants and subsidies.

In February 2001, we amended the Dresden Loan Agreements to reflect new capacity and increased capital expenditure plans for Dresden Fab 30. Under the February 2001 amendments, we agreed to increase and extend our guaranty of AMD Saxony's obligations and to make available to AMD Saxony revolving loans of up to \$500 million. We expanded our obligation to reimburse AMD Saxony for the cost of producing wafers for us, and we also agreed to cancel the cost overrun facility made available by the banks. Under the February 2001 amendments, we were released from financial covenants limiting capital expenditures and requiring AMD Saxony to achieve capacity and production cost targets by the end of 2001. As of December 30, 2001, \$59 million of the revolving loans were outstanding. The revolving loan amounts are denominated in European Union euros and are, therefore, subject to change due to foreign exchange rate fluctuation. We used the exchange rate on December 30, 2001, 1.11 euros to one U.S. dollar, to translate the amount of the revolving loans.

The Dresden Loan Agreements, as amended, 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; and
- . guarantee up to 35 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$100 million or more than \$277 million, until the bank loans are repaid in full.

AMD Saxony would be in default under the Dresden Loan Agreements if we, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding), the parent company of AMD Saxony and a wholly owned subsidiary of AMD, fail to comply with certain obligations thereunder or upon the occurrence of certain events including:

- . material variances from the approved plans and specifications;
- . 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 our Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by a domestic financial institution, effective on July 13, 1999.

Generally, any default with respect to borrowings made or guaranteed by AMD that results in recourse to us of more than \$2.5 million and is not cured by us, would result in a cross-default under the Dresden Loan Agreements and the Loan Agreement. As of December 30, 2001, we were in compliance with all conditions of the Dresden Loan Agreements.

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In the event we are unable to meet our obligations to AMD Saxony as required under the Dresden Loan Agreements, we will be in default under the Dresden Loan Agreements and the Loan Agreement, which default would permit acceleration of certain indebtedness, which could have a material adverse effect on us. We cannot assure that we will be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on us.

We entered into foreign currency hedging transactions for Dresden Fab 30 in 1999, 2000 and 2001 and anticipate entering into additional foreign currency hedging transactions in 2002 and in future years. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations on our foreign currency exposures in our foreign sales subsidiaries, liabilities for products purchased from FASL and for foreign currency denominated fixed asset purchase commitments. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisition. Our accounting policy for these instruments is based on our designation of such instruments as hedging transactions. We generally do not use derivative financial instruments for speculative or trading purposes.

Motorola. In 1998, we entered into an alliance with Motorola for the development of logic and Flash memory process technology. The alliance includes a technology development and license agreement and a patent cross-license

agreement. Licenses under the agreement may be subject to variable royalty rates. We are currently working with Motorola to cease our joint process development efforts in the second half of 2002.

UMC Alliance. On January 31, 2002, we announced an alliance with United Microelectronics Corporation (UMC) under which UMC and AMD will establish a joint venture to own and operate a state-of-the-art, 300-mm wafer fabrication facility in Singapore for high-volume production of PC processors and other logic products. As part of the alliance, we and UMC will collaborate in the development of advanced process technologies for semiconductor logic products. We separately announced a foundry agreement under which UMC will produce PC processors to augment Dresden Fab 30 production capacity for devices produced on 130-nanometer and smaller-geometry technology.

Marketing and Sales

Our products are marketed and sold under the AMD trademark. We employ a direct sales force through our principal facilities in Sunnyvale, California, and field sales offices throughout the United States and abroad, primarily Europe and Asia Pacific. We also sell our products through third-party distributors and independent representatives in both domestic and international markets pursuant to nonexclusive agreements. The distributors also sell products manufactured by our competitors. No single distributor or OEM customer accounted for ten percent or more of our net sales in 2001. In 2000 and 1999, one of our OEM customers accounted for approximately 11 and 13 percent of net sales. No distributor accounted for ten percent or more of net sales in 2000 or 1999.

Distributors typically maintain an inventory of our products. Generally, we sell to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise held by them. 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.

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.

Raw Materials

Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. For example, we are dependent on key chemicals from a limited number of suppliers and rely on a few foreign companies to supply the majority of certain types of the IC packages we purchase. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If

we were unable to procure certain of these materials, we might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on our business. To date, we have not experienced significant difficulty in obtaining the raw materials required for our manufacturing operations.

Environmental Regulations

Our business involves the use of hazardous materials. If we fail to comply with governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing processes, we may be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations. Such regulations could require us to procure expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure to control the use of, 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. Violations of environmental laws may result in criminal and civil liabilities.

Intellectual Property and Licensing

We have been granted over 4,300 United States patents and have several thousand patent applications pending in the United States. In certain cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate.

In May 2001, we signed a 10-year cross-licence agreement with Intel Corporation. In addition, we have entered into numerous cross-licensing and technology exchange agreements with other companies under which we both transfer and receive technology and intellectual property rights. Although we attempt to protect our intellectual property rights, in the United States and abroad, through patents, copyrights, trade secrets and other measures, we may not be able to adequately protect our technology or other intellectual property or prevent others from independently developing similar technology. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented, or rights granted thereunder may not provide a competitive advantage to us. Further, patent applications that we file may not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property rights on a worldwide basis.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that all necessary licenses can be obtained on satisfactory terms, or at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material and adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us or others will always be avoided or successfully concluded.

Backlog

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

Employees

On January 27, 2002, we employed approximately 14,415 employees, none of whom are represented by collective bargaining arrangements. We believe that our relationship with our employees is good.

Executive Officers of the Registrant

W. J. Sanders III--Mr. Sanders, 65, is our Chairman of the Board and Chief Executive Officer and has been since he co-founded AMD in 1969. Mr. Sanders will retire as Chief Executive Officer on April 25, 2002; if re-elected, Mr. Sanders will serve as Chairman of the Board through December 27, 2003.

Hector de J. Ruiz--Dr. Ruiz, 56, is our President and Chief Operating Officer. Dr. Ruiz will be appointed our Chief Executive Officer on April 25,

2002. Dr. Ruiz joined AMD in January 2000. Before joining AMD, Dr. Ruiz had been President of the Semiconductor Products Sector of Motorola, Inc. since 1997. Dr. Ruiz had held various executive positions with Motorola since 1977.

Benjamin M. Anixter--Mr. Anixter, 64, is our Vice President, External Affairs, and has been since 1987. Mr. Anixter became a corporate officer in April of 1999. He has held positions with us since 1971.

Robert R. Herb--Mr. Herb, 40, is our Executive Vice President, Chief Sales and Marketing Officer. Mr. Herb joined AMD in 1983. In 1998, Mr. Herb became an officer of AMD and was promoted to Senior Vice President and Co-Chief Marketing Officer. From 1996 until 1998, Mr. Herb served as the Vice President of Group Strategic Marketing for the Computation Products Group. Before that, he was a director of marketing for the Personal Computer Products Division.

Walid Maghribi--Mr. Maghribi, 49, was our Senior Vice President and President of the Memory Group until he resigned on March 1, 2002. Mr. Maghribi joined us in 1986 and was Group Vice President, Memory Group before being promoted to Senior Vice President and President of the Memory Group in 2001. Before joining AMD, Mr. Maghribi was Director of Operations of Seeq Technology, which he joined in 1982.

Thomas M. McCoy--Mr. McCoy, 51, is our Senior Vice President, General Counsel and Secretary. Before his appointment as Senior Vice President, Mr. McCoy held the office of Vice President, General Counsel and Secretary from 1995 to 1998. Before joining AMD, Mr. McCoy was with the law firm of O'Melveny and Myers where he practiced law, first as an associate and then as a partner, from 1977 to 1995.

Robert J. Rivet--Mr. Rivet, 47, is our Senior Vice President and Chief Financial Officer. Mr. Rivet joined us in September 2000. Before joining us, he had served as Senior Vice President and Director of Finance of the Semiconductor Products Sector of Motorola since 1997. Mr. Rivet served in a number of positions in semiconductor operations at Motorola since 1981, after joining the company in 1976 as a senior financial analyst and senior accountant.

William T. Siegle--Dr. Siegle, 63, is our Senior Vice President, Technology Operations and Chief Scientist. Dr. Siegle was Group Vice President, Technology Development Group and Chief Scientist from 1997 until 1998. Before his appointment as Group Vice President, Dr. Siegle had served as Vice President, Integrated Technology Department and Chief Scientist since 1990.

Stan Winvick--Mr. Winvick, 62, is our Senior Vice President, Human Resources. Before his appointment as Senior Vice President in 1991, Mr. Winvick had served as Vice President, Human Resources since 1980.

Stephen J. Zelencik--Mr. Zelencik, 67, is our Senior Vice President, Market Development. Before his appointment as Senior Vice President, Market Development in 1999, Mr. Zelencik served as Senior Vice President and Co-Chief Marketing Officer. From 1979 until 1998, Mr. Zelencik was Senior Vice President and Chief Marketing Executive.

ITEM 2. PROPERTIES

Our principal engineering, manufacturing, warehouse and administrative facilities comprise approximately 5.1 million square feet and are located in Sunnyvale, California; Austin, Texas; and Dresden, Germany. Over 3.1 million square feet of this space is in buildings we own.

We have an operating lease on property containing two buildings with an aggregate of approximately 364,000 square feet, located on 45.6 acres of land in Sunnyvale, California (One AMD Place). This operating lease ends in December 2018. In 2000, we renewed a lease agreement for approximately 175,000 square feet located adjacent to One AMD Place (known as AMD Square) to be used by the

product groups as engineering offices and laboratory facilities.

We also own or lease facilities containing approximately 1.2 million square feet for our operations in Malaysia, Thailand, Singapore and China. We lease approximately 15 acres of land in Suzhou, China for our assembly and test facility. We acquired approximately 115 acres of land in Dresden, Germany for Dresden Fab 30. This property is encumbered by a lien securing borrowings of AMD Saxony.

We lease 24 sales offices in North America, 11 sales offices in Asia Pacific, 11 sales offices in Europe and one sales office in South America for our direct sales force. These offices are located in cities in major electronics markets where concentrations of our customers are located.

Leases covering our facilities expire over terms of generally one to 20 years. We currently do not anticipate significant difficulty in either retaining occupancy of any of our facilities through lease renewals prior to expiration or through month-to-month occupancy, or replacing them with equivalent facilities.

ITEM 3. LEGAL PROCEEDINGS

1. Environmental Matters. Since 1981, we have discovered, investigated and begun remediation of three sites where releases from underground chemical tanks at our facilities in Santa Clara County, California, adversely affected the groundwater. The chemicals released into the groundwater were commonly in use in the semiconductor industry in the wafer fabrication process prior to 1979. At least one of the released chemicals (which we no longer use) has been identified as a probable carcinogen.

In 1991, we received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region, relating to the three sites. One of the orders named us as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. In January 1999, we entered into a settlement agreement with Philips whereby Philips assumed costs allocated to us under this order, although we are responsible for these costs in the event that Philips does not fulfill its obligations under the settlement agreement. Another of the orders named us as well as National Semiconductor Corporation. In December 2001, we entered into a settlement agreement with National pursuant to which National will take the lead for a period of time on certain groundwater remediation required under that order, but we remain a responsible party for all purposes under the order and retain specific responsibilities.

The three sites in Santa Clara County are on the National Priorities List (Superfund). If we fail to satisfy federal compliance requirements, or inadequately perform the compliance measures, the government (1) can bring an action to enforce compliance or (2) can undertake the desired response actions itself and later bring an action to recover its costs, and penalties, which is up to three times the costs of clean-up activities, if appropriate. The statute of limitations has been tolled on the claims of landowners adjacent to the Santa Clara County Superfund sites for causes of action such as negligence, nuisance and trespass.

We have computed and recorded the estimated environmental liability in accordance with applicable accounting rules and have not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The amount of environmental charges to earnings has not been material during any of the last three fiscal years. We believe that the potential liability, if any, in excess of amounts already accrued with respect to the foregoing environmental matters will not have a material adverse effect on us.

We received a notice dated October 14, 1998 from the Environmental Protection Agency (EPA) indicating that the EPA has determined us to be a

potentially responsible party that arranged for disposal of hazardous substances at a site located in Santa Barbara County, California. We are currently in settlement discussions with the EPA and believe that any settlement will not have a material adverse effect on our financial condition or results of operations.

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

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

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

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock (symbol "AMD") is listed on the New York Stock Exchange. The information regarding market price range, dividend information and number of holders of our common stock appearing under the captions, "Supplementary Financial Data" and "Financial Summary" on pages 47 and 48 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

During 2001, we did not make any sales of our equity securities which were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The information regarding selected financial data for the fiscal years 1997 through 2001, under the caption, "Financial Summary" on page 48 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

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

The information appearing under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 10 through 24 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information appearing under the caption, "Quantitative and Qualitative Disclosure about Market Risk" on pages 18 through 19 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements as of December 30, 2001 and December 31, 2000 and for each of the three years in the period ended December 30, 2001, and the report of independent auditors thereon, and our unaudited quarterly financial data for the two-year period ended December 30, 2001, appearing on pages 25 through 46 of our 2001 Annual Report to Stockholders, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the captions, "Item 1--Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 25, 2002 (2002 Proxy Statement) is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions, "Directors' Compensation and Benefits," "Committees and Meetings of the Board of Directors," "Executive Compensation," "Employment Agreements" and "Change in Control Arrangements" in our 2002 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the captions, "Principal Stockholders" and "Security Ownership of Directors and Executive Officers" in our 2002 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption, "Certain Relationships and Related Transactions" in our 2002 Proxy Statement is incorporated herein by reference.

With the exception of the information specifically incorporated by reference in Part III of this Annual Report on Form 10-K from our 2002 Proxy Statement, our 2002 Proxy Statement shall not be deemed to be filed as part of this report. Without limiting the foregoing, the information under the captions, "Board Compensation Committee Report on Executive Compensation," "Board Audit Committee Report" and "Performance Graph" in our 2002 Proxy Statement is not incorporated by reference in this Annual Report on Form 10-K.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)

1. Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule covered by the Report of Independent Auditors are filed or incorporated by reference as part of this Annual Report on Form 10-K. The following is a list of such financial statements:

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Consolidated Statements of Operations for each of the three

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2. Financial Statement Schedule

The financial statement schedule listed below is filed as part of this Annual Report on Form 10-K.

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Schedule for the three years in the period ended December 30, 2001:

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All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules or because the information required is included in the Consolidated Financial Statements or Notes thereto. With the exception of the information specifically incorporated by reference into Parts II and IV of this Annual Report on Form 10-K, the 2001 Annual Report to Stockholders is not to be deemed filed as part of this report.

3. Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K. The following is a list of such Exhibits:

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|--|
| 2.1 | Agreement and Plan of Merger dated October 20, 1995, between AMD and NexGen, Inc., filed as Exhibit 2 to AMD's Quarterly Report for the period ended October 1, 1995, and as amended as Exhibit 2.1 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference. |

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|--|
| 2.2 | Amendment No. 2 to the Agreement and Plan of Merger, dated January 11, 1996, between AMD and NexGen, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference. |
| 2.3 | Stock Purchase Agreement dated as of April 21, 1999, by and between Lattice Semiconductor Corporation and AMD, filed as Exhibit 2.3 to AMD's Current Report on Form 8-K dated April 26, |

1999, is hereby incorporated by reference.

- 2.3(a) First Amendment to Stock Purchase Agreement, dated as of June 7, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(a) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
- 2.3(b) Second Amendment to Stock Purchase Agreement, dated as of June 15, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
- 2.4 Reorganization Agreement, dated as of May 21, 2000, by and between AMD and BoldCo, Inc., filed as Exhibit 2.1 to AMD's Current Report on Form 8-K dated May 21, 2000, is hereby incorporated by reference.
- 2.5 Recapitalization Agreement, dated as of May 21, 2000, by and between BraveTwo Acquisition, L.L.C., AMD and BoldCo, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated May 21, 2000, is hereby incorporated by reference.
- 3.1 Certificate of Incorporation, as amended, filed as Exhibit 3.1 to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
- 3.2 By-Laws, as amended, filed as Exhibit 3.2 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, are hereby incorporated by reference.
- 3.3 Certificate of Amendment to Restated Certificate of Incorporation dated May 25, 2000, filed as Exhibit 3.3 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2000, is hereby incorporated by reference.
- 4.1 Form of AMD 11% Senior Secured Notes due August 1, 2003, filed as Exhibit 4.1 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
- 4.2 Indenture, dated as of August 1, 1996, between AMD and United States Trust Company of New York, as trustee, filed as Exhibit 4.2 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
- 4.2(a) First Supplemental Indenture, dated as of January 13, 1999, between AMD and United States Trust Company of New York, as trustee, filed as Exhibit 4.2(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998, is hereby incorporated by reference.
- 4.2(b) Second Supplemental Indenture, dated as of April 8, 1999, between AMD and United States Trust Company of New York, as trustee, filed as Exhibit 4.2(c) to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
- 4.2(c) Third Supplemental Indenture, dated as of July 28, 2000, between AMD and the United States Trust Company, as trustee, filed as Exhibit 4.2(d) to AMD's Quarterly Report on Form 10-Q for the period ended October 1, 2000, is hereby incorporated by reference.

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| 4.3 | Intercreditor and Collateral Agent Agreement, dated as of August 1, 1996, among United States Trust Company of New York, as trustee, Bank of America NT&SA, as agent for the banks under the Credit Agreement of July 19, 1996, and IBJ Schroder Bank & Trust Company, filed as Exhibit 4.3 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference. |
| 4.4 | Payment, Reimbursement and Indemnity Agreement, dated as of August 1, 1996, between AMD and IBJ Schroder Bank & Trust Company, filed as Exhibit 4.4 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference. |
| 4.5 | Deed of Trust, Assignment, Security Agreement and Financing Statement, dated as of August 1, 1996, among AMD, as grantor, IBJ Schroder Bank & Trust Company, as grantee, and Shelley W. Austin, as trustee, filed as Exhibit 4.5 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference. |
| 4.6 | Security Agreement, dated as of August 1, 1996, among AMD and IBJ Schroder Bank & Trust Company, as agent for United States Trust Company of New York, as trustee, and Bank of America NT&SA, as agent for banks, filed as Exhibit 4.6 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference. |
| 4.7 | Lease, Option to Purchase and Put Option Agreement, dated as of August 1, 1996, between AMD, as lessor, and AMD Texas Properties, LLC, as lessee, filed as Exhibit 4.7 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference. |
| 4.8 | Reciprocal Easement Agreement, dated as of August 1, 1996, between AMD and AMD Texas |

Properties, LLC, filed as Exhibit 4.8 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.

- 4.9 Sublease Agreement, dated as of August 1, 1996, between AMD, as sublessee, and AMD Texas Properties, LLC, as lessor, filed as Exhibit 4.9 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
- 4.10 Indenture, dated as of May 8, 1998, by and between AMD and The Bank of New York, as trustee, filed as Exhibit 4.1 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.
- 4.11 Officers' Certificate, dated as of May 8, 1998, filed as Exhibit 4.2 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.
- 4.12 Form of 6% Convertible Subordinated Note due 2005, filed as Exhibit 4.3 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.
- 4.13 AMD hereby agrees to file on request of the Commission a copy of all instruments not otherwise filed with respect to AMD's long-term debt or any of its subsidiaries for which the total amount of securities authorized under such instruments does not exceed 10 percent of the total assets of AMD and its subsidiaries on a consolidated basis.
- 4.14 Indenture, dated as of January 29, 2002, between AMD and The Bank of New York.
- 4.15 Form of AMD 4.75% Convertible Senior Debentures Due 2022.
- 4.16 Registration Rights Agreement, dated as of January 29, 2002, by and among AMD, Credit Suisse First Boston Corporation and Salomon Smith Barney Inc.
- *10.1 AMD 1982 Stock Option Plan, as amended, filed as Exhibit 10.1 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.

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| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|--|
| *10.2 | AMD 1986 Stock Option Plan, as amended, filed as Exhibit 10.2 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| *10.3 | AMD 1992 Stock Incentive Plan, as amended, filed as Exhibit 10.3 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| *10.4 | AMD 1980 Stock Appreciation Rights Plan, as amended, filed as Exhibit 10.4 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| *10.5 | AMD 1986 Stock Appreciation Rights Plan, as amended, filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| *10.6 | Forms of Stock Option Agreements, filed as Exhibit 10.8 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference. |
| *10.7 | Form of Limited Stock Appreciation Rights Agreement, filed as Exhibit 4.11 to AMD's Registration Statement on Form S-8 (No. 33-26266), is hereby incorporated by reference. |
| *10.8 | AMD 1987 Restricted Stock Award Plan, as amended, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| *10.9 | Forms of Restricted Stock Agreements, filed as Exhibit 10.11 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference. |
| *10.10 | Resolution of Board of Directors on September 9, 1981, regarding acceleration of vesting of all outstanding stock options and associated limited stock appreciation rights held by officers under certain circumstances, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended March 31, 1985, is hereby incorporated by reference. |
| *10.11 | Amended and Restated Employment Agreement, dated as of November 3, 2000, between AMD and W. J. Sanders III, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| *10.12 | AMD 2000 Stock Incentive Plan, filed as Exhibit 10.13 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| *10.13 | AMD's U.S. Stock Option Program for options granted after April 25, 2000, filed as Exhibit 10.14 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby |

incorporated by reference.

- *10.14 Vice President Incentive Plan, filed as Exhibit 10.15 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
- *10.15 AMD Executive Incentive Plan, filed as Exhibit 10.14(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 1996, is hereby incorporated by reference.
- *10.16 Form of Bonus Deferral Agreement, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended March 30, 1986, is hereby incorporated by reference.
- *10.17 Form of Executive Deferral Agreement, filed as Exhibit 10.17 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.
- *10.18 Director Deferral Agreement of R. Gene Brown, filed as Exhibit 10.18 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| 10.19 | Intellectual Property Agreements with Intel Corporation, filed as Exhibit 10.21 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference. |
| *10.20 | Form of Indemnification Agreements with former officers of Monolithic Memories, Inc., filed as Exhibit 10.22 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1987, is hereby incorporated by reference. |
| *10.21 | Form of Management Continuity Agreement, filed as Exhibit 10.25 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, is hereby incorporated by reference. |
| **10.22 | Joint Venture Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(a) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(a-1) | Technology Cross-License Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(b) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(a-2) | Third Amendment to Technology Cross License Agreement, effective April 2, 2001, between AMD and Fujitsu Limited, filed as Exhibit 10.23(b-1) to AMD'S Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| **10.22(b) | AMD Investment Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(c) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(c) | Fujitsu Investment Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(d) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(d) | First Amendment to Fujitsu Investment Agreement dated April 28, 1995, filed as Exhibit 10.23(e) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference. |
| 10.22(e) | Second Amendment to Fujitsu Investment Agreement, dated February 27, 1996, filed as Exhibit 10.23 (f) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference. |
| **10.22(f-1) | Joint Venture License Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(e) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(f-2) | Amendment to Joint Venture License Agreement, effective April 1, 1999, between AMD and Fujitsu Limited, filed as Exhibit 10.23(g-1) to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| **10.22(g) | Joint Development Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(f) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| **10.22(h) | Fujitsu Joint Development Agreement Amendment, filed as Exhibit 10.23(g) to AMD's Quarterly Report on Form 10-Q for the period ended March 31, 1996, is hereby incorporated by reference. |

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| **10.22(i) | Guaranty, effective as of October 1, 2000, by AMD in favor of and for the benefit of Fujitsu Limited, filed as Exhibit 10.23(j) to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| *10.23 | AMD's Stock Option Program for Employees Outside the U.S. for options granted after April 25, 2000, filed as Exhibit 10.24 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| *10.23(a) | AMD's U.S. Stock Option Program for options granted after April 24, 2001. |
| **10.24 | Technology Development and License Agreement, dated as of October 1, 1998, among AMD and its subsidiaries and Motorola, Inc. and its subsidiaries, filed as Exhibit 10.25 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998, is hereby incorporated by reference. |
| **10.24(a) | Amendment to the Technology Development and License Agreement, entered into as of October 1, 1998, by AMD and its subsidiaries and Motorola, Inc. and its subsidiaries, filed as Exhibit 10.25(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference. |
| **10.24(b) | Amendment 2 to the Technology Development and License Agreement, entered into as of October 1, 1998, by AMD and its subsidiaries and Motorola, Inc. and its subsidiaries, filed as Exhibit 10.25(b) to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2000, is hereby incorporated by reference. |
| **10.25 | Patent License Agreement, dated as of December 3, 1998, between AMD and Motorola, Inc., filed as Exhibit 10.26 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998, is hereby incorporated by reference. |
| 10.26 | Lease Agreement, dated as of December 22, 1998, between AMD and Delaware Chip LLC, filed as Exhibit 10.27 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998 is hereby incorporated by reference. |
| *10.27 | AMD Executive Savings Plan (Amendment and Restatement, effective as of August 1, 1993), filed as Exhibit 10.30 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference. |
| *10.27(a) | First Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference. |
| *10.27(b) | Second Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference. |
| *10.28 | Form of Split Dollar Agreement, as amended, filed as Exhibit 10.31 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference. |
| *10.29 | Form of Collateral Security Assignment Agreement, filed as Exhibit 10.32 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference. |
| *10.30 | Forms of Stock Option Agreements to the 1992 Stock Incentive Plan, filed as Exhibit 4.3 to AMD's Registration Statement on Form S-8 (No. 33-46577), are hereby incorporated by reference. |
| *10.31 | 1992 United Kingdom Share Option Scheme, filed as Exhibit 4.2 to AMD's Registration Statement on Form S-8 (No. 33-46577), is hereby incorporated by reference. |

| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| **10.32 | AMD 1998 Stock Incentive Plan, filed as Exhibit 10.33 to AMD's Annual Report on Form 10-K |

for the fiscal year ended December 27, 1998, is hereby incorporated by reference.

- *10.33 Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
- *10.34 1995 Stock Plan of NexGen, Inc., as amended, filed as Exhibit 10.36 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
- **10.35 Patent Cross-License Agreement dated December 20, 1995, between AMD and Intel Corporation, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
- 10.36 Contract for Transfer of the Right to the Use of Land between AMD (Suzhou) Limited and China-Singapore Suzhou Industrial Park Development Co., Ltd., filed as Exhibit 10.39 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
- *10.37 NexGen, Inc. 1987 Employee Stock Plan, filed as Exhibit 99.3 to Post-Effective Amendment No. 1 on Form S-8 to AMD's Registration Statement on Form S-4 (No. 33-64911), is hereby incorporated by reference.
- *10.38 1995 Stock Plan of NexGen, Inc. (assumed by AMD), as amended, filed as Exhibit 10.37 to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 1996, is hereby incorporated by reference.
- *10.39 Form of indemnity agreement between NexGen, Inc. and its directors and officers, filed as Exhibit 10.5 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
- **10.40 Agreement for Purchase of IBM Products between IBM and NexGen, Inc. dated June 2, 1994, filed as Exhibit 10.17 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
- **10.41 C-4 Technology Transfer and Licensing Agreement dated June 11, 1996, between AMD and IBM Corporation, filed as Exhibit 10.48 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended September 29, 1996, is hereby incorporated by reference.
- **10.41(a) Amendment No. 1 to the C-4 Technology Transfer and Licensing Agreement, dated as of February 23, 1997, between AMD and International Business Machine Corporation, filed as Exhibit 10.48(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- **10.42 Design and Build Agreement dated November 15, 1996, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH, filed as Exhibit 10.49(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
- 10.42(a) Amendment to Design and Build Agreement dated January 16, 1997, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH filed as Exhibit 10.49(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.

| Exhibit Number | Description of Exhibits |
|----------------|--|
| **10.43 | Syndicated Loan Agreement with Schedules 1, 2 and 17, dated as of March 11, 1997, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| **10.43(a-1) | Supplemental Agreement to the Syndicated Loan Agreement dated February 6, 1998, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50(a-2) to AMD's Annual Report on Form 10-K/A (No.1) for the fiscal year ended December 28, 1997, is hereby incorporated by reference. |
| 10.43(a-2) | Supplemental Agreement No. 2 to the Syndicated Loan Agreement as of March 11, 1997, dated as of June 29, 1999, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50 (a-3) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference. |
| **10.43(a-3) | Amendment Agreement No. 3 to the Syndicated Loan Agreement, dated as of February 20, 2001, among AMD Saxony Manufacturing GmbH, AMD Saxony Holding GmbH, Dresdner Bank AG, Dresdner Bank Luxembourg S.A. and the banks party thereto, filed as Exhibit 10.50(a-4) to AMD's Annual Report on Form 10-K for the fiscal year ended |

December 31, 2000, is hereby incorporated by reference.

- **10.43(b) Determination Regarding the Request for a Guarantee by AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(b) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- **10.43(c) AMD Subsidy Agreement, between AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(c) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- **10.43(d) Subsidy Agreement, dated February 12, 1997, between Sachsische Aufbaubank and Dresdner Bank AG, with Appendices 1, 2a, 2b, 3 and 4, filed as Exhibit 10.50(d) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- 10.43(e) AMD, Inc. Guaranty, dated as of March 11, 1997, among AMD, AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(e) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- 10.43(f-1) Sponsors' Support Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
- 10.43(f-2) First Amendment to Sponsors' Support Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
- 10.43(f-3) Second Amendment to Sponsors' Support Agreement, dated as of June 29, 1999, among AMD, AMD Saxony Holding GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50 (f-3) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.

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| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| **10.43(f-4) | Third Amendment to Sponsors' Support Agreement, dated as of February 20, 2001, among AMD, AMD Saxony Holding GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A, filed as Exhibit 10.50(f-4) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| 10.43(g-1) | Sponsors' Loan Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| 10.43(g-2) | First Amendment to Sponsors' Loan Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference. |
| 10.43(g-3) | Second Amendment to Sponsors' Loan Agreement, dated as of June 25, 1999, among AMD and AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g-3) to the Company's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference. |
| 10.43(h) | Sponsors' Subordination Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH, AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(h) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| 10.43(i) | Sponsors' Guaranty, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(i) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| **10.43(j-1) | AMD Holding Wafer Purchase Agreement, dated as of March 11, 1997, among AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| **10.43(j-2) | First Amendment to AMD Holding Wafer Purchase Agreement, dated as of February 20, 2001, between AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j-1) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| **10.43(k) | AMD Holding Research, Design and Development Agreement, dated as of March 11, 1997, |

between AMD Saxony Holding GmbH and AMD, filed as Exhibit 10.50(k) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.

**10.43(1-1) AMD Saxonia Wafer Purchase Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(1) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.

10.43(1-2) First Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 6, 1998, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50 (1-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.

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| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| **10.43(1-3) | Second Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 20, 2001, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(1-3) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| **10.43(m) | AMD Saxonia Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Manufacturing GmbH and AMD Saxony Holding GmbH, filed as Exhibit 10.50(m) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| 10.43(n) | License Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(n) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| 10.43(o) | AMD, Inc. Subordination Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(o) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| **10.43(p-1) | ISDA Agreement, dated March 11, 1997, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference. |
| **10.43(p-2) | Confirmation to ISDA Agreement, dated February 6, 1998, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference. |
| 10.44 | Loan and Security Agreement, dated as of July 13, 1999, among AMD, AMD International Sales and Service, Ltd. and Bank of America NT&SA as agent, filed as Exhibit 10.51 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference. |
| 10.44(a-1) | First Amendment to Loan and Security Agreement, dated as of July 30, 1999, among AMD, AMD International Sales and Service, Ltd. and Bank of America NT&SA, as agent, filed as Exhibit 10.51(a) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference. |
| 10.44(a-2) | Second Amendment to Loan and Security Agreement, dated as of February 12, 2001, among AMD, AMD International Sales and Service, Ltd. and Bank of America N.A. (formerly Bank of America NT&SA), as agent, filed as Exhibit 10.51(a-1) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference. |
| *10.45 | Agreement, dated as of June 16, 1999, between AMD and Richard Previte, filed as Exhibit 10.52 to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference. |
| *10.46 | Management Continuity Agreement, between AMD and Robert R. Herb, filed as Exhibit 10.54 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference. |
| *10.47 | Employment Agreement, dated as of January 31, 2002, between AMD and Hector de J. Ruiz. |
| *10.48 | Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.56 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference. |

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| Exhibit Number ----- | Description of Exhibits ----- |
|----------------------------|---|
| *10.49 | Employment Agreement, dated as of September 27, 2000, between AMD and Robert J. Rivet, filed as Exhibit 10.57 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| **10.50 | Patent Cross-License Agreement, dated as of May 4, 2001, between AMD and Intel Corporation, filed as Exhibit 10.58 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| *10.51 | Loan Agreement, dated as of June 19, 2001, between AMD and Hector and Judy Ruiz, filed as Exhibit 10.59 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference. |
| 13 | Pages 10 through 48 of AMD's 2001 Annual Report to Stockholders, which have been incorporated by reference into Parts II and IV of this annual report. |
| 21 | List of AMD subsidiaries. |
| 23 | Consent of Independent Auditors, refer to page F-2 and F-3 herein. |
| 24 | Power of Attorney. |

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- * Management contracts and compensatory plans or arrangements required to be filed as an Exhibit to comply with Item 14(a)(3) of Form 10-K.
 - ** Confidential treatment has been granted as to certain portions of these Exhibits.

AMD will furnish a copy of any exhibit on request and payment of AMD's reasonable expenses of furnishing such exhibit.

(b) Reports on Form 8-K.

1. A Current Report on Form 8-K dated September 25, 2001 reporting under Item 5--Other Events was filed announcing our intention to close two manufacturing facilities and reduce and restructure other manufacturing activities and administrative support associated with these facilities.
2. A Current Report on Form 8-K dated October 5, 2001 reporting under Item 5--Other Events was filed announcing expected financial results in the third quarter.
3. A Current Report on Form 8-K dated October 17, 2001 reporting under Item 5--Other Events was filed announcing our third quarter financial results.
4. A Current Report on Form 8-K dated November 8, 2001 reporting under Item 5--Other Events was filed announcing expected financial results in the fourth quarter.
5. A Current Report on Form 8-K dated December 6, 2001 reporting under Item 5--Other Events was filed announcing updated expected financial results in the fourth quarter.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Advanced Micro Devices, Inc.

March 6, 2002

By: /s/ ROBERT J. RIVET

Robert J. Rivet
Senior Vice President,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

| Signature ----- | Title ----- | Date ---- |
|----------------------------------|--|---------------|
| * ----- W. J. Sanders III | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | March 6, 2002 |
| * ----- Robert J. Rivet | Senior Vice President, Chief Financial Officer (Principal Financial Officer) | March 6, 2002 |
| * ----- Hector de J. Ruiz | Director, President and Chief Operating Officer | March 6, 2002 |
| * ----- Friedrich Baur | Director | March 6, 2002 |
| * ----- Charles M. Blalack | Director | March 6, 2002 |
| * ----- R. Gene Brown | Director | March 6, 2002 |
| * ----- Robert B. Palmer | Director | March 6, 2002 |
| * ----- Joe L. Roby | Director | March 6, 2002 |
| * ----- Leonard Silverman | Director | March 6, 2002 |

*By: /s/ ROBERT J. RIVET

(Robert J. Rivet,
Attorney-in-Fact)

The information under the following captions, which is included in our 2001 Annual Report to Stockholders, a copy of which is attached hereto as Exhibit 13, is incorporated herein by reference:

| | Page References |
|--|--|
| | ----- 2001 Annual Form Report to 10-K Stockholders ----- |
| Report of Ernst & Young LLP, Independent Auditors..... | -- 46 |
| Consolidated Statements of Operations for each of the three years in the period ended December 30, 2001..... | -- 25 |
| Consolidated Balance Sheets as of December 30, 2001 and December 31, 2000..... | -- 26 |
| Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 30, 2001..... | -- 27 |
| Consolidated Statements of Cash Flows for each of the three years in the period ended December 30, 2001..... | -- 28 |
| Notes to Consolidated Financial Statements..... | -- 29-45 |
| Schedule for the three years in the period ended December 30, 2001: | |
| Schedule II Valuation and Qualifying Accounts..... | F-4 -- |

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or Notes thereto. With the exception of the information specifically incorporated by reference into Parts II and IV of this Annual Report on Form 10-K, our 2001 Annual Report to Stockholders is not to be deemed filed as part of this report.

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Advanced Micro Devices, Inc. of our report dated January 8, 2002 with respect to the consolidated financial statements of Advanced Micro Devices, Inc. included in the 2001 Annual Report to Stockholders of Advanced Micro Devices, Inc.

Our audits also included the financial statement schedule of Advanced Micro Devices, Inc. listed in Item 14(a). This schedule is the responsibility of the management of Advanced Micro Devices, Inc. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following Registration Statements of our report dated January 8, 2002 with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Advanced Micro Devices, Inc.:

- . Registration Statement on Form S-8 (No. 33-16095) pertaining to the Advanced Micro Devices, Inc. 1987 Restricted Stock Award Plan;
- . Registration Statements on Forms S-8 (Nos. 33-39747, 333-33855 and 333-77495) pertaining to the Advanced Micro Devices, Inc. 1991 Employee

Stock Purchase Plan;

- . Registration Statements on Forms S-8 (Nos. 33-10319, 33-26266, 33-36596 and 33-46578) pertaining to the Advanced Micro Devices, Inc. 1982 and 1986 Stock Option Plans and the 1980 and 1986 Stock Appreciation Rights Plans;
- . Registration Statements on Forms S-8 (Nos. 33-46577 and 33-55107) pertaining to the Advanced Micro Devices, Inc. 1992 Stock Incentive Plan;
- . Registration Statement on Form S-8 (No. 333-00969) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan and to the 1995 Stock Plan of NexGen, Inc.;
- . Registration Statements on Forms S-8 (Nos. 333-04797 and 333-57525) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan;
- . Registration Statement on Form S-8 (No. 333-60550) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- . Registration Statement on Form S-8 (No. 333-68005) pertaining to the Advanced Micro Devices, Inc. 1998 Stock Incentive Plan;
- . Registration Statement on Form S-8 (No. 333-40030) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- . Registration Statements on Forms S-8 (No. 333-55052 and 333-74896) pertaining to the Advanced Micro Devices, Inc. 2000 Stock Incentive Plan;
- . Registration Statement on Form S-3 (No. 333-47243), as amended, pertaining to debt securities, preferred stock, common stock, equity warrants and debt warrants issued or issuable by Advanced Micro Devices, Inc.;
- . Registration Statement on Form S-3 (No. 333-45346) pertaining to debt securities, preferred stock, common stock, equity warrants and debt warrants issued or issuable by Advanced Micro Devices, Inc.;
- . Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-95888-99) pertaining to the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;

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- . Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-92688-99) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc.;
- . Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc., the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan; and
- . Post-Effective Amendment No. 2 on Form S-3 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to common stock issuable to certain warrant holders.

/s/ ERNST & YOUNG LLP

San Jose, California
March 6, 2002

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ADVANCED MICRO DEVICES, INC.

VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 26, 1999,
 December 31, 2000 and December 30, 2001
 (in thousands)

| | Balance Beginning of Period | Additions Charged to Operations | Deductions/(1)/ | Balance End of Period |
|----------------------------------|-----------------------------------|--|-----------------|-----------------------------|
| | ----- | ----- | ----- | ----- |
| Allowance for doubtful accounts: | | | | |
| Years ended: | | | | |
| December 26, 1999..... | \$12,663 | \$3,543 | \$ (828) | \$15,378 |
| December 31, 2000..... | 15,378 | 8,154 | (820) | 22,712 |
| December 30, 2001..... | 22,712 | 9,791 | (13,233) | 19,270 |

 /(1)/ Accounts (written off) recovered, net.

ADVANCED MICRO DEVICES, INC.

as Issuer

AND

THE BANK OF NEW YORK

as Trustee

Indenture

Dated as of January 29, 2002

4.75% Convertible Senior Debentures Due 2022

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INDENTURE, dated as of January 29, 2002, between ADVANCED MICRO DEVICES, INC., a corporation duly organized and existing under the laws of the State of Delaware, as Issuer (herein called the "Company"), having its principal office at One AMD Place, Sunnyvale, California 94088, and THE BANK OF NEW YORK, a New York banking corporation duly organized under the laws of the State of New York, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of 4.75% Convertible Senior Debentures Due 2022 (each a "Security" and collectively, the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with the terms of the Securities and the Indenture, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchases of the Securities by the Holders thereof, it is mutually agreed, for the benefit of the Company and the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE 1

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. Definitions. For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(i) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(ii) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(iii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP; and

(iv) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act," when used with respect to any Holder, has the meaning specified in Section 1.04.

"Additional Amounts" shall have the meaning given to such term in the Registration Rights Agreement.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent Members" has the meaning specified in Section 3.08.

"Board of Directors" means, with respect to any Person, either the board of directors of such Person or any duly authorized committee of that board.

"Board Resolution" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person

to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in The City of New York are authorized or obligated by law, or executive order or governmental decree to be closed.

"Capital Stock" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, including, without limitation, with respect to partnerships, partnership interests (whether general or limited) and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership.

"Change in Control" has the meaning specified in Section 11.09.

"Closing Price" has the meaning specified in Section 13.05.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

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"Common Stock" means the shares of Common Stock, par value \$.01 per share, of the Company as it exists on the date of this Indenture or any other shares of Capital Stock of the Company into which the Common Stock shall be reclassified or changed.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Notice" has the meaning specified in Section 11.08.

"Company Notice Date" has the meaning specified in Section 11.08.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or any Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Contingent Payment Debt Regulations" has the meaning specified in Section 10.09.

"Continuing Director" means, at any date, a member of the Company's Board of Directors (i) who was a member of such board on January 1, 2002 or (ii) who was nominated or elected by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Company's Board of Directors was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or such lesser number comprising a majority of a nominating committee comprised of independent directors if authority for such nominations or elections has been delegated to a nominating committee whose authority and composition have been approved by at least a majority of the directors who were Continuing Directors at the time such committee was formed. (Under this definition, if the Board of Directors of the Company as of the date

of this Indenture were to approve a new director or directors and then resign, no Change in Control would occur even though the current Board of Directors would thereafter cease to be in office).

"Conversion Agent" means the Trustee or such other office or agency designated by the Company where Securities may be presented for conversion.

"Conversion Notice" has the meaning specified in Section 13.02.

"Conversion Price" has the meaning specified in the Securities.

"Corporate Trust Office" means the office of the Trustee at which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date of this Indenture, located at 101 Barclay Street, New York, New York 10286, Attention: Corporate Trust Administration.

"corporation" means a corporation, association, company, joint-stock company or business trust.

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"Current Market Price" has the meaning specified in Section 13.05.

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

"Defaulted Interest" has the meaning specified in Section 12.02.

"Depository" means The Depository Trust Company until a successor Depository shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Depository" shall mean such successor Depository.

"Distributed Securities" has the meaning specified in Section 13.05.

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

"Event of Default" has the meaning specified in Section 5.01.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Expiration Time" has the meaning specified in Section 13.05.

"fair market value" has the meaning specified in Section 13.05.

"Fundamental Change" has the meaning specified in Section 11.09.

"Fundamental Change Company Notice" has the meaning specified in Section 11.09.

"Fundamental Change Repurchase Date" has the meaning specified in Section 11.09.

"Fundamental Change Repurchase Notice" has the meaning specified in Section 11.09.

"Fundamental Change Repurchase Price" has the meaning specified in the Securities.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, in each case, as in effect in the United States on the date hereof.

"Global Security" means a Security in global form registered in the Security Register in the name of a Depository or a nominee thereof.

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"Holder" or "Securityholder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively.

"Initial Purchasers" means Credit Suisse First Boston Corporation and Salomon Smith Barney Inc.

"Interest Payment Date" means each February 1 and August 1 of each year, commencing August 1, 2002.

"Investment Company Act" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"Issue Date" means the date the Securities are originally issued as set forth on the face of the Security under this Indenture.

"Maturity", when used with respect to any Security, means the date on which the principal, Purchase Price or Fundamental Change Repurchase Price of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity, on a Redemption Date, Purchase Date or Fundamental Change Repurchase Date, or by declaration of acceleration or otherwise.

"nonelecting share" has the meaning specified in Section 13.06.

"Non-U.S. Person" means a Person who is not a U.S. person, as defined in Regulation S.

"Notice of Default" has the meaning specified in Section 5.01.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President or any Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 10.04 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion of counsel, who may be

external or in-house counsel for the Company, and who shall be reasonably acceptable to the Trustee.

"Outstanding," when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

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(ii) Securities, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that if such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given to the Holders as herein provided, or provision satisfactory to a Responsible Officer of the Trustee shall have been made for giving such notice; and

(iii) Securities which have been paid or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a protected purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that, in determining whether the Holders of the requisite Principal Amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of, interest and Additional Amounts on or Redemption Price, or Purchase Price or Fundamental Change Repurchase Price of any Securities on behalf of the Company. The Trustee shall initially be the Paying Agent.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Physical Securities" means permanent certificated Securities in registered form issued in denomination of \$1,000 Principal Amount and integral multiples thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in exchange for or in lieu of a

mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Principal Amount" of a Security means the Principal Amount as set forth on the face of the Security.

"Purchase Agreement" means the Purchase Agreement, dated as of January 24, 2002, entered into by the Company and the Initial Purchasers in connection with the sale of the Securities.

"Purchase Date" has the meaning specified in Section 11.08.

"Purchase Notice" has the meaning specified in Section 11.08.

"Purchase Price" has the meaning specified in the Securities.

"Purchased Shares" has the meaning specified in Section 13.05.

"Qualified Institutional Buyer" or "QIB" shall have the meaning specified in Rule 144A.

"Record Date" has the meaning specified in Section 13.05.

"Redemption Date" shall mean the date specified for redemption of the Securities in accordance with the terms of the Securities and Article 11 hereof.

"Redemption Price" has the meaning specified in the Securities.

"Registration Rights Agreement" means the Registration Rights Agreement, dated as of January 29, 2002, between the Company and the Initial Purchasers, for the benefit of themselves and the Holders, as the same may be amended or modified from time to time in accordance with the terms thereof.

"Regular Record Date" for the interest payable on any Interest Payment Date means January 15 or July 15 (whether or not a Business Day) next preceding such Interest Payment Date.

"Regulation S" means Regulation S under the Securities Act.

"Resale Registration Statement" means a registration statement under the Securities Act registering the Securities for resale pursuant to the terms of the Registration Rights Agreement.

"Responsible Officer" means any officer of the Trustee within the Corporate Trust Office of the Trustee with direct responsibility for the administration of this Indenture and also, with respect to a particular matter, any other officer of the Trustee to whom such matter is referred because of such officer's knowledge and familiarity with the particular subject.

"Restricted Global Security" means a Global Security representing Restricted Securities.

"Restricted Security" or "Restricted Securities" has the meaning specified in Section 2.05.

"Rule 144" means Rule 144 under the Securities Act (including any successor rule thereto), as the same may be amended from time to time.

"Rule 144A" means Rule 144A under the Securities Act (including any successor rule thereto), as the same may be amended from time to time.

"Rule 144A Information" has the meaning specified in Section 2.03.

"Securities Act" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Security" or "Securities" has the meaning specified in the first paragraph of the Recitals of the Company.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.05.

"significant subsidiary" has the meaning given to that term in Rule 1-02 of Regulation S-X under the Exchange Act, except that references to income from continuing operations are changed to revenues.

"Special Record Date" has the meaning specified in Section 12.02.

"Stated Maturity," when used with respect to any Security, means the date specified in such Security as the fixed date on which an amount equal to the principal amount of such Security together with accrued and unpaid interest, if any, is due and payable.

"Step-up Date" has the meaning specified the Securities.

"Stock Transfer Agent" means EquiServe Trust Company, N.A. or such other Person designated by the Company as the transfer agent for the Common Stock.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Surviving Entity" has the meaning specified in Section 8.01.

"Trading Day" has the meaning specified in Section 13.05.

"Trigger Event" has the meaning specified in Section 13.05.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Unrestricted Global Security" means a Global Security representing

Securities which are not Restricted Securities.

"Vice President," when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

"Voting Stock" has the meaning specified in Section 11.09.

SECTION 1.02. Compliance Certificates and Opinions

. Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirement set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of each such individual, such individual has made such examination or investigation as is necessary to enable such individual to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 1.03. Form of Documents Delivered to Trustee.

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In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other

instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 1.04. Acts of Holders; Record Dates. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01)

conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee reasonably deems sufficient.

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(c) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 7.01)

prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Holders on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.

(d) The ownership of Securities shall be proved by the Security Register.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

SECTION 1.05. Notices, Etc., to Trustee and Company. Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(i) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office; or

(ii) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company, Attention: General Counsel.

SECTION 1.06. Notice to Holders; Waiver. Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at such Holder's address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such

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waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 1.07. Conflict with Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 1.08. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 1.09. Successors and Assigns. All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 1.10. Separability Clause. In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 1.11. Benefits of Indenture. Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their respective successors hereunder and the Holders of Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 1.12. Governing Law. This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 1.13. Legal Holiday. In any case where any Interest Payment Date or Stated Maturity of any Security shall not be a Business Day, then

(notwithstanding any other provision of this Indenture or of the Securities)

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payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or at the Stated Maturity, provided that no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date or Stated Maturity, as the case may be.

ARTICLE 2

SECURITY FORMS

SECTION 2.01. Forms Generally. The Securities and the Trustee's certificates of authentication shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depository therefor, the Internal Revenue Code of 1986, as amended, and regulations thereunder, or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof.

The Securities shall be initially issued in the form of permanent Global Securities in registered form in substantially the form set forth in this Article. The aggregate Principal Amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, as hereinafter provided.

SECTION 2.02. Form of Face of Security. [INCLUDE IF SECURITY IS A RESTRICTED SECURITY -- THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS SECURITY AND THE COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A OR REGULATION S THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF ADVANCED MICRO DEVICES, INC. THAT (A) THIS SECURITY AND THE COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION

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MEETING THE REQUIREMENTS OF RULE 144A, (II) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (IV) TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IF AVAILABLE OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS CONDUCTED IN COMPLIANCE WITH THE SECURITIES ACT.

THIS SECURITY AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED BY THE ACCEPTANCE OF THIS SECURITY TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THE HOLDER OF THIS SECURITY IS SUBJECT TO, AND ENTITLED TO THE BENEFITS OF, A REGISTRATION RIGHTS AGREEMENT, DATED AS OF JANUARY 29, 2002, ENTERED INTO BY THE COMPANY FOR THE BENEFIT OF CERTAIN HOLDERS OF SECURITIES FROM TIME TO TIME.]

[INCLUDE IF SECURITY IS A GLOBAL SECURITY -- THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN

AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

THIS SECURITY IS ISSUED WITH ORIGINAL ISSUE DISCOUNT AND IS SUBJECT TO THE RULES FOR DEBT INSTRUMENTS WITH CONTINGENT PAYMENTS UNDER TREASURY REGULATIONS ss. 1.1275-4(b). FOR INFORMATION REGARDING THE ISSUE PRICE, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE, THE YIELD TO MATURITY, THE "COMPARABLE YIELD" AND PROJECTED PAYMENT SCHEDULE FOR THIS SECURITY, YOU SHOULD CONTACT: TREASURER, ADVANCED MICRO DEVICES, INC., ONE AMD PLACE, SUNNYVALE, CA 94088.

ADVANCED MICRO DEVICES, INC.

4.75% Convertible Senior Debentures Due 2022

No. [] CUSIP NO. [] U.S. \$[]

Advanced Micro Devices, Inc., a corporation duly organized and validly existing under the laws of the State of Delaware (herein called the "Company"), which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to _____, or registered assigns, the principal sum of [] United States Dollars (\$) [INCLUDE IF SECURITY IS A GLOBAL SECURITY -- (which amount may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depositary, in accordance with the rules and procedures of the Depositary)] on February 1, 2022 and to pay interest on said principal sum semi-annually on February 1 and August 1 of each year, commencing August 1, 2002 at the initial rate of 4.75% per annum to holders of record on the immediately preceding January 15 and July 15, respectively. Interest on this Security shall accrue from the most recent date to which interest has been paid, or if no interest has been paid, from January 29, 2002, until the Principal Amount is paid or duly made available for payment. Notwithstanding the foregoing, on the close of business on August 1, 2008, August 1, 2011 and August 1, 2016 (each, a "Step-up Date"), the interest rate on this Security shall be automatically reset, and this Security shall accrue interest, from such Step-up Date, to but excluding the next succeeding Step-up Date, or, in the case of February 1, 2022, until the Principal Amount is paid or duly made available for payment, at a rate

per annum equal to the interest rate payable 120 days prior to such Step-up Date on 5-year U.S. Treasury Notes plus 0.43%, provided, in no event shall the interest rate on this Security be reset below 4.75% per annum or above 6.75% per annum. Any change in the interest rate pursuant to the preceding sentence shall not have any effect on any other provision of the Indenture or this Security. Except as otherwise provided in the Indenture, the interest payable on this Security pursuant to the Indenture on any February 1 or August 1 will be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date, which shall be the January 15 or July 15 (whether or not a Business Day) next preceding such February 1 or August 1, respectively; provided that, any such interest not punctually paid or duly provided for shall be payable as provided in the Indenture. Payment of the principal of and interest accrued on this Security shall

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be made by check mailed to the address of the Holder of this Security specified in the register of Securities, or, at the option of the Holder of this Security, at the Corporate Trust Office, in such lawful money of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; provided, however, that, with respect to any Holder of Securities with an aggregate principal amount in excess of \$5,000,000, at the request of such Holder in writing to the Company, interest on such Holder's Securities shall be paid by wire transfer in immediately available funds in accordance with the written wire transfer instruction supplied by such Holder from time to time to the Trustee and Paying Agent (if different from the Trustee) at least two days prior to the applicable Regular Record Date; provided that any payment to the Depositary or its nominee shall be paid by wire transfer in immediately available funds in accordance with the wire transfer instruction supplied by the Depositary or its nominee from time to time to the Trustee and Paying Agent (if different from Trustee) at least two days prior to the applicable Regular Record Date.

Reference is made to the further provisions of this Security set forth on the reverse hereof, including, without limitation, provisions giving the Company the right to repurchase this Security commencing February 5, 2005 under certain circumstances and otherwise on February 5, 2006 and the Holder of this Security the right to convert this Security into Common Stock of the Company and the right to require the Company to repurchase this Security on certain dates and upon certain events, in each case, on the terms and subject to the limitations referred to on the reverse hereof and as more fully specified in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with and governed by the laws of said State.

This Security shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

ADVANCED MICRO DEVICES, INC.

By: _____
Authorized Signatory

Attest:

By: _____
Authorized Signatory

SECTION 2.03. Form of Reverse of Security. This Security is one of a duly authorized issue of Securities of the Company, designated as its 4.75% Convertible Senior Debentures Due 2022 (herein called the "Securities"), all issued or to be issued under and pursuant to an Indenture dated as of January 29, 2002 (herein called the "Indenture"), between the Company and the Bank of New York (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Securities.

The indebtedness evidenced by the Securities is unsecured and unsubordinated indebtedness of the Company and ranks equally with the Company's other unsecured and unsubordinated indebtedness.

Redemption at the Option of the Company. No sinking fund is provided for _____
the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time after February 5, 2005 at the option of the Company at the following redemption prices (each, a "Redemption Price"), expressed as a percentage of Principal Amount for Securities redeemed during the periods set forth below:

| Period | Redemption Price |
|--|------------------|
| Beginning on February 5, 2005 through February 4, 2006 | 102.375% |
| Beginning on February 5, 2006 through February 4, 2007 | 101.583% |
| Beginning on February 5, 2007 through February 4, 2008 | 100.792% |
| Beginning on February 5, 2008 | 100.00% |

in each case together with accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Redemption Date; provided, that the Securities will not be redeemable prior to February 5, 2006, unless the last reported sale price of the Company's common stock is at least 130% of the then effective Conversion Price for at least 20 Trading Days within a period of 30 consecutive Trading Days ending within five Trading Days of the date of the redemption notice.

Purchase By the Company at the Option of the Holder. Subject to the terms _____
and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on each of the Purchase Dates of February 1, 2009, February 1, 2012 and February 1, 2017 at 100% of the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Purchase Date (the "Purchase Price"), upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 30 days prior to such Purchase Date until the close of business on the date that is 5 Business Days prior to such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture. The Purchase Price will be paid in cash.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to repurchase the Securities if a Fundamental Change occurs at any time prior to February 1, 2022 at 100% of the Principal Amount plus

accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Fundamental Change Repurchase Date (the "Fundamental Change Repurchase Price"), which Fundamental Change Repurchase Price shall be paid in cash.

Holders have the right to withdraw any Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash sufficient to pay the Purchase Price or Fundamental Change Repurchase Price, as the case may be, of all Securities or portions thereof to be purchased on a Purchase Date or on a Fundamental Change Repurchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Fundamental Change Repurchase Date, as the case may be, interest will cease to accrue on such Securities (or portions thereof) immediately after such Purchase Date or Fundamental Change Repurchase Date, as the case may be, and the Holder thereof shall have no other rights as such (other than the right to receive the Purchase Price or Fundamental Change Repurchase Price, as the case may be, upon surrender of such Security).

Conversion. Subject to the provisions of the Indenture, the Holder hereof -----
 has the right, at its option, at any time following the date of issuance of the Securities and prior to the close of business on the Business Day next preceding February 1, 2022 (except that with respect to any Security or portion of a Security which shall be called for redemption, prior to the close of business on the Business Day next preceding the Redemption Date) (unless the Company shall default in payment of the Redemption Price), to convert the Principal Amount hereof or any portion of such principal which is \$1,000 or an integral multiple thereof, into that number of fully paid and non-assessable shares of Common Stock, as said shares shall be constituted at the date of conversion, obtained by dividing the Principal Amount of this Security or portion thereof to be converted by the conversion price of \$23.38 (the "Conversion Price") as adjusted from time to time as provided in the Indenture, upon surrender of this Security, together with a Conversion Notice as provided in the Indenture, to the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York, or at the option of such Holder, the Corporate Trust Office, and, unless the shares issuable on conversion are to be issued in the same name as this Security, duly endorsed by, or accompanied by instruments of transfer in form satisfactory to the Company duly executed by, the Holder or by his duly authorized attorney. No adjustment in respect of interest or dividends will be made upon any conversion; provided, however, that, if this Security shall be surrendered for conversion during the period from the close of business on any Regular Record Date for the payment of interest through the close of business on the Business Day next preceding the following Interest Payment Date, and has not been called for redemption on a Redemption Date that occurs during such period, such Security (or portion thereof being converted) must be accompanied by an amount, in funds acceptable to the Company, equal to the interest payable on such Interest Payment Date on the Principal Amount being converted; provided, however, that no such payment shall be required if there shall exist at the time of conversion a default in the payment of interest or Additional Amounts on the Securities. No fractional shares will be issued upon any conversion, but an adjustment and payment in cash will be made, as provided in the Indenture, in respect of any fraction of a share which would otherwise be issuable upon the surrender of any Securities for conversion. Securities in respect of which a Holder is exercising

its right to require repurchase on a Purchase Date or a Fundamental Change Repurchase Date may be converted only if such Holder withdraws its election to

exercise such right in accordance with the terms of the Indenture. Any Securities called for redemption, unless surrendered for conversion by the Holders thereof on or before the close of business on the Business Day preceding the date fixed for redemption, may be deemed to be redeemed from such Holders for an amount equal to the applicable Redemption Price, by one or more investment banks or other purchasers who may agree with the Company (i) to purchase such Securities from the Holders thereof and convert them into shares of the Common Stock and (ii) to make payment for such Securities as aforesaid to the Trustee in trust for the Holders.

Tax Treatment. The Company, and by purchasing a beneficial ownership

interest in the Securities each Holder of Securities, will be deemed to have agreed, for United States federal income tax purposes, (i) to treat the Securities as indebtedness that is subject to Contingent Payment Debt Regulations and, for purposes of the Contingent Payment Debt Regulations, to treat the fair market value of any stock beneficially received by a Holder upon any conversion of the Securities as a contingent payment and (ii) to be bound by the Company's determination of the comparable yield and projected payment schedule, within the meaning of the Contingent Payment Debt Regulations, with respect to the Securities. A Holder of Securities may obtain the issue price, issue date, amount of original issue discount, yield to maturity, comparable yield and projected payment schedule by submitting a written request to the Company at the following address: Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, CA 94088, Attention: Treasurer.

[INCLUDE IF SECURITY IS A GLOBAL SECURITY -- In the event of a deposit or withdrawal of an interest in this Security, including an exchange, transfer, repurchase or conversion of this Security in part only, the Trustee, as custodian of the Depositary, shall make an adjustment on its records to reflect such deposit or withdrawal in accordance with the rules and procedures of the Depositary.]

[INCLUDE IF SECURITY IS A RESTRICTED SECURITY -- Subject to certain limitations in the Indenture, at any time when the Company is not subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, upon the request of a Holder of a Restricted Security, the Company will promptly furnish or cause to be furnished Rule 144A Information (as defined below) to such Holder of Restricted Securities, or to a prospective purchaser of any such security designated by any such Holder, to the extent required to permit compliance by any such Holder with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). "Rule 144A Information" shall be such information as is specified pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).]

If an Event of Default shall occur and be continuing, the Principal Amount plus interest accrued and Additional Amounts, if any, through such date on all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Indenture at any time by the Company and the

Trustee with the consent of the Holders of not less than a majority in aggregate Principal Amount of the Outstanding Securities. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate Principal Amount of the Outstanding Securities, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or

in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities, the Holders of not less than 25% in aggregate Principal Amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity satisfactory to it, and the Trustee shall not have received from the Holders of a majority in Principal Amount of Outstanding Securities a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of said principal hereof or interest hereon on or after the respective due dates expressed herein or for the enforcement of any conversion right.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the Principal Amount, Purchase Price or Fundamental Change Repurchase Price of, and interest and Additional Amounts, if any, on, this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in The City of New York, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate Principal Amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form in denominations of \$1,000 and any integral multiple of \$1,000 above that amount, as provided in the Indenture and subject to certain limitations therein set forth. Securities are exchangeable for a like aggregate Principal Amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

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No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security shall be governed by and construed in accordance with the laws of the State of New York.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

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ASSIGNMENT FORM

If you want to assign this Security, fill in the form below and have

your signature guaranteed:

I or we assign and transfer this Security to:

(Print or type name, address and zip code and social security or tax ID number of assignee)

and irrevocably appoint _____ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

In connection with any transfer of this Security occurring prior to the date which is the earlier of (i) the date of the declaration by the Commission of the effectiveness of a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering resales of this Security (which effectiveness shall not have been suspended or terminated at the date of the transfer) and (ii) January 29, 2004, the undersigned confirms that it has not utilized any general solicitation or general advertising in connection with the transfer and that this Security is being transferred:

[Check One]

- (1) to the Company or a subsidiary thereof; or
- (2) pursuant to and in compliance with Rule 144A under the Securities Act; or
- (3) outside the United States to a "foreign person" in compliance with Rule 904 of Regulation S under the Securities Act; or
- (4) pursuant to the exemption from registration provided by Rule 144 under the Securities Act, or
- (5) pursuant to another available exemption from the registration requirements of the Securities Act.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any Person other than the registered Holder thereof, provided that if box (3), (4) or (5) is checked, the Company may require, prior to registering any such transfer of the

Securities, in its sole discretion, such legal opinions, certifications (including an investment letter in the case of box (3)) and other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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If none of the foregoing boxes is checked, the Trustee or Security Registrar shall not be obligated to register this Security in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 3.10 of the Indenture shall have been satisfied.

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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TO BE COMPLETED BY PURCHASER IF (2) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Date: _____ Signed: _____

NOTICE: To be executed by an executive officer.

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CONVERSION NOTICE

If you want to convert this Security into Common Stock of the Company, check the box:

To convert only part of this Security, state the Principal Amount to be converted (which must be \$1,000 or an integral multiple of \$1,000):

\$ _____

If you want the stock certificate made out in another person's name, fill in the form below:

(Insert other person's social security or tax ID no.)

(Print or type other person's name, address and zip code)

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

SECTION 2.04. Form of Trustee's Certificate of Authentication. This is one of the Securities referred to in the within-mentioned Indenture.

Dated: _____ THE BANK OF NEW YORK, _____ as Trustee
By _____ Authorized Signatory

SECTION 2.05. Legend on Restricted Securities. During the period beginning on January 29, 2002 and ending on the date two years from such date, any Security including any Security issued in exchange therefor or in lieu thereof, shall be deemed a "Restricted Security" and shall be subject to the restrictions on transfer provided in the legends set forth on the face of the form of Security in Section 2.02; provided, however, that the term "Restricted Security" shall not include any Securities as to which restrictions have been terminated in accordance with Section 3.05. All Securities shall bear the applicable legends set forth on the face of the form of Security in Section 2.02. Except as provided in Section 3.05 and Section 3.10, the Trustee shall not issue any unlegended Security until it has received an Officers' Certificate from the Company directing it to do so.

ARTICLE 3

THE SECURITIES

SECTION 3.01. Title and Terms. The aggregate Principal Amount of Securities which may be authenticated and delivered under this Indenture is limited to \$500,000,000 (subject to increase by up to \$100,000,000 in the event

the Initial Purchasers exercise the option granted to them in the Purchase Agreement), except for Securities authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.04, 3.05, 3.06, 9.06, 11.06, 11.12 or 13.02.

The Securities shall be known and designated as the "4.75% Convertible Senior Debentures Due 2022" of the Company. The Principal Amount shall be payable on February 1, 2022.

The Principal Amount and accrued interest and Additional Amounts, if any, on the Securities shall be payable at the office or agency of the Company in The City of New York maintained for such purpose and at any other office or agency maintained by the Company for such purpose; provided, however, that at the option of the Company payments may be made by

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wire transfer or by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

The Securities shall not have the benefit of a sinking fund.

The Securities shall not be superior in right of payment to, and shall rank pari passu with, all other unsecured and unsubordinated indebtedness of the Company.

SECTION 3.02. Denominations. The Securities shall be issuable only in registered form without coupons and in denominations of \$1,000 and any integral multiple of \$1,000 above that amount.

SECTION 3.03. Execution, Authentication, Delivery and Dating. The Securities shall be executed on behalf of the Company by its Chairman of the Board, its President or one of its Vice Presidents, attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities. The Company Order shall specify the amount of Securities to be authenticated, and shall further specify the amount of such Securities to be issued as a Global Security or as Physical Securities. The Trustee in accordance with such Company Order shall authenticate and deliver such Securities as in this Indenture provided and not otherwise.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

SECTION 3.04. Temporary Securities. Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of

which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the

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officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 10.02, without charge to

the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like Principal Amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 3.05. Registration; Registration of Transfer and Exchange; Restrictions on Transfer. (a) The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 10.02 being herein sometimes collectively referred to as the "Security

Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" (the "Security Registrar") for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security at an office or agency of the Company designated pursuant to Section 10.02 for such

purpose, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denominations and of a like aggregate Principal Amount and tenor, each such Security bearing such restrictive legends as may be required by this Indenture (including Sections 2.02, 2.05 and 3.10).

At the option of the Holder and subject to the other provisions of this Section 3.05 and to Section 3.10, Securities may be exchanged for other

Securities of any authorized denominations and of a like aggregate Principal Amount and tenor, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in

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writing. As a condition to the registration of transfer of any Restricted Securities, the Company or the Trustee may require evidence satisfactory to them as to the compliance with the restrictions set forth in the legend on such securities.

Except as provided in the following sentence and in Section 3.10, all

Securities originally issued hereunder and all Securities issued upon registration of transfer or exchange or replacement thereof shall be Restricted Securities and shall bear the legend required by Sections 2.02 and 2.05, unless

the Company shall have delivered to the Trustee (and the Security Registrar, if other than the Trustee) a Company Order stating that the Security is not a Restricted Security and may be issued without such legend thereon. Securities which are issued upon registration of transfer of, or in exchange for, Securities which are not Restricted Securities shall not be Restricted Securities and shall not bear such legend.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.04 or 9.06 not involving any transfer.

The Company shall not be required to exchange or register a transfer of any Security (i) during the 15-day period immediately preceding the mailing of any notice of redemption of any Security, (ii) after any notice of redemption has been given to Holders of Securities, except, where such notice provides that such Security is to be redeemed only in part, the Company shall be required to exchange or register a transfer of the portion thereof not to be redeemed, (iii) that has been surrendered for conversion or (iv) as to which a Purchase Notice or Fundamental Change Repurchase Notice has been delivered and not withdrawn, except, where such Purchase Notice or Fundamental Change Repurchase Notice provides that such Security is to be purchased only in part, the Company shall be required to exchange or register a transfer of the portion thereof not to be purchased.

(b) Beneficial ownership of every Restricted Security shall be subject to the restrictions on transfer provided in the legends required to be set forth on the face of each Restricted Security pursuant to Sections 2.02 and 2.05,

unless such restrictions on transfer shall be terminated in accordance with this Section 3.05(b) or Section 3.10. The Holder of each Restricted Security, by such

Holder's acceptance thereof, agrees to be bound by such restrictions on transfer.

The restrictions imposed by this Section 3.05 and Sections 2.02, 2.05 and 3.10 upon the transferability of any particular Restricted Security shall

cease and terminate upon delivery by the Company to the Trustee of an Officers' Certificate stating that such Restricted Security has been sold pursuant to an effective Resale Registration Statement under the Securities Act or transferred in compliance with Rule 144 under the Securities Act (or any successor provision thereto). Any Restricted Security as to which the Company has delivered to the Trustee an Officers' Certificate that such restrictions on transfer shall have expired in accordance with their terms or shall have terminated may, upon surrender of such Restricted Security for exchange to the Security Registrar in accordance with the provisions of this Section 3.05, be exchanged for a new

Security, of like tenor and aggregate Principal Amount, which

shall not bear the restrictive legends required by Sections 2.02 and 2.05. The

Company shall inform the Trustee in writing of the effective date of any Resale
Registration Statement registering the Securities under the Securities Act. The
Trustee shall not be liable for any action taken or omitted to be taken by it in
good faith in accordance with the aforementioned Resale Registration Statement.

As used in the preceding two paragraphs of this Section 3.05, the term

"transfer" encompasses any sale, pledge, transfer or other disposition of any
Restricted Security.

(c) Neither the Trustee nor any of its agents shall (i) have any duty
to monitor compliance with or with respect to any federal or state or other
securities or tax laws or (ii) have any duty to obtain documentation on any
transfers or exchanges other than as specifically required hereunder.

SECTION 3.06. Mutilated, Destroyed, Lost and Stolen Securities. If any
mutilated Security is surrendered to the Trustee, the Company shall execute and
the Trustee shall authenticate and deliver in exchange therefor a new Security
of like tenor and Principal Amount and bearing a number not contemporaneously
outstanding.

If there shall be delivered to the Company and the Trustee (i)
evidence to their satisfaction of the destruction, loss or theft of any Security
and (ii) such security or indemnity as may be required by them to save each of
them and any agent of either of them harmless, then, in the absence of notice to
the Company or the Trustee that such Security has been acquired by a bona fide
purchaser, the Company shall execute and the Trustee shall authenticate and
deliver, in lieu of any such destroyed, lost or stolen Security, a new Security
of like tenor and Principal Amount and bearing a number not contemporaneously
outstanding.

In case any such mutilated, destroyed, lost or stolen Security has
become or is about to become due and payable or has been called for redemption
in full, the Company in its discretion may, instead of issuing a new Security,
pay such Security.

Upon the issuance of any new Security under this Section, the Company
may require the payment of a sum sufficient to cover any tax or other
governmental charge that may be imposed in relation thereto and any other
expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any
destroyed, lost or stolen Security shall constitute an original additional
contractual obligation of the Company, whether or not the destroyed, lost or
stolen Security shall be at any time enforceable by anyone, and shall be
entitled to all the benefits of this Indenture equally and proportionately with
any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to
the extent lawful) all other rights and remedies with respect to the replacement
or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 3.07. Persons Deemed Owners. Prior to due presentment of a
Security for registration of transfer, the Company, the Trustee and any agent of
the Company or the Trustee may treat the Person in whose name such Security is
registered as the owner of such Security for the purpose of receiving payment of
principal on such Security (and interest, if the Securities have been converted
into semi-annual coupon notes) and for all other purposes whatsoever, whether or
not such Security be overdue, and neither the Company, the Trustee nor any agent
of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 3.08. Book-entry Provisions for Global Securities. (a) The Global Securities initially shall (i) be registered in the name of the Depository or the nominee of such Depository, (ii) be delivered to the Trustee as custodian for the Depository and (iii) bear legends as set forth on the face of the form of Security in Section 2.02.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository, or the Trustee as its custodian, or under the Global Security, and the Depository may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of the Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of any Holder.

(b) Transfers of the Global Securities shall be limited to transfers in whole, but not in part, to the Depository, its successors or their respective nominees. Interests of beneficial owners in a Global Security may be transferred or exchanged, in whole or in part, for Physical Securities in accordance with the rules and procedures of the Depository and the provisions of Section 3.10.

In addition, Physical Securities shall be transferred to all beneficial owners in exchange for their beneficial interests in the Global Securities if (A) such Depository has notified the Company (or the Company becomes aware) that the Depository (i) is unwilling or unable to continue as Depository for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act when the Depository is required to be so registered to act as such Depository and, in both such cases, no successor Depository shall have been appointed within 90 days of such notification or of the Company becoming aware of such event or (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security and the Outstanding Securities shall have become due and payable pursuant to Section 5.02 and the Trustee

requests that Physical Securities be issued; provided that Holders of Physical Securities offered and sold in reliance on Rule 144A shall have the right, subject to applicable law, to request that such Securities be exchanged for interests in the applicable Global Security.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in the Global Security to beneficial owners pursuant to paragraph (b), the Security Registrar shall (if one or more Physical Securities are to be issued) reflect on its books and

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records the date and a decrease in the Principal Amount of the Global Security in an amount equal to the Principal Amount of the beneficial interest in the Global Security to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more Physical Securities of like tenor and amount.

(d) In connection with the transfer of the entire Global Security to beneficial owners pursuant to paragraph (b), the Global Security shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depository in exchange for its beneficial interest in the Global Security, an equal aggregate Principal Amount of Physical Securities of authorized denominations and the same tenor.

(e) Any Physical Security constituting a Restricted Security delivered in exchange for an interest in the Global Security pursuant to paragraph (c) or (d) shall, except as otherwise provided by paragraphs (a) (i) (x) and (c) of

Section 3.10, bear the legend regarding transfer restrictions applicable to the

Physical Securities set forth on the face of the form of Security in Section
2.02.

(f) The Holder of the Global Securities may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Securities.

SECTION 3.09. Cancellation. The Company at any time may deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold. The Trustee shall cancel and dispose of all Securities surrendered for registration of transfer, exchange, payment, purchase, repurchase, redemption, conversion (pursuant to Article 13 hereof) or cancellation in accordance with its customary practices. If the Company shall acquire any of the Securities, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation. The Company may not issue new Securities to replace Securities it has paid in full or delivered to the Trustee for cancellation.

SECTION 3.10. Special Transfer Provisions. (a) Transfers to Non-U.S. Persons. The following provisions shall apply with respect to the registration of any proposed transfer of a Security constituting a Restricted Security to any Non-U.S. Person to which Securities in the form of Global Securities cannot be issued:

(i) the Security Registrar shall register the transfer of any Security constituting a Restricted Security, whether or not such Security bears the legend required by Sections 2.02 and 2.05, if (x)

the requested transfer is after January 29, 2004 or (y) the proposed transferor has delivered to the Security Registrar a certificate substantially in the form of Exhibit A hereto, together with

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such other certifications, legal opinions or other information as the Company may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; and

(ii) if the proposed transferor is an Agent Member holding a beneficial interest in the Global Security, upon receipt by the Security Registrar of (x) the certificate, if any, required by paragraph (i) above and instructions given in accordance with the Depositary's and the Security Registrar's procedures,

whereupon (1) the Security Registrar shall reflect on its books and records the date and (if the transfer does not involve a transfer of outstanding Physical Securities) a decrease in the Principal Amount of the Global Security in an amount equal to the Principal Amount of the beneficial interest in the Global Security to be transferred, and (b) the Company shall execute and the Trustee shall authenticate and deliver one or more Physical Securities of like tenor and amount.

(b) Transfers to QIBs. The following provisions shall apply with respect to the registration of any proposed transfer of a Security constituting a Restricted Security to a QIB (excluding transfers to Non-U.S. Persons):

(i) the Security Registrar shall register the transfer if such

transfer is being made by a proposed transferor who has checked the box provided for on the form of Security stating, or has otherwise advised the Company and the Security Registrar in writing, that the sale has been made in compliance with the provisions of Rule 144A to a transferee who has signed the certification provided for on the form of Security stating, or has otherwise advised the Company and the Security Registrar in writing, that it is purchasing the Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A; and

(ii) if the proposed transferee is an Agent Member, and the Securities to be transferred consist of Physical Securities which after transfer are to be evidenced by an interest in the Global Security, upon receipt by the Security Registrar of instructions given in accordance with the Depository's and the Security Registrar's procedures, the Security Registrar shall reflect on its books and records the date and an increase in the Principal Amount of the Global Security in an amount equal to the Principal Amount of the Physical Securities to be transferred, and the Trustee shall cancel the Physical Securities so transferred.

(c) Private Placement Legend. Upon the registration of transfer, exchange or replacement of Securities not bearing the legends required by Sections 2.02 and 2.05, the Security Registrar shall deliver Securities that do

not bear such legends. Upon the registration of

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transfer, exchange or replacement of Securities bearing the legends required by Sections 2.02 and 2.05, the Security Registrar shall deliver only Securities

that bear such legends unless (i) the circumstance contemplated by paragraph (a)(i)(x) of this Section 3.10 exists or (ii) there is delivered to the Security

Registrar an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act.

(d) General. By its acceptance of any Security bearing the legends required by Sections 2.02 and 2.05, each Holder of such a Security acknowledges

the restrictions on transfer of such Security set forth in this Indenture and in such legends and agrees that it will transfer such Security only as provided in this Indenture.

The Security Registrar shall retain, in accordance with its customary procedures, copies of all letters, notices and other written communications received pursuant to this Section 3.10. The Company shall have the right to

inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Security Registrar.

SECTION 3.11. Cusip Numbers. The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the

correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE 4

SATISFACTION AND DISCHARGE

SECTION 4.01. Satisfaction and Discharge of Indenture. This Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(a) either

(i) all Securities theretofore authenticated and delivered (other than (A) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.06 and (B)

Securities for whose payment money has theretofore been deposited with the Trustee in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged

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from such trust as provided in Section 10.03) have been delivered to

the Trustee for cancellation; or

(ii) all such Securities not theretofore delivered to the Trustee for cancellation have become due and payable and the Company has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness evidenced by such Securities not theretofore delivered to the Trustee for cancellation, for principal and interest to the date of such deposit;

(b) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 6.07 and, if money shall

have been deposited with the Trustee pursuant to subclause (ii) of Clause (a) of this Section, the obligations of the Trustee under Section 4.02 and the last

paragraph of Section 10.03 shall survive.

SECTION 4.02. Application of Trust Money. Subject to the provisions of the last paragraph of Section 10.03, all money deposited with the Trustee

pursuant to Section 4.01 shall be held in trust and applied by it, in accordance

with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of

the principal and interest and Additional Amounts, if any, for whose payment such money has been deposited with the Trustee.

ARTICLE 5

REMEDIES

SECTION 5.01. Events of Default. "Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of the Principal Amount, Redemption Price, Purchase Price or Fundamental Change Repurchase Price on any Security when it becomes due and payable; or

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(b) default in the payment of interest or Additional Amounts upon any Security, when such interest becomes due and payable, and continuance of such default for a period of 30 days; or

(c) default in the performance of any covenant, agreement or condition of the Company in this Indenture or the Securities (other than a default specified in (a) or (b) above), and continuance of such default for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate Principal Amount of the Outstanding Securities a written notice specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(d) failure by the Company to give the Fundamental Change Company Notice; or

(e) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Company or any of its significant subsidiaries of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (ii) a decree or order adjudging the Company as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law or (iii) appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days;

(f) the commencement by the Company or any of its significant subsidiaries of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the

taking of corporate action by the Company in furtherance of any such action;

(g) the failure by the Company or any of its significant subsidiaries make any payment at maturity, including any applicable grace period, with respect to any indebtedness of, or guaranteed or assumed by, the Company or its significant subsidiaries, in a principal amount then outstanding in excess of \$25 million in the aggregate for all such indebtedness and the continuance of such failure for a period of 30

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days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by Holders of at least 25% in aggregate Principal Amount of the Outstanding Securities, a written notice specifying such default and requiring the Company to cause such default to be cured or waived and stating that such notice is a "Notice of Default" hereunder; or

(h) the default on the part of the Company or any of its significant subsidiaries with respect to any indebtedness of, or guaranteed or assumed by, the Company or its significant subsidiaries, in a principal amount then outstanding in excess of \$25 million in the aggregate for all such indebtedness, and such indebtedness shall not have been discharged or such acceleration shall not have been rescinded or annulled for a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by Holders of at least 25% in aggregate Principal Amount of the Outstanding Securities, a written notice specifying such default and requiring the Company to cause such default to be cured or waived or such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder.

SECTION 5.02. Acceleration of Maturity; Rescission and Annulment. (a) If an Event of Default (other than those specified in Sections 5.01(e) and

5.01(f)) occurs and is continuing, then and in every such case the Trustee

or the Holders of not less than 25% in aggregate Principal Amount of the Outstanding Securities may declare the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, on all the Outstanding Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, shall become immediately due and payable.

Notwithstanding the foregoing, in the case of an Event of Default specified in Sections 5.01(e) or 5.01(f), the Principal Amount plus accrued and

unpaid interest and Additional Amounts, if any, on all Outstanding Securities will ipso facto become due and payable without any declaration or other Act on the part of the Trustee or any Holder.

(b) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in aggregate Principal Amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(i) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities,

(B) the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, Redemption Price, Purchase Price or

Fundamental Change Repurchase Price, as applicable, on any Securities

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which have become due otherwise than by such declaration of acceleration, and

(C) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.07; and

(ii) all Events of Default, other than the non-payment of the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, on Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 5.03. Collection of Indebtedness and Suits for Enforcement by Trustee. The Company covenants that if:

(i) default is made in the payment of any interest on any Security when such interest becomes due and payable, and such default continues for a period of 30 days, or

(ii) default is made in the payment of the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, at the Maturity thereof or in the payment of the Redemption Price, the Purchase Price or the Fundamental Change Repurchase Price in respect of any Security,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to the Securities occurs and is continuing, the Trustee shall, subject to applicable law, proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem appropriate, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 5.04. Trustee May File Proofs of Claim. In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or

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other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized

by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee under Section 6.07.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 5.05. Trustee May Enforce Claims Without Possession of Securities. All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.07, be for the ratable benefit of the

Holders of the Securities in respect of which such judgment has been recovered.

SECTION 5.06. Application of Money Collected. Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money to Holders, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 6.07; and

SECOND: To the payment of the amounts then due and unpaid on the Securities for the Principal Amount, Redemption Price, Purchase Price, Fundamental Change Repurchase Price or interest and Additional Amounts, if any, as the case may be, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities.

SECTION 5.07. Limitation on Suits. No Holder of any Security shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder (other than in the case of an Event of Default specified in Section 5.01(a) or 5.01(b)), unless:

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(i) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(ii) the Holders of not less than 25% in aggregate Principal Amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(iii) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate Principal Amount of the Outstanding Securities;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 5.08. Unconditional Right of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of the Principal Amount, Redemption Price, Purchase Price, Fundamental Change Repurchase Price or interest and Additional Amounts, if any, in respect of the Securities held by such Holder, on or after the respective due dates expressed in the Securities or any Redemption Date, Purchase Date or Fundamental Change Purchase Date, as applicable, and to convert the Securities in accordance with Article 13, or to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, shall not be impaired or affected adversely without the consent of such Holder.

SECTION 5.09. Restoration of Rights and Remedies. If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 5.10. Rights and Remedies Cumulative.

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Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustee or to

the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 5.11. Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 5.12. Control by Holders. The Holders of a majority in Principal Amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

(i) such direction shall not be in conflict with any rule of law or with this Indenture; and

(ii) the Trustee may take any other action deemed proper by the

Trustee which is not inconsistent with such direction.

SECTION 5.13. Waiver of Past Defaults. The Holders of not less than a majority in Principal Amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past Default hereunder and its consequences, except a Default:

(i) Described in Section 5.01(a) or (b); or

(ii) in respect of a covenant or provision hereof which under Article 9 cannot be modified or amended without the consent of the Holder of each Outstanding Security affected.

Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 5.14. Undertaking for Costs.

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In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, in either case in respect of the Securities, a court may require any party litigant in such suit to file an undertaking to pay the costs of the suit, and the court may assess reasonable costs, including reasonable attorney's fees, against any party litigant in the suit having due regard to the merits and good faith of the claims or defenses made by the party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in Principal Amount of the Outstanding Securities, or to any suit instituted by any Holder for the enforcement of the payment of the Principal Amount or interest on any Security on or after Maturity of such Security, the Redemption Price, the Purchase Price or the Fundamental Change Purchase Price.

SECTION 5.15. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay, or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 6

THE TRUSTEE

SECTION 6.01. Certain Duties and Responsibilities. The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. In case an Event of Default with respect to the Securities has occurred (which has not been cured or waived), the Trustee shall exercise the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers. Whether or not therein expressly so provided, every provision of this

Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 6.02. Notice of Defaults. The Trustee shall give the Holders notice of any Default hereunder within 60 days after the occurrence thereof; provided, that in the case of any Default in the payment of Principal Amount or interest on any of the Securities, Redemption Price, Purchase Price or Fundamental Change Repurchase Price, the Trustee shall be protected in withholding such notice if and so long as a

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trust committee of directors or trustees and/or a Responsible Officer of the Trustee in good faith determines that the withholding of such notice is in the interest of the holders of Securities.

SECTION 6.03. Certain Rights of Trustee. Subject to the provisions of Section 6.01:

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors of the Company may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit; and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(g) the Trustee may execute any of the trusts or powers

hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

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(h) the Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Securities unless either (i) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default shall have been given to the Trustee by the Company or any other obligor on such Securities or by any Holder of such Securities;

(i) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(j) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder; and

(k) the Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 6.04. Not Responsible for Recitals. The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 6.05. May Hold Securities. The Trustee, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 6.08 and 6.13, may otherwise deal with the Company with the same

rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 6.06. Money Held in Trust. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 6.07. Compensation and Reimbursement. The Company agrees:

(i) to pay to the Trustee from time to time such compensation for all services rendered by it hereunder as the Company and the Trustee shall from time

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to time agree in writing (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(ii) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(iii) to indemnify the Trustee and any predecessor Trustee for, and to hold it harmless against, any loss, liability or expense including taxes (other than taxes based upon, measured by or determined by the income of the Trustee) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the reasonable costs and expenses of defending itself against any claim (whether assessed by the Company, by any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The obligations of the Company under this Section 6.07 shall survive

the resignation or removal of the Trustee and the satisfaction and discharge of this Indenture. To secure the Company's payment obligations in this Section 6.07, the Trustee shall have a lien prior to the Securities on all money or

property held or collected by the Trustee, except that held in trust to pay principal and interest on the Securities. Such lien shall survive the resignation or removal of the Trustee and the satisfaction and discharge of this Indenture. When the Trustee incurs expenses or renders services after a Default or an Event of Default specified in Sections 5.01(e) or 5.01(f) hereof occurs,

the expenses and the compensation for the services (including, the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under U.S. Code, Title 11 or any other similar foreign, federal or state law for the relief of debtors.

SECTION 6.08. Disqualification; Conflicting Interests. If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

SECTION 6.09. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 6.10. Resignation and Removal; Appointment of Successor. (a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 6.11.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction at the expense of the Trustee for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of majority in Principal Amount of the Outstanding Securities, delivered to the Trustee and to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the notice of removal, the Trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities.

(d) If at any time:

(i) the Trustee shall fail to comply with Section 6.08 after

written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(ii) the Trustee shall cease to be eligible under Section 6.09

and shall fail to resign after written request therefor by the Company or by any such Holder, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent, or

(iv) a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Company Order may remove the Trustee, or (B) subject to Section 5.14, any Holder who has been a bona fide

Holder of a Security for at least six months may, on behalf of such Holder and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Company Order, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in Principal Amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor

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Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 1.06. Each notice shall include the

name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 6.11. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 6.12. Merger, Conversion, Consolidation or Succession to Business. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 6.13. Preferential Collection of Claims Against. If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

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ARTICLE 7

HOLDERS' LISTS AND REPORTS BY TRUSTEE

SECTION 7.01. Company to Furnish Trustee Names and Addresses of Holders. The Company will furnish or cause to be furnished to the Trustee:

(i) semi-annually, not more than 15 days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date; and

(ii) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar; provided, however, that no such list need be furnished so long as the Trustee is acting as Security Registrar.

SECTION 7.02. Preservation of Information; Communications to Holders.
(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent

list furnished to the Trustee as provided in Section 7.01 and the names and

addresses of Holders received by the Trustee in its capacity as Security
Registrar. The Trustee may destroy any list furnished to it as provided in
Section 7.01 upon receipt of a new list so furnished.

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

SECTION 7.03. Reports by Trustee. (a) The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. Reports so required to be transmitted at stated intervals of not more than 12 months shall be transmitted no later than July 15 in each calendar year, commencing in July 15, 2002. Each such report shall be dated as of a date not more than 60 days prior to the date of transmission.

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(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when the Securities are listed on any stock exchange or of any delisting thereof.

SECTION 7.04. Reports by Company. The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission. In the event the Company is not subject to Section 13 or 15(d) of the Exchange Act, it shall file with the Trustee upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates). It is expressly understood that materials transmitted electronically by the Company to the Trustee shall be deemed filed with the Trustee for purposes of this Section 7.04.

ARTICLE 8

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 8.01. Company May Consolidate, Etc., Only on Certain Terms. The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(i) in case the Company shall consolidate with or merge with another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, either the Company shall be the continuing Person or the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, limited liability company, partnership or trust (the "Surviving Entity"), shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and the Surviving Entity shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form and substance reasonably satisfactory to the Trustee, the due

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and punctual payment of the principal of and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;

(ii) immediately after giving effect to a transaction described in (i), no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(iii) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article.

SECTION 8.02. Successor Substituted. Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 8.01, the successor

Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE 9

SUPPLEMENTAL INDENTURES

SECTION 9.01. Supplemental Indentures Without Consent of Holders. Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(i) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(ii) to add to the covenants of the Company for the benefit of the Holders, or to surrender any right or power herein conferred upon the Company; or

(iii) to add any additional Events of Default for the benefit of the Holders; or

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(iv) to cure any ambiguity or defect, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture, provided that such action pursuant to this clause (iv) shall not adversely affect the interests of the Holders in any material respect; or

(v) to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Securities any property or assets; or

(vi) to evidence the succession of another corporation to the Company, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Section 8.01; or

(vii) to comply with any requirements of the Commission in connection with the qualification of this Indenture under the Trust Indenture Act; or

(viii) make any change that does not adversely affect in any material respect the rights of any Holder.

SECTION 9.02. Supplemental Indentures with Consent of Holders. With the consent of the Holders of not less than a majority in Principal Amount of the Outstanding Securities, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(i) make any change in the Regular Record Dates or Interest Payment Dates or rate of interest or extend the time for payment of interest, if any, on any Security; or

(ii) reduce the Principal Amount of or extend the Stated Maturity of any Security; or

(iii) reduce the Redemption Price, Purchase Price or Fundamental Change Repurchase Price of any Security; or

(iv) make any Security payable in money or securities other than that stated in the Security; or

(v) make any change that adversely affects the right to convert any Security; or

(vi) make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and this Indenture; or

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(vii) impair the right to receive payment with respect to a Security or the right to institute suit for the enforcement of any payment or conversion, with respect to the Securities; or

(viii) reduce the percentage in Principal Amount of the Outstanding Securities, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture; or

(ix) modify any of the provisions of this Section or Section 5.13, except to increase any such percentage or to

provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 9.03. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 6.01) shall be fully protected in relying upon, in addition to the

documents required by Section 1.02, an Opinion of Counsel stating that the

execution of such supplemental indenture is authorized or permitted by this Indenture. Subject to the preceding sentence, the Trustee shall sign such supplemental indenture if the same does not adversely affect the Trustee's own rights, duties or immunities under this Indenture or otherwise. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.04. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 9.05. Conformity with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

SECTION 9.06. Reference in Securities to Supplemental Indentures. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article shall bear a notation in form approved by the Trustee as to any matter

provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

SECTION 10.01. Payments. The Company shall duly and punctually make all payments in respect of the Securities in accordance with the terms of the Securities and this Indenture.

SECTION 10.02. Maintenance of Office or Agency. The Company shall maintain in the Borough of Manhattan, The City of New York, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served, which shall initially be the Corporate Trust Office of the Trustee. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside the Borough of Manhattan, The City of New York) where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 10.03. Money for Security Payments to Be Held in Trust. If the Company shall at any time act as its own Paying Agent, it shall, on or before each due date of any payment in respect of any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to make the payment so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and shall promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents, it will, prior to each due date of any payment in respect of any Securities, deposit with a Paying Agent a sum

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sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company shall cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (i) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (ii) during the continuance of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent as such.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then

held by the Company, in trust for the making of payments in respect of any Security and remaining unclaimed for two years after such payment has become due shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

SECTION 10.04. Statement by Officers as to Default. The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

The Company shall deliver to the Trustee, as soon as possible and in any event within five days after the Company becomes aware of the occurrence of any Event of Default or an event which, with notice or the lapse of time or both, would constitute an Event of Default, an

Officers' Certificate setting forth the details of such Event of Default or default and the action which the Company proposes to take with respect thereto.

SECTION 10.05. Existence. Subject to Article 8, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors of the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 10.06. Reports and Delivery of Certain Information. Whether or not required by the rules and regulations of the Commission, so long as any Securities are outstanding, the Company shall furnish to the Trustee (i) all quarterly and annual financial information that is substantially equivalent to that which would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and, with respect to the annual information only, a report thereon by the Company's certified independent accountants and (ii) all reports that are substantially equivalent to that which would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports; provided that in each case the delivery of materials to the Trustee by electronic means shall be deemed to be "furnished" to the Trustee for purposes of this Section 10.06. Delivery of such reports, information and documents to

the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates). In addition, whether or

not required by the rules and regulations of the Commission, the Company shall file a copy of all such information with the Commission for public availability (unless the Commission will not accept such a filing) and make such information available to investors who request it in writing. So long as any of the Securities remain Outstanding, the Company shall make available to any prospective purchaser of Securities or beneficial owner of Securities in connection with any sale thereof the information required by Rule 144A(d)(4) under the Securities Act, until the earlier of (a) such time as the Holders thereof have disposed of such Securities pursuant to an effective Resale Registration Statement or Rule 144 under the Securities Act and (b) January 29, 2004.

SECTION 10.07. Resale of Certain Securities. During the period beginning on the Issue Date and ending on the date that is two years from the Issue Date, the Company shall not, and shall not permit any of its "affiliates" (as defined under Rule 144 under the Securities Act or any successor provision thereto) to, resell any Securities which constitute "restricted securities" under Rule 144 that have been reacquired by any of them. The Trustee shall have no responsibility in respect of the Company's performance of its agreement in the preceding sentence.

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SECTION 10.08. Book-Entry System. If the Securities cease to trade in the Depository's book-entry settlement system, the Company covenants and agrees that it shall use reasonable efforts to make such other book-entry arrangements that it determines are reasonable for the Securities.

SECTION 10.09. Tax Treatment of Securities. The Company, and by purchasing a beneficial ownership interest in the Securities each Holder of Securities, will be deemed to have agreed, for United States federal income tax purposes, (i) to treat the Securities as indebtedness that is subject to Treasury Regulation (S) 1.1275-4 (the "Contingent Payment Debt Regulations") and, for purposes of the Contingent Payment Debt Regulations, to treat the fair market value of any stock beneficially received by a Holder upon any conversion of the Securities as a contingent payment and (ii) to be bound by the Company's determination of the comparable yield and projected payment schedule, within the meaning of the Contingent Payment Debt Regulations, with respect to the Securities. A Holder of Securities may obtain the issue price, issue date, amount of original issue discount, yield to maturity, comparable yield and projected payment schedule by submitting a written request to the Company at the following address: Advanced Micro Devices, Inc., One AMD Plaza, Sunnyvale, CA 94088, Attention: Treasurer.

SECTION 10.10. Additional Amounts under the Registration Rights Agreement. If at any time Additional Amounts become payable by the Company pursuant to the Registration Rights Agreement, the Company shall promptly deliver to the Trustee a certificate to that effect and stating (i) the amount of such Additional Amounts that are payable and (ii) the date on which such Additional Amounts are payable pursuant to the terms of the Registration Rights Agreement. Unless and until a Responsible Officer of the Trustee receives such a certificate, the Trustee may assume without inquiry that no Additional Amounts are payable. If the Company has paid Additional Amounts directly to the Persons entitled to such Additional Amounts, the Company shall deliver to the Trustee a certificate setting forth the particulars of such payment.

SECTION 10.11. Information for IRS Filings. The Company shall provide to the Trustee on a timely basis such information as the Trustee requires to enable the Trustee to prepare and file any form required to be submitted by the Company with the Internal Revenue Service and the Holders of the Notes relating to original issue discount, including, without limitation, Form 1099-OID or any successor form.

SECTION 11.01. Right to Redeem; Notices to Trustee. The Company, at its option, may redeem the Securities in accordance with the provisions of the Securities and the Indenture. If the Company elects to redeem Securities, it shall notify the Trustee in writing of the Redemption Date, the Principal Amount of Securities to be redeemed and the Redemption Price.

The Company shall give the notice to the Trustee provided for in this Section 11.01 by a Company Order, at least 45 days before the Redemption Date

(unless a shorter notice shall be satisfactory to the Trustee).

SECTION 11.02. Selection of Securities to Be Redeemed. If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by any other method the Trustee considers fair and appropriate (so long as such method is not prohibited by the rules of any stock exchange on which the Securities are then listed). The Trustee shall make the selection within 7 days from its receipt of the notice from the Company delivered pursuant to the second paragraph of Section 11.01 from Outstanding Securities not previously called for redemption.

Securities and portions of them the Trustee selects shall be in Principal Amounts of \$1,000 or integral multiples of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed may be treated by the Trustee as outstanding for the purpose of such selection.

SECTION 11.03. Notice of Redemption. At least 15 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail, postage prepaid, to each Holder of Securities to be redeemed.

The notice shall identify the Securities to be redeemed and shall state:

- (i) the Redemption Date;
- (ii) the Redemption Price;
- (iii) the Conversion Price;
- (iv) the name and address of the Paying Agent and Conversion Agent;

(v) that Securities called for redemption may be converted at any time before the close of business on the Business Day immediately preceding the Redemption Date;

(vi) that Holders who want to convert Securities must satisfy the requirements set forth therein and in this Indenture;

(vii) that Securities called for redemption must be surrendered to the Paying Agent for cancellation to collect the Redemption Price;

(viii) if fewer than all the outstanding Securities are to be redeemed, the certificate number and Principal Amounts of the particular Securities to be redeemed;

(ix) that, unless the Company defaults in making payment of such Redemption Price, interest on Securities called for redemption will cease to accrue on and after the Redemption Date; and

(x) the CUSIP number of the Securities.

At the Company's written request delivered at least 15 days prior to the date such notice is to be given (unless a shorter time period shall be acceptable to the Trustee), the Trustee shall give the notice of redemption in the Company's name and at the Company's expense.

SECTION 11.04. Effect of Notice of Redemption. Once notice of redemption is given, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice except for Securities which are converted in accordance with the terms of this Indenture. Upon surrender to the Paying Agent, such Securities shall be paid at the Redemption Price stated in the notice.

SECTION 11.05. Deposit of Redemption Price. Prior to 10:00 a.m. (New York City Time) on a Redemption Date, the Company shall deposit with the Paying Agent (or if the Company or a Subsidiary or an Affiliate of either of them is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which on or prior thereto have been delivered by the Company to the Trustee for cancellation or have been converted. The Paying Agent shall as promptly as practicable return to the Company any money not required for that purpose because of conversion of Securities pursuant to Article 13. If such money is then held by the Company in trust and is not required for such purpose it shall be discharged from such trust.

SECTION 11.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Security in an authorized denomination equal in principal amount to the unredeemed portion of the Security surrendered.

SECTION 11.07. Conversion Arrangement on Call for Redemption. In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment bankers or other purchasers to purchase such Securities by paying to the Trustee in trust for the Securityholders, on or prior to 10:00 a.m. New York City time on the Redemption Date, an amount that, together with any amounts deposited with the Trustee by the Company for the redemption of such Securities, is not less than the Redemption Price of such Securities. Notwithstanding anything to the contrary contained in this Article 11, the obligation of the Company to pay the Redemption Price of such Securities shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers. If such an agreement is entered into, any Securities not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 13) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Business Day prior to the Redemption Date, subject to payment of the above amount as aforesaid. The Trustee shall hold and pay to the Holders whose Securities are selected for

redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture, except in the case of the Trustee's negligence or bad faith.

SECTION 11.08. Purchase of Securities at Option of the Holder.

(a) General. Securities shall be purchased by the Company pursuant to

the terms thereof as of February 1, 2009, February 1, 2012 and February 1, 2017 (each, a "Purchase Date"), at the applicable Purchase Price, at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent by the Holder of a written notice of purchase (a "Purchase Notice"), substantially in the form of Exhibit B hereto, at any time from the opening of business on the date

that is 30 days prior to a Purchase Date until the close of business on the date that is 5 Business Days prior to such Purchase Date stating:

(A) the certificate number of the Security which the Holder will deliver to be purchased;

(B) the portion of the Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be in a Principal Amount of \$1,000 or integral multiples thereof; and

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(C) that such Security shall be purchased as of the Purchase Date pursuant to the terms and conditions specified in the Securities and in this Indenture; and

(2) delivery of such Security to the Paying Agent for cancellation prior to, on or after the Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent, such delivery being a condition to receipt by the Holder of the Purchase Price therefor; provided, however, that such Purchase Price shall be so paid pursuant to this Section 11.08 only if the Security so

delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 11.08, a portion of a Security if the Principal Amount of such portion

is \$1,000 or an integral multiple of \$1,000 if so requested by the Holder. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 11.08 shall be consummated by the delivery of the consideration to

be received by the Holder promptly following the later of the Purchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 11.08(a) ----- shall have the right to withdraw such Purchase Notice at any time prior to the close of business on the Business Day prior to the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 11.10. -----

The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(b) Payment of Purchase Price. The Securities to be purchased pursuant ----- to Section 11.08(a) shall be paid for in cash. -----

(c) Company Notice. The Company shall deliver a notice (the "Company ----- Notice") to Holders (and to beneficial owners as required by applicable law) not less than 30 days prior to such Purchase Date (the "Company Notice Date"). The Company Notice shall include a form of Purchase Notice to be completed by a Securityholder and shall state:

(i) the Purchase Price and the Conversion Price applicable on the Company Notice Date;

(ii) the name and address of the Paying Agent and the Conversion Agent;

(iii) that Securities as to which a Purchase Notice has been given by the Holder may be converted pursuant to Article 13 hereof only if the applicable Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

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(iv) that Securities must be surrendered to the Paying Agent for cancellation to collect payment;

(v) that the Purchase Price for any security as to which a Purchase Notice has been given and not withdrawn will be paid promptly following the later of the Purchase Date and the time of surrender of such Security as described in (iv);

(vi) the procedures the Holder must follow to exercise rights under Section 11.08 and a brief description of those rights; -----

(vii) the conversion rights of the Securities;

(viii) the procedures for withdrawing a Purchase Notice;

(ix) that, unless the Company defaults in making payment of such Purchase Price, interest and Additional Amounts, if any, on Securities covered by any Purchase Notice will cease to accrue on and after the Purchase Date; and

(x) the CUSIP number of the Securities.

At least three Business Days before the Company Notice Date, the Company shall deliver an Officers' Certificate to the Trustee specifying whether the Company desires the Trustee to give the Company Notice. At the Company's request, the Trustee shall give such Company Notice in the Company's name and at the Company's expense; provided, however, that, in all cases, the text of such Company Notice shall be prepared by the Company.

(d) Procedure upon Purchase. The Company shall deposit cash at the

time and in the manner as provided in Section 11.11, sufficient to pay the

aggregate Purchase Price of all Securities to be purchased pursuant to this
Section 11.08.

SECTION 11.09. Repurchase of Securities at Option of the Holder upon
Fundamental Change.

(a) General. If prior to February 1, 2022 there shall have occurred a

Fundamental Change, Securities shall be purchased by the Company, at the
Fundamental Change Repurchase Price on a date that is not less than 25 days nor
more than 35 days after the date of the mailing of the Fundamental Change
Company Notice under Section 11.09(c) (the "Fundamental Change Repurchase

Date"), at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent by the Holder of a
written notice of purchase (a "Fundamental Change Repurchase
Notice"), substantially in the form of Exhibit C hereto, at

any time from the opening of business on the date of the
Fundamental Change Company Notice (as defined below) until the
close of business on a date that is 5 Business Days prior to
the Fundamental Change Repurchase Date stating:

(A) the certificate number of the Security which
the Holder will deliver to be purchased;

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(B) the portion of the Principal Amount of
the Security which the Holder will deliver to be
purchased, which portion must be in a Principal
Amount of \$1,000 or integral multiples thereof;

(C) that such Security shall be purchased as
of the Fundamental Change Repurchase Date pursuant to
the terms and conditions specified in the Securities
and in this Indenture; and

(2) delivery of such Security to the Paying Agent for
cancellation prior to, on or after the Fundamental Change Repurchase
Date (together with all necessary endorsements) at the offices of the
Paying Agent, such delivery being a condition to receipt by the Holder
of the Fundamental Change Repurchase Price therefor; provided,
however, that such Fundamental Change Repurchase Price shall be so
paid pursuant to this Section 11.09 only if the Security so delivered

to the Paying Agent shall conform in all respects to the description
thereof in the related Fundamental Change Repurchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this
Section 11.09, a portion of a Security if the Principal Amount of such portion

is \$1,000 or an integral multiple of \$1,000 if so requested by the Holder.
Provisions of this Indenture that apply to the purchase of all of a Security
also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of
this Section 11.09 shall be consummated by the delivery of the consideration to

be received by the Holder promptly following the later of the Fundamental Change Repurchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Repurchase Notice contemplated by this Section 11.09(a) shall have the right to withdraw such Fundamental Change

Repurchase Notice at any time prior to the close of business on the Business Day prior to the Fundamental Change Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 11.10.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Repurchase Notice or written notice of withdrawal thereof.

A "Fundamental Change" shall be deemed to have occurred at such time as any of the following events shall occur:

(i) there is a Change in Control; or

(ii) the common stock into which the Securities are convertible is neither listed for trading on a United States national securities exchange nor approved for trading on the Nasdaq National Market System or another established automated over-the-counter trading market in the United States.

A "Change in Control" shall be deemed to have occurred when (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of shares representing more than 50% of the combined voting power of the then outstanding securities entitled to vote generally in elections of directors of the Company (the "Voting Stock"); (ii) approval by stockholders of the Company of any plan or proposal for the liquidation, dissolution or winding up of the Company; (iii) the Company (A) consolidates with or merges into any other Person or any other Person merges into the Company, and in the case of any such transaction, the outstanding Common Stock of the Company is changed or exchanged into other assets or securities as a result, unless the stockholders of the Company immediately before such transaction own, directly or indirectly immediately following such transaction, more than 50% of the combined voting power of the outstanding voting securities of the corporation resulting from such transaction in substantially the same proportion as their ownership of the Voting Stock immediately before such transaction, or (B) conveys, transfers or leases all or substantially all of its assets to any Person; or (iv) any time Continuing Directors do not constitute a majority of the Board of Directors of the Company (or, if applicable, a successor Person to the Company); provided that a Change in Control shall not be deemed to have occurred if either (x) the Closing Price (as defined in Section 13.05(g)(1) hereof) of the Common Stock for any 5 Trading

Days during the 10 Trading Days immediately preceding the Change in Control is at least equal to 105% of the Conversion Price in effect on the date on which the Change in Control occurs or (y) in the case of a merger or consolidation otherwise constituting a Change in Control, all of the consideration (excluding cash payments for fractional shares) in such merger or consolidation constituting the Change in Control consists of common stock traded on a United States national securities exchange or quoted on the Nasdaq National Market System (or which will be so traded or quoted when issued or exchanged in connection with such Change in Control) and as a result of such transaction or transactions the Securities become convertible solely into such common stock.

(b) Payment of Fundamental Change Repurchase Price. The Securities to

be purchased pursuant to Section 11.09(a) shall be paid for in cash.

(c) Notice of Fundamental Change. Within 25 days after the occurrence

of a Fundamental Change, the Company shall mail a written notice of Fundamental Change (the "Fundamental Change Company Notice") by first-class mail to the Trustee and to each Holder (and to beneficial owners as required by applicable law). The notice shall include a form of Fundamental Change Repurchase Notice to be completed by the Securityholder and shall state:

- (i) the events causing a Fundamental Change and the date of such Fundamental Change;
- (ii) the date by which the Fundamental Change Repurchase Notice pursuant to this Section 11.09 must be given;

- (iii) the Fundamental Change Repurchase Date;
- (iv) the Fundamental Change Repurchase Price;

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(v) the name and address of the Paying Agent and the Conversion Agent;

(vi) the Conversion Price applicable on the Fundamental Change Company Notice Date;

(vii) that Securities as to which a Fundamental Change Repurchase Notice has been given may be converted pursuant to Article 13 hereof only if the Fundamental Change Repurchase Notice has been withdrawn in accordance with the terms of this Indenture;

(viii) that Securities must be surrendered to the Paying Agent for cancellation to collect payment;

(ix) that the Fundamental Change Repurchase Price for any Security as to which a Fundamental Change Repurchase Notice has been duly given and not withdrawn will be paid promptly following the later of the Fundamental Change Repurchase Date and the time of surrender of such Security as described in (viii);

(x) the procedures the Holder must follow to exercise rights under this Section 11.09;

(xi) the conversion rights of the Securities;

(xii) the procedures for withdrawing a Fundamental Change Repurchase Notice;

(xiii) that, unless the Company defaults in making payment of such Fundamental Change Repurchase Price, interest on Securities covered by any Fundamental Change Repurchase Notice will cease to accrue on and after the Fundamental Change Repurchase Date; and

(xiv) the CUSIP number of the Securities.

At the Company's request, the Trustee shall give such Fundamental Change Company Notice in the Company's name and at the Company's expense; provided, however, that, in all cases, the text of such Fundamental Change Company Notice shall be prepared by the Company.

(d) Procedure upon Purchase. The Company shall deposit cash, at the

time and in the manner as provided in Section 11.11, sufficient to pay the

aggregate Fundamental Change Repurchase Price of all Securities to be purchased pursuant to this Section 11.09.

SECTION 11.10. Effect of Purchase Notice or Fundamental Change Repurchase Notice. Upon receipt by the Paying Agent of the Purchase Notice or Fundamental Change Repurchase Notice specified in Section 11.08(a) or Section

11.09(a), as applicable, the Holder of the

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Security in respect of which such Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, was given shall (unless such Purchase Notice or Fundamental Change Repurchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Fundamental Change Repurchase Price, as the case may be, with respect to such Security. Such Purchase Price or Fundamental Change Repurchase Price shall be paid to such Holder, subject to receipt of funds by the Paying Agent, promptly following the later of (x) the Purchase Date or the Fundamental Change Repurchase Date, as the case may be, with respect to such Security (provided the conditions in Section 11.08(a) or Section 11.09(a), as applicable, have been

satisfied) and (y) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 11.08(a) or Section

11.09(a), as applicable. Securities in respect of which a Purchase Notice or

Fundamental Change Repurchase Notice, as the case may be, has been given by the Holder thereof may not be converted pursuant to Article 13 hereof on or after the date of the delivery of such Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, unless such Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

A Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent in accordance with the procedures set forth in the Company Notice or Fundamental Change Company Notice, as the case may be, at any time prior to the close of business on the Business Day prior to the Purchase Date or the Fundamental Change Repurchase Date, as the case may be, specifying:

(i) the certificate number of the Security in respect of which such notice of withdrawal is being submitted;

(ii) the Principal Amount of the Security with respect to which such notice of withdrawal is being submitted; and

(iii) the Principal Amount, if any, of such Security which remains subject to the original Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, and which has been or will be delivered for purchase or repurchase by the Company.

There shall be no purchase of any Securities pursuant to Section 11.08

or 11.09 if there has occurred (prior to, on or after, as the case may be, the

giving, by the Holders of such Securities, of the required Purchase Notice or Fundamental Change Repurchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Purchase Price or Fundamental Change Repurchase Price, as the case may be, with respect to such Securities). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price or Fundamental Change Repurchase Price, as the case may be, with respect to such Securities) in which case, upon such return, the Purchase Notice or Fundamental Change Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

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SECTION 11.11. Deposit of Purchase Price or Fundamental Change Repurchase Price. Prior to 10:00 a.m. (local time in The City of New York) on the Business Day following the Purchase Date or the Fundamental Change Repurchase Date, as the case may be, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as the Paying Agent, shall segregate and hold in trust as provided herein) an amount of money (in immediately available funds if deposited on such Business Day) sufficient to pay the Purchase Price or the Fundamental Change Repurchase Price, as the case may be, of all the Securities or portions thereof which are to be purchased as of the Purchase Date or the Fundamental Change Repurchase Date, as applicable. The Company shall promptly notify the Trustee in writing of the amount of any deposits of cash made pursuant to this Section.

SECTION 11.12. Securities Purchased or Repurchased in Part. Any Security which is to be purchased or repurchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate Principal Amount equal to, and in exchange for, the portion of the Principal Amount of the Security so surrendered which is not purchased.

SECTION 11.13. Covenant to Comply With Securities Laws Upon Purchase or Repurchase of Securities. In connection with any offer to purchase or repurchase or purchase or repurchase of Securities under Section 11.08 or 11.09

hereof (provided that such offer or purchase or repurchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) under the Exchange Act at the time of such offer or purchase), the Company shall (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act, (ii) file the related Schedule TO (or any successor schedule, form or report) under the Exchange Act, and (iii) otherwise comply with all Federal and state securities laws so as to permit the rights and obligations under Sections 11.08 and 11.09 to be exercised in the time and in

the manner specified in Sections 11.08 and 11.09.

SECTION 11.14. Repayment to the Company. The Trustee and the Paying Agent shall return to the Company any cash that remains unclaimed, together with interest or dividends, if any, thereon, held by them for the payment of the Purchase Price or Fundamental Change Repurchase Price, as the case may be; provided, however, that to the extent that the aggregate amount of cash

deposited by the Company pursuant to Section 11.11 exceeds the aggregate

Purchase Price or Fundamental Change Repurchase Price, as the case may be, of the Securities or portions thereof which the Company is obligated to purchase as of the Purchase Date or Fundamental Change Repurchase Date, as the case may be,

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then on the Business Day following the Purchase Date or Fundamental Change Repurchase Date, as the case may be, the Trustee or the Paying Agent, as the case may be, shall return any such excess to the Company.

ARTICLE 12

INTEREST PAYMENTS ON THE SECURITIES

SECTION 12.01. Interest Rate; Rate Reset. Interest on the Securities shall accrue at an initial rate of 4.75% per annum and shall be payable on each Interest Payment Date to holders of record on the Regular Record Date immediately preceding such Interest Payment Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Securities shall accrue from the most recent date to which interest has been paid, or if no interest has been paid, from January 29, 2002, until the Principal Amount is paid or duly made available for payment. Notwithstanding the foregoing, on the close of business on each Step-up Date the interest rate on the Securities shall be automatically reset, and the Securities shall accrue interest, from such Step-up Date, to but excluding the next succeeding Step-up Date, or, in the case of February 1, 2022, until the Principal Amount is paid or duly made available for payment, at a rate per annum equal to the interest rate payable 120 days prior to such Step-up Date on 5-year U.S. Treasury Notes plus 0.43%, provided that in no event shall the interest rate on this Security be reset below 4.75% per annum or above 6.75% per annum. Any change in the interest rate pursuant to the preceding sentence shall not have any effect on any other provision of the Indenture or the Securities. As promptly as practicable but in any event within 15 days following any Step-up Date, the Company shall file with the Trustee an Officers' Certificate setting forth the reset interest rate on the Debentures. Unless and until a Responsible Officer of the Trustee shall have received such Officers' Certificate, the Trustee shall not be deemed to have knowledge of the reset rate and may assume without inquiry that the last interest rate of which it has knowledge is still in effect.

SECTION 12.02. Payment of Interest; Interest Rights Preserved. (a) Interest on any Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose. Each installment of interest on any Security shall be made by check mailed to the address of the Holder specified in the register of Securities, or, at the option of the Holder, at the Corporate Trust Office, in such lawful money of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; provided, however, that, with respect to any Holder of Securities with an aggregate principal amount in excess of \$5,000,000, at the request of such Holder in writing to the Company, interest on such Holder's Securities shall be paid by wire transfer in immediately available funds in accordance with the written wire transfer instruction supplied by such Holder from time to time to the Trustee and Paying Agent (if different from the Trustee) at least two days prior to the applicable Regular Record Date. In the case of a permanent Global

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Security, interest payable on any Interest Payment Date will be paid to the Depository, with respect to that portion of such permanent Global Security held

for its account by Cede & Co. for the purpose of permitting such party to credit the interest received by it in respect of such permanent Global Security to the accounts of the beneficial owners thereof.

(b) Except as otherwise specified with respect to the Securities, any interest on any Security that is payable, but is not punctually paid or duly provided for, within 30 days following any Interest Payment Date (herein called "Defaulted Interest", which term shall include any accrued and unpaid interest that has accrued on such defaulted amount), shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, as its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment (which shall not be less than 20 days after such notice is received by the Trustee), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as provided in this clause. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities at his address as it appears on the list of Securityholders maintained pursuant to this Indenture not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Securities are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

ARTICLE 13

CONVERSION

SECTION 13.01. Right to Convert. Subject to and upon compliance with

the provisions of this Indenture, each Holder shall have the right, at its option, at any time following the Issue Date of the Securities hereunder through the close of business on the Business Day immediately prior to the date of the Stated Maturity of the Securities (except that, with respect to any Securities or portion thereof which shall be called for redemption, such right shall terminate, except as provided in Section 13.02 or Section 11.07, at the close of

business on the Business Day next preceding the date fixed for redemption of such Securities or portion thereof unless the Company shall default in payment due upon redemption thereof) to convert the Principal Amount of any such Securities, or any portion of such Principal Amount which is \$1,000 or an integral multiple thereof, into that number of fully paid and non-assessable shares of Common Stock obtained by dividing the Principal Amount of the Securities or portion thereof surrendered for conversion by the Conversion Price in effect at such time, by surrender of the Securities so to be converted in whole or in part, together with any required funds, in the manner provided in Section 13.02. A Holder of Securities is not entitled to any rights of a Holder

of Common Stock until such Holder has converted such Holder's Securities to Common Stock, and only to the extent such Securities are deemed to have been converted to Common Stock under this Article 13. A Security with respect to which a Holder has delivered a notice in accordance with Section 11.08 or

Section 11.09 regarding such Holder's election to require the Company to

repurchase such Holder's Securities on a Purchase Date or on a Fundamental Change Repurchase Date may be converted in accordance with this Article 13 only if such Holder withdraws such notice by delivering a written notice of withdrawal to the Company prior to the close of business on the last Business Day prior to such Purchase Date or Fundamental Change Repurchase Date.

SECTION 13.02. Exercise of Conversion Privilege; Issuance of Common Stock on Conversion; No Adjustment for Interest or Dividends. In order to exercise the conversion privilege with respect to any Securities in certificated form, the Holder of any such Securities to be converted in whole or in part shall surrender such Securities, duly endorsed, at the office of the Conversion Agent, accompanied by the funds, if any, required by the penultimate paragraph of this Section 13.02, and shall give written notice of conversion in the form

provided on the Securities (or such other notice which is acceptable to the Company) (the "Conversion Notice") to the Conversion Agent that the Holder elects to convert such Securities or the portion thereof specified in said notice. Such notice shall also state the name or names (with address or addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued, and shall be

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accompanied by transfer taxes, if required pursuant to Section 13.07. All such

Securities surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as the registration of such Securities, be duly endorsed by, or be accompanied by instruments of transfer in form satisfactory to the Company duly executed by, the Holder or his duly authorized attorney.

In order to exercise the conversion privilege with respect to any interest in Securities in global form, the Holder must complete the appropriate instruction form for conversion pursuant to the Depository's book-entry conversion program, furnish appropriate endorsements and transfer documents if required by the Company or the Trustee or Conversion Agent, and pay the funds, if any, required by this Section 13.02 and any transfer taxes if required

pursuant to Section 13.07.

As promptly as practicable after satisfaction of the requirements for conversion set forth above (but in no event later than 3 Business Days after satisfaction of such requirements for conversion), subject to compliance with any restrictions on transfer if shares issuable on conversion are to be issued in a name other than that of the Holder (as if such transfer were a transfer of the Securities (or portion thereof) so converted), the Company shall issue and shall deliver to such Holder at the office of the Conversion Agent, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such Securities or portion thereof in accordance with the provisions of this Article and a check or cash in respect of any fractional interest in respect of a share of Common Stock arising upon such conversion, as provided in Section 13.03. In case any Securities of a

denomination greater than \$1,000 shall be surrendered for partial conversion, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of the Securities so surrendered, without charge to him, new Securities in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Securities.

Each conversion shall be deemed to have been effected as to any such Securities (or portion thereof) on the date on which the requirements set forth above in this Section 13.02 have been satisfied as to such Securities (or

portion thereof), and the person in whose name any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the Holder of record of the shares represented thereby; provided, however, that in case of any such surrender on any date when the stock transfer books of the Company shall be closed, the person or persons in whose name the certificate or certificates for such shares are to be issued shall be deemed to have become the record Holder thereof for all purposes on the next day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date upon which such Securities shall be surrendered.

All Securities or portions thereof surrendered for conversion during the period from the close of business on the Regular Record Date for any Interest Payment Date to the close of business on the Business Day next preceding the following Interest Payment Date shall (unless such Securities or portion thereof being converted shall have been called for redemption on a Redemption Date which occurs during the period from the close of business on such Regular Record Date to the close of business on the Business Day next preceding the following Interest Payment Date) be accompanied by payment, in funds acceptable to the Company, of an

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amount equal to the interest otherwise payable on such Interest Payment Date on the Principal Amount being converted; provided, however, that no such payment need be made if there shall exist at the time of conversion a default in the payment of interest on the Securities. Except as provided above in this Section 13.02, no payment or other adjustment shall be made for interest accrued on any

Securities converted or for dividends on any shares issued upon the conversion of such Securities as provided in this Article.

Upon the conversion of an interest in Global Securities, the Trustee (or other Conversion Agent appointed by the Company) shall make a notation on such Global Securities as to the reduction in the Principal Amount represented thereby. The Company shall notify the Trustee in writing of any conversions of Securities effected through any Conversion Agent other than the Trustee.

SECTION 13.03. Cash Payments in Lieu of Fractional Shares. The Company will not issue fractional shares of Common Stock upon conversion of Securities. If multiple Securities shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion shall be computed on the basis of the aggregate Principal Amount of

the Securities (or specified portions thereof to the extent permitted hereby) so surrendered. If any fractional share of stock would be issuable upon the conversion of any Securities, the Company shall make an adjustment and payment therefor in cash at the current market value thereof to the Holder of Securities. The current market value of a fraction of a share of Common Stock shall be determined by multiplying the average of Closing Prices (as defined in Section 13.05(g)) of such Common Stock in the 5 Trading Days before the date of conversion by such fraction and rounding the product to the nearest whole cent.

SECTION 13.04. Conversion Price. The conversion price shall be as specified in the Security (herein called the "Conversion Price"), subject to adjustment as provided in this Article 13.

SECTION 13.05. Adjustment of Conversion Price. The Conversion Price shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall hereafter pay a dividend or make a distribution to all Holders of the outstanding Common Stock in shares of Common Stock, the Conversion Price in effect at the opening of business on the date following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. If any dividend or distribution of the type described in this Section 13.05(a)

is declared but not so paid or made, the Conversion Price shall again be adjusted to the Conversion Price which would then be in effect if such dividend or distribution had not been declared.

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(b) In case the Company shall issue rights or warrants to all Holders of its outstanding shares of Common Stock entitling them (for a period expiring within 45 days after the date fixed for determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share (or having a conversion price per share) less than the Current Market Price (as defined below) on the date fixed for determination of stockholders entitled to receive such rights or warrants, the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date fixed for determination of stockholders entitled to receive such rights or warrants by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such Current Market Price (or the aggregate conversion price of the convertible securities so offered, which shall be determined by multiplying the number of shares of Common Stock issuable upon conversion of such convertible securities by the conversion price per share of Common Stock pursuant to the terms of such convertible securities), and the denominator of which shall be the number of shares of Common Stock outstanding on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the total number of additional shares of Common Stock offered for subscription or purchase or into which convertible securities so offered are convertible; provided, however, the Company may, at its option and in lieu of the foregoing adjustment, elect to distribute or reserve for distribution the pro rata portion of such rights or warrants so that each Holder of Securities shall receive, or shall have the right to receive upon conversion, as the case may be, the amount of such rights or warrants that such Holder of Securities would have received if such Holder of Securities had converted such Securities on the date fixed for determination of stockholders to receive such rights or warrants. Such adjustment shall be

successively made whenever any such rights or warrants are issued, and shall become effective immediately after the opening of business on the day following the date fixed for determination of stockholders entitled to receive such rights or warrants. To the extent that shares of Common Stock (or securities convertible into Common Stock) are not delivered, after the expiration of such rights or warrants the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered (or the number of shares of Common Stock issuable upon conversion of convertible securities actually issued). In the event that such rights or warrants are not so issued, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such date fixed for the determination of stockholders entitled to receive such rights or warrants had not been fixed. In determining whether any rights or warrants entitle the Holders to subscribe for or purchase shares of Common Stock at less than such Current Market Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Company for such rights or warrants or to be received upon exercise of such rights or warrants, the value of such consideration, if other than cash, to be determined by the Board of Directors.

(c) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be

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proportionately reduced, and conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(d) In case the Company shall, by dividend or otherwise, distribute to all Holders of its Common Stock shares of any class of capital stock of the Company (other than any dividends or distributions to which Section 13.05(a) applies) or evidences of its indebtedness or assets (including securities, but excluding any rights or warrants referred to in Section 13.05(b), and excluding

any dividend or distribution (x) paid exclusively in cash or (y) referred to in Section 13.05(a)) (any of the foregoing hereinafter in this Section 13.05(d)

called the "Distributed Securities"), then, in each such case, the Conversion Price shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Price in effect on the Record Date with respect to such distribution by a fraction, the numerator of which shall be the Current Market Price per share of the Common Stock on such Record Date less the fair market value (as determined by the Board of Directors, whose good faith determination shall be conclusive, and described in a resolution of the Board of Directors) on the Record Date of the portion of the Distributed Securities so distributed applicable to one share of Common Stock and the denominator of which shall be the Current Market Price per share of the Common Stock, such reduction to become effective immediately prior to the opening of business on the day following such Record Date. If the Board of Directors determines the fair market value of any distribution for purposes of this Section 13.05(d) by reference to

the actual or when issued trading market for any securities, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price of the Common Stock.

Each share of Common Stock issued upon conversion of securities pursuant to this Article 13 shall be entitled to receive the appropriate number

of common stock or preferred stock purchase rights, if any, as may be provided by the terms of any stockholder rights plan adopted by the Company (notwithstanding the occurrence of an event causing such rights to separate from the Common Stock at or prior to the time of conversion). Any distribution of rights or warrants pursuant to a stockholder rights plan complying with the requirements set forth in the immediately preceding sentence of this paragraph shall not constitute a distribution of rights or warrants for the purposes of Section 13.05(b) or this Section 13.05(d).

Rights or warrants distributed by the Company to all Holders of Common Stock entitling the Holders thereof to subscribe for or purchase shares of the Company's capital stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 13.05 (and no adjustment to the Conversion Price under

this Section 13.05 will be required) until the occurrence of the earliest

Trigger Event, whereupon such rights and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Price shall be made under this Section 13.05(d). If any such right or warrant,

including any such existing rights or warrants distributed prior to the date of this Indenture, are

subject to events, upon the occurrence of which such rights or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and record date with respect to new rights or warrants with such rights (and a termination or expiration of the existing rights or warrants without exercise by any of the Holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Price under this Section 13.05 was made, (1) in the case of any such rights or warrants which

shall all have been redeemed or repurchased without exercise by any Holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a Holder or Holders of Common Stock with respect to such rights or warrants (assuming such Holder had retained such rights or warrants), made to all applicable Holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants which shall have expired or been terminated without exercise by any Holders thereof, the Conversion Price shall be readjusted as if such rights and warrants had not been issued.

For purposes of this Section 13.05(d) and Sections 13.05(a) and (b),

any dividend or distribution to which this Section 13.05(d) is applicable that

also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets or shares of capital stock other than such shares of Common Stock or rights or warrants (and any Conversion Price reduction required by this Section 13.05(d) with respect to

such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or

warrants (and any further Conversion Price reduction required by Sections 13.05(a) and (b) with respect to such dividend or distribution shall then be

made), except (A) the Record Date of such dividend or distribution shall be substituted as "the date fixed for the determination of stockholders entitled to receive such dividend or other distribution" and "the date fixed for such determination" within the meaning of Sections 13.05(a) and (b) and (B) any

shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of Section 13.05(a).

(e) In case the Company shall, by dividend or otherwise, distribute to all Holders of its Common Stock cash (excluding any cash that is distributed upon a merger or consolidation to which Section 13.06 applies or as part of a

distribution referred to in Section 13.05(d)), in an aggregate amount that,

combined together with (1) the aggregate amount of any other such distributions to all Holders of its Common Stock made exclusively in cash within the 12 months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to this Section 13.05(e) has been made, and (2) the

aggregate of any cash plus the fair market value (as determined by the Board of Directors, whose good faith determination shall be conclusive and described in a resolution of the Board of Directors) of consideration payable in respect of any tender offer by the Company or any of its subsidiaries for all or any portion of the Common Stock concluded within the 12 months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to Section 13.05(f)

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has been made, exceeds 12.5% of the product of the Current Market Price on the Record Date with respect to such distribution times the number of shares of Common Stock outstanding on such date, then, and in each such case, immediately after the close of business on such date, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the close of business on such Record Date by a fraction (i) the numerator of which shall be equal to the Current Market Price on the Record Date less an amount equal to the quotient of (x) the excess of such combined amount over such 12.5% and (y) the number of shares of Common Stock outstanding on the Record Date and (ii) the denominator of which shall be equal to the Current Market Price on such date; provided, however, that in the event the portion of the cash so distributed applicable to one share of Common Stock is equal to or greater than the Current Market Price of the Common Stock on the Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each Security holder shall have the right to receive upon conversion of a Security (or any portion thereof) the amount of cash such Holder would have received had such Holder converted such Security (or portion thereof) immediately prior to such Record Date. In the event that such dividend or distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such dividend or distribution had not been declared. Any cash distribution to all Holders of Common Stock as to which the Company makes the election permitted by Section 13.05(m) and as to which the Company has complied with the requirements

of such Section shall be treated as not having been made for all purposes of this Section 13.05(e)).

(f) In case a tender offer made by the Company or any of its subsidiaries for all or any portion of the Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall require the payment

to stockholders (based on the acceptance (up to any maximum specified in the terms of the tender offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined by the Board of Directors, whose good faith determination shall be conclusive and described in a resolution of the Board of Directors) that combined together with (1) the aggregate of the cash plus the fair market value (as determined by the Board of Directors, whose good faith determination shall be conclusive and described in a resolution of the Board of Directors), as of the expiration of such tender offer, of consideration payable in respect of any other tender offers, by the Company or any of its subsidiaries for all or any portion of the Common Stock expiring within the 12 months preceding the expiration of such tender offer and in respect of which no adjustment pursuant to this Section 13.05(f) has been

made and (2) the aggregate amount of any distributions to all Holders of the Common Stock made exclusively in cash within 12 months preceding the expiration of such tender offer and in respect of which no adjustment pursuant to Section 13.05(e) has been made, exceeds 12.5% of the product of the Current Market Price

as of the last time (the "Expiration Time") tenders could have been made pursuant to such tender offer (as it may be amended) times the number of shares of Common Stock outstanding (including any tendered shares) at the Expiration Time, then, and in each such case, immediately prior to the opening of business on the day after the date of the Expiration Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to close of business on the date of the Expiration Time by a fraction of which the numerator shall be the number of shares of Common Stock outstanding (including any tendered shares) at the Expiration Time multiplied by the Current Market Price of the Common Stock on the Trading Day next succeeding the Expiration Time and the denominator shall be the sum of (x)

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the fair market value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) at the Expiration Time and the Current Market Price of the Common Stock on the Trading Day next succeeding the Expiration Time, such reduction (if any) to become effective immediately prior to the opening of business on the day following the Expiration Time. In the event that the Company is obligated to purchase shares pursuant to any such tender offer, but the Company is permanently prevented by applicable law from effecting any such purchases or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such tender offer had not been made. If the application of this Section 13.05(f) to any tender offer would result in an

increase in the Conversion Price, no adjustment shall be made for such tender offer under this Section 13.05(f). Any cash distribution to all Holders of

Common Stock as to which the Company has made the election permitted by Section 13.05(m) and as to which the Company has complied with the requirements of such

Section shall be treated as not having been made for all purposes of this Section 13.05(f).

(g) For purposes of this Section 13.05, the following terms shall

have the meaning indicated:

(1) "Closing Price" with respect to any securities on any day shall mean the closing sale price, regular way, on such day or, in

case no such sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in each case on the principal national securities exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors for that purpose, or a price determined in good faith by the Board of Directors whose determination shall be conclusive.

(2) "Current Market Price" shall, for the purposes of any computation under Sections 13.05 (b), (d), (e) and (f) above relating

to the current market price per share of Common Stock at a specified date, mean the average of the Closing Prices for the 10 consecutive Trading Days (as defined below) preceding the day before the record date (or, if earlier, the ex-dividend date) with respect to any distribution, issuance or other event requiring such computation.

(3) "fair market value" shall mean the amount which a willing buyer would pay a willing seller in an arm's length transaction.

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(4) "Record Date" shall mean, with respect to any dividend, distribution or other transaction or event in which the Holders of Common Stock have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors or by statute, contract or otherwise).

(5) "Trading Day" shall mean (x) if the applicable security is quoted on the Nasdaq National Market System, a day on which trades may be made on thereon or (y) if the applicable security is listed or admitted for trading on the New York Stock Exchange or another national security exchange, a day on which the New York Stock Exchange or such other national security exchange is open for business or (z) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(h) The Company may make such reductions in the Conversion Price, in addition to those required by Sections 13.05(a), (b), (c), (d), (e) or (f), as

the Board of Directors considers to be advisable to avoid or diminish any income tax to Holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes.

To the extent permitted by applicable law, the Company from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least 20 days, the reduction is irrevocable during the period and the Board of Directors shall have made a determination that such reduction would be in the best interests of the Company, which determination shall be conclusive. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Company shall mail to Holders of record of the Securities a notice of the reduction at least 15 days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the

period during which it will be in effect.

(i) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 13.05(i) are not required to be made shall be carried forward and taken into

account in any subsequent adjustment. All calculations under this Article 13 shall be made by the Company and shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest. To the extent the Securities become convertible into cash, assets, property or securities (other than capital stock of the Company), no adjustment need be made thereafter as to the cash, assets, property or such securities. Interest will not accrue on the cash.

(j) Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly file with the Conversion Agent an Officers' Certificate setting forth the

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Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officers' Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Conversion Price and may assume without inquiry that the last Conversion Price of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Price setting forth the adjusted Conversion Price and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Price to each Holder of Securities at such Holder's last address appearing on the list of Security holders provided for in Section 3.05 of this

Indenture, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(k) In any case in which this Section 13.05 provides that an

adjustment shall become effective immediately after a Record Date for an event, the Company may defer until the occurrence of such event (i) issuing to the Holder of any Securities converted after such Record Date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion by reason of the adjustment required by such event over and above the Common Stock issuable upon such conversion before giving effect to such adjustment and (ii) paying to such Holder any amount in cash in lieu of any fraction pursuant to Section 13.03.

(l) For purposes of this Section 13.05, the number of shares of

Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(m) In lieu of making any adjustment to the Conversion Price pursuant to Section 13.05(e) or 13.05(f), the Company may elect to reserve an amount of

cash for distribution to the Holders of the Securities upon the conversion of the Securities so that any such Holder converting Securities will receive upon such conversion, in addition to the shares of Common Stock and other items to which such Holder is entitled, the full amount of cash which such Holder would have received if such Holder had, immediately prior to the Record Date for such distribution of cash or the Expiration Time of the tender offer, as the case may

be, converted its Securities into Common Stock, together with any interest accrued with respect to such amount, in accordance with this Section 13.05(m).

The Company may make such election by providing an Officers' Certificate to the Trustee to such effect on or prior to the payment date for any such distribution and depositing with the Trustee on or prior to such date an amount of cash equal to the aggregate amount the Holders of the Securities would have received if such Holders had, immediately prior to the Record Date for such distribution or the Expiration Time, as the case may be, converted all of the Securities into Common Stock. Any such funds so deposited by the Company with the Trustee shall be invested by the Trustee pursuant to written direction by the Company in marketable obligations issued or fully guaranteed by the United States government with a maturity not more than 3 months from the date of issuance. Upon conversion of Securities by a Holder, the Holder will be entitled to receive, in addition to the Common Stock issuable upon conversion, an amount of cash equal to the amount such Holder would have received if such Holder had, immediately prior to the Record Date for such distribution or the Expiration Time, as the case may be, converted its Security into Common

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Stock, along with such Holder's pro rata share of any accrued interest earned as a consequence of the investment of such funds. Promptly after making an election pursuant to this Section 13.05(m), the Company shall give or shall cause to be

given notice to all Security holders of such election, which notice shall state the amount of cash per \$1,000 principal amount of Securities such Holders shall be entitled to receive (excluding interest) upon conversion of the Securities as a consequence of the Company having made such election.

SECTION 13.06. Effect of Reclassification, Consolidation, Merger or Sale. If any of the following events occur, namely (i) any reclassification or change of shares of Common Stock issuable upon conversion of the Securities (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination, or any other change for which an adjustment is provided in Section 13.05(c)), (ii) any

consolidation or merger or combination to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in outstanding shares of Common Stock, or (iii) any sale or conveyance of all or substantially all of the properties and assets of the Company to any other person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, then the Company or the successor or purchasing person, as the case may be, shall execute with the Trustee a supplemental indenture (which shall comply with the Trust Indenture Act of 1939 as in force at the date of execution of such supplemental indenture) providing that such Securities shall be convertible into the kind and amount of shares of stock, securities or other property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, combination, sale or conveyance by a holder of a number of shares of Common Stock issuable upon conversion of such Securities (assuming, for such purposes, a sufficient number of authorized shares of Common Stock available to convert all such Securities) immediately prior to such reclassification, change, consolidation, merger, combination, sale or conveyance, assuming such holder of Common Stock did not exercise his rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such reclassification, change, consolidation, merger, combination, sale or conveyance (provided that, if the kind or amount of stock, securities or other property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, combination, sale or conveyance is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("nonelecting share"), then for the purposes of this Section 13.06, the kind and amount of securities, cash or other property receivable upon

such reclassification, change, consolidation, merger, combination, sale or conveyance for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Such supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 13. The above provisions of this Section shall similarly apply to successive reclassifications, changes, consolidations, mergers, combinations, sales and conveyances. If this Section 13.06 applies to any event or occurrence, Section

13.05 shall not apply.

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SECTION 13.07. Taxes on Shares Issued. The issue of stock certificates on conversions of Securities shall be made without charge to the converting Holder for any documentary, transfer, stamp or any similar tax in respect of the issue thereof. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issue and delivery of stock in any name other than that of the Holder of any Securities converted, and the Company shall not be required to issue or deliver any such stock certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

SECTION 13.08. Reservation of Shares; Shares to be Fully Paid; Compliance with Governmental Requirements; Listing of Common Stock. The Company shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient shares of Common Stock to provide for the conversion of the Securities from time to time as such Securities are presented for conversion.

Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value, if any, of the shares of Common Stock issuable upon conversion of the Securities, the Company will take all corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue shares of such Common Stock at such adjusted Conversion Price.

The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities shall be newly issued shares or Treasury shares, shall be duly authorized, validly issued, fully paid and non-assessable and shall be free from preemptive rights and free from any lien or adverse claim.

The Company shall use its reasonable efforts to list or cause to have quoted any shares of Common Stock to be issued upon conversion of Securities on each national securities exchange or over-the-counter or other domestic market on which the Common Stock is then listed or quoted.

SECTION 13.09. Responsibility of Trustee. The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Holder of Securities to determine the Conversion Price or whether any facts exist which may require any adjustment of the Conversion Price, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities or property, which may at any time be issued or delivered upon the conversion of any Securities; and the Trustee and any other Conversion Agent make no representations with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property or cash upon the surrender of any Securities for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of

the Company contained in

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this Article. Without limiting the generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture entered into pursuant to Section 13.06 relating either to the kind or amount of

shares of stock or securities or property (including cash) receivable by Holders upon the conversion of their Securities after any event referred to in such Section 13.06 or to any adjustment to be made with respect thereto, but, subject

to the provisions of Section 6.01, may accept as conclusive evidence of the

correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto.

SECTION 13.10. Notice to Holders Prior to Certain Actions. In case,

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock that would require an adjustment in the Conversion Price pursuant to Section 13.05; or

(b) the Company shall authorize the granting to the holders of all or substantially all of its Common Stock of rights or warrants to subscribe for or purchase any share of any class or any other rights or warrants; or

(c) of any reclassification or reorganization of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company or any of its significant subsidiaries; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company or any of its significant subsidiaries;

the Company shall cause to be filed with the Trustee and to be mailed to each Holder of Securities at such Holder's address appearing on the list of Securityholders provided for in Section 3.05 of this Indenture, as promptly as

practicable but in any event at least 15 days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up.

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This instrument may be executed in any number of counterparts, each of

which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

ADVANCED MICRO DEVICES, INC.

By /s/ Thomas M. McCoy

THE BANK OF NEW YORK,
as Trustee

By /s/ Michael Pitfick

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THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS SECURITY AND THE COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A OR REGULATION S THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF ADVANCED MICRO DEVICES, INC. THAT (A) THIS SECURITY AND THE COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (IV) TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IF AVAILABLE OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS CONDUCTED IN COMPLIANCE WITH THE SECURITIES ACT.

THIS SECURITY AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED BY THE ACCEPTANCE OF THIS SECURITY TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THE HOLDER OF THIS SECURITY IS SUBJECT TO, AND ENTITLED TO THE BENEFITS OF, A REGISTRATION RIGHTS AGREEMENT, DATED AS OF JANUARY 29, 2002, ENTERED INTO BY THE COMPANY FOR THE BENEFIT OF CERTAIN HOLDERS OF SECURITIES FROM TIME TO TIME.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS SECURITY IS ISSUED WITH ORIGINAL ISSUE DISCOUNT AND IS SUBJECT TO THE RULES FOR DEBT INSTRUMENTS WITH CONTINGENT PAYMENTS UNDER TREASURY REGULATIONS ss. 1.1275-4(b). FOR INFORMATION REGARDING THE ISSUE PRICE, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE, THE YIELD TO MATURITY, THE

"COMPARABLE YIELD" AND PROJECTED PAYMENT SCHEDULE FOR THIS SECURITY, YOU SHOULD CONTACT: TREASURER, ADVANCED MICRO DEVICES, INC., ONE AMD PLACE, SUNNYVALE, CA 94088.

ADVANCED MICRO DEVICES, INC.

4.75% Convertible Senior Debentures Due 2022

No. R-1

CUSIP NO. 007903 AD9
ISIN NO. US007903AD99

U.S. \$500,000,000

Advanced Micro Devices, Inc., a corporation duly organized and validly existing under the laws of the State of Delaware (herein called the "Company"), which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of Five Hundred Million United States Dollars (\$500,000,000) (which amount may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, in accordance with the rules and procedures of the Depository) on February 1, 2022 and to pay interest on said principal sum semi-annually on February 1 and August 1 of each year, commencing August 1, 2002 at the initial rate of 4.75% per annum to holders of record on the immediately preceding January 15 and July 15, respectively. Interest on this Security shall

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accrue from the most recent date to which interest has been paid, or if no interest has been paid, from January 29, 2002, until the Principal Amount is paid or duly made available for payment. Notwithstanding the foregoing, on the close of business on August 1, 2008, August 1, 2011 and August 1, 2016 (each, a "Step-up Date"), the interest rate on this Security shall be automatically reset, and this Security shall accrue interest, from such Step-up Date, to but excluding the next succeeding Step-up Date, or, in the case of February 1, 2022, until the Principal Amount is paid or duly made available for payment, at a rate per annum equal to the interest rate payable 120 days prior to such Step-up Date on 5-year U.S. Treasury Notes plus 0.43%, provided, in no event shall the interest rate on this Security be reset below 4.75% per annum or above 6.75% per annum. Any change in the interest rate pursuant to the preceding sentence shall not have any effect on any other provision of the Indenture or this Security. Except as otherwise provided in the Indenture, the interest payable on this Security pursuant to the Indenture on any February 1 or August 1 will be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date, which shall be the January 15 or July 15 (whether or not a Business Day) next preceding such February 1 or August 1, respectively; provided that, any such interest not punctually paid or duly provided for shall be payable as provided in the Indenture. Payment of the principal of and interest accrued on this Security shall be made by check mailed to the address of the Holder of this Security specified in the register of Securities, or, at the option of the Holder of this Security, at the Corporate Trust Office, in such lawful money of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; provided, however, that, with respect to any Holder of Securities with an aggregate principal amount in excess of \$5,000,000, at the request of such Holder in writing to the Company, interest on such Holder's Securities shall be paid by wire transfer in immediately available funds in accordance with the written wire transfer instruction supplied by such Holder from time to time to the Trustee and Paying Agent (if different from the Trustee) at least two days prior to the applicable Regular Record Date; provided that any payment to the Depository or its nominee shall be paid by wire transfer in immediately available funds in accordance with the wire transfer instruction supplied by the Depository or its nominee from time to time to the Trustee and Paying Agent (if different from Trustee) at least two days prior to the applicable Regular Record Date.

Reference is made to the further provisions of this Security set forth on the reverse hereof, including, without limitation, provisions

giving the Company the right to repurchase this Security commencing February 5, 2005 under certain circumstances and otherwise on February 5, 2006 and the Holder of this Security the right to convert this Security into Common Stock of the Company and the right to require the Company to repurchase this Security on certain dates and upon certain events, in each case, on the terms and subject to the limitations referred to on the reverse hereof and as more fully specified in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with and governed by the laws of said State.

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This Security shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

ADVANCED MICRO DEVICES, INC.

By: _____
Authorized Signatory

Attest:

By: _____
Authorized Signatory

This is one of the Securities referred to in the within-mentioned Indenture.

Dated: _____ THE BANK OF NEW YORK, as Trustee

By: _____
Authorized Signatory

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[Reverse of Security]

This Security is one of a duly authorized issue of Securities of the Company, designated as its 4.75% Convertible Senior Debentures due 2022 (herein called the "Securities"), all issued or to be issued under and pursuant to an Indenture dated as of January 29, 2002 (herein called the "Indenture"), between the Company and the Bank of New York (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Securities.

The indebtedness evidenced by the Securities is unsecured and unsubordinated indebtedness of the Company and ranks equally with the Company's other unsecured and unsubordinated indebtedness.

Redemption at the Option of the Company. No sinking fund is provided

for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time after February 5, 2005 at the option of the Company at the following redemption prices (each, a "Redemption Price"), expressed as a percentage of Principal Amount for Securities redeemed during the periods set forth below:

| Period | Redemption Price |
|--|------------------|
| Beginning on February 5, 2005 through February 4, 2006 | 102.375% |
| Beginning on February 5, 2006 through February 4, 2007 | 101.583% |
| Beginning on February 5, 2007 through February 4, 2008 | 100.792% |
| Beginning on February 5, 2008 | 100.00% |

in each case together with accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Redemption Date; provided, that the Securities will not be redeemable prior to February 5, 2006, unless the last reported sale price of the Company's common stock is at least 130% of the then effective Conversion Price for at least 20 Trading Days within a period of 30 consecutive Trading Days ending within five Trading Days of the date of the redemption notice.

Purchase By the Company at the Option of the Holder. Subject to the

terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on each of the Purchase Dates of February 1, 2009, February 1, 2012 and February 1, 2017 at 100% of the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Purchase Date (the "Purchase Price"), upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 30 days prior to such Purchase Date until the close of business on the date that is 5 Business Days prior to such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture. The Purchase Price will be paid in cash.

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At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to repurchase the Securities if a Fundamental Change occurs at any time prior to February 1, 2022 at 100% of the Principal Amount plus accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the Fundamental Change Repurchase Date (the "Fundamental Change Repurchase Price"), which Fundamental Change Repurchase Price shall be paid in cash.

Holders have the right to withdraw any Purchase Notice or Fundamental Change Repurchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash sufficient to pay the Purchase Price or Fundamental Change Repurchase Price, as the case may be, of all Securities or portions thereof to be purchased on a Purchase Date or on a Fundamental Change Repurchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Fundamental Change Repurchase Date, as the case may be, interest will cease to accrue on such Securities (or portions thereof) immediately after such Purchase Date or Fundamental Change Repurchase Date, as the case may be, and the Holder thereof shall have no other rights as such (other than the right to receive the Purchase Price or Fundamental Change Repurchase Price, as the case may be, upon surrender of such Security).

Conversion. Subject to the provisions of the Indenture, the Holder

hereof has the right, at its option, at any time following the date of issuance of the Securities and prior to the close of business on the Business Day next

preceding February 1, 2022 (except that with respect to any Security or portion of a Security which shall be called for redemption, prior to the close of business on the Business Day next preceding the Redemption Date) (unless the Company shall default in payment of the Redemption Price), to convert the Principal Amount hereof or any portion of such principal which is \$1,000 or an integral multiple thereof, into that number of fully paid and non-assessable shares of Common Stock, as said shares shall be constituted at the date of conversion, obtained by dividing the Principal Amount of this Security or portion thereof to be converted by the conversion price of \$23.38 (the "Conversion Price") as adjusted from time to time as provided in the Indenture, upon surrender of this Security, together with a Conversion Notice as provided in the Indenture, to the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York, or at the option of such Holder, the Corporate Trust Office, and, unless the shares issuable on conversion are to be issued in the same name as this Security, duly endorsed by, or accompanied by instruments of transfer in form satisfactory to the Company duly executed by, the Holder or by his duly authorized attorney. No adjustment in respect of interest or dividends will be made upon any conversion; provided, however, that, if this Security shall be surrendered for conversion during the period from the close of business on any Regular Record Date for the payment of interest through the close of business on the Business Day next preceding the following Interest Payment Date, and has not been called for redemption on a Redemption Date that occurs during such period, such Security (or portion thereof being converted) must be accompanied by an amount, in funds acceptable to the Company, equal to the interest payable on such Interest Payment Date on the Principal Amount being converted; provided, however, that no such payment shall be required if there shall exist at the time of conversion a default in the payment of interest or Additional Amounts on the Securities. No fractional shares will be issued

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upon any conversion, but an adjustment and payment in cash will be made, as provided in the Indenture, in respect of any fraction of a share which would otherwise be issuable upon the surrender of any Securities for conversion. Securities in respect of which a Holder is exercising its right to require repurchase on a Purchase Date or a Fundamental Change Repurchase Date may be converted only if such Holder withdraws its election to exercise such right in accordance with the terms of the Indenture. Any Securities called for redemption, unless surrendered for conversion by the Holders thereof on or before the close of business on the Business Day preceding the date fixed for redemption, may be deemed to be redeemed from such Holders for an amount equal to the applicable Redemption Price, by one or more investment banks or other purchasers who may agree with the Company (i) to purchase such Securities from the Holders thereof and convert them into shares of the Common Stock and (ii) to make payment for such Securities as aforesaid to the Trustee in trust for the Holders.

Tax Treatment. The Company, and by purchasing a beneficial ownership

interest in the Securities each Holder of Securities, will be deemed to have agreed, for United States federal income tax purposes, (i) to treat the Securities as indebtedness that is subject to Contingent Payment Debt Regulations and, for purposes of the Contingent Payment Debt Regulations, to treat the fair market value of any stock beneficially received by a Holder upon any conversion of the Securities as a contingent payment and (ii) to be bound by the Company's determination of the comparable yield and projected payment schedule, within the meaning of the Contingent Payment Debt Regulations, with respect to the Securities. A Holder of Securities may obtain the issue price, issue date, amount of original issue discount, yield to maturity, comparable yield and projected payment schedule by submitting a written request to the Company at the following address: Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, CA 94088, Attention: Treasurer.

In the event of a deposit or withdrawal of an interest in this Security, including an exchange, transfer, repurchase or conversion of this

Security in part only, the Trustee, as custodian of the Depository, shall make an adjustment on its records to reflect such deposit or withdrawal in accordance with the rules and procedures of the Depository.

Subject to certain limitations in the Indenture, at any time when the Company is not subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, upon the request of a Holder of a Restricted Security, the Company will promptly furnish or cause to be furnished Rule 144A Information (as defined below) to such Holder of Restricted Securities, or to a prospective purchaser of any such security designated by any such Holder, to the extent required to permit compliance by any such Holder with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). "Rule 144A Information" shall be such information as is specified pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

If an Event of Default shall occur and be continuing, the Principal Amount plus interest accrued and Additional Amounts, if any, through such date on all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the

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rights of the Holders of the Securities under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate Principal Amount of the Outstanding Securities. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate Principal Amount of the Outstanding Securities, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities, the Holders of not less than 25% in aggregate Principal Amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity satisfactory to it, and the Trustee shall not have received from the Holders of a majority in Principal Amount of Outstanding Securities a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of said principal hereof or interest hereon on or after the respective due dates expressed herein or for the enforcement of any conversion right.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the Principal Amount, Purchase Price or Fundamental Change Repurchase Price of, and interest and Additional Amounts, if any, on, this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the

office or agency of the Company in The City of New York, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate Principal Amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form in denominations of \$1,000 and any integral multiple of \$1,000 above that amount, as provided in the Indenture and subject to certain limitations therein set forth. Securities are exchangeable for a like aggregate Principal Amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

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No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security shall be governed by and construed in accordance with the laws of the State of New York.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

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ASSIGNMENT FORM

If you want to assign this Security, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Security to:

(Print or type name, address and zip code and social security or tax ID number of assignee)

and irrevocably appoint _____ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution"

meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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In connection with any transfer of this Security occurring prior to the date which is the earlier of (i) the date of the declaration by the Commission of the effectiveness of a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering resales of this Security (which effectiveness shall not have been suspended or terminated at the date of the transfer) and (ii) January 29, 2004, the undersigned confirms that it has not utilized any general solicitation or general advertising in connection with the transfer and that this Security is being transferred:

[Check One]

- (1) to the Company or a subsidiary thereof; or
- (2) pursuant to and in compliance with Rule 144A under the Securities Act; or
- (3) outside the United States to a "foreign person" in compliance with Rule 904 of Regulation S under the Securities Act; or
- (4) pursuant to the exemption from registration provided by Rule 144 under the Securities Act, or
- (5) pursuant to another available exemption from the registration requirements of the Securities Act.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any Person other than the registered Holder thereof, provided that if box (3), (4) or (5) is checked, the Company may require, prior to registering any such transfer of the Securities, in its sole discretion, such legal opinions, certifications (including an investment letter in the case of box (3)) and other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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If none of the foregoing boxes is checked, the Trustee or Security Registrar shall not be obligated to register this Security in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 3.10 of the Indenture shall have been satisfied.

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include

membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

TO BE COMPLETED BY PURCHASER IF (2) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Date: _____ Signed: _____

NOTICE: To be executed by an executive officer.

CONVERSION NOTICE

If you want to convert this Security into Common Stock of the Company, check the box: []

To convert only part of this Security, state the Principal Amount to be converted (which must be \$1,000 or an integral multiple of \$1,000):

\$ _____

If you want the stock certificate made out in another person's name, fill in the form below:

(Insert other person's social security or tax ID no.)

(Print or type other person's name, address and zip code)

Date: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

Note: Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Security Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Security Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

REGISTRATION RIGHTS AGREEMENT

Dated as of January 29, 2002

By and Among

ADVANCED MICRO DEVICES, INC.

as Issuer

and

CREDIT SUISSE FIRST BOSTON CORPORATION

SALOMON SMITH BARNEY INC.

as Initial Purchasers

4.75% Convertible Senior Debentures Due 2022

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is dated as of January

29, 2002, by and among ADVANCED MICRO DEVICES, INC., a Delaware corporation (the
"Company"), and CREDIT SUISSE FIRST BOSTON CORPORATION and SALOMON SMITH BARNEY

INC. (the "Initial Purchasers").

This Agreement is entered into in connection with the Purchase Agreement,
dated as of January 24, 2002 (the "Purchase Agreement"), by and among the

Company and the Initial Purchasers, which provides for the sale by the Company
to the Initial Purchasers of \$500,000,000 aggregate principal amount of the
Company's 4.75% Convertible Senior Debentures Due 2022 (the "Firm Notes"), which

are convertible into Common Stock of the Company, par value \$.01 per share (the
"Underlying Shares"), plus up to an additional \$100,000,000 aggregate principal

amount of the same that the Initial Purchasers may subsequently elect to
purchase pursuant to the terms of the Purchase Agreement (the "Additional Notes"

and, together with the Firm Notes, the "Convertible Notes"). The Convertible

Notes are being issued pursuant to an indenture dated as of the date hereof (the "Indenture") between the Company and the Bank of New York, as Trustee.

In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement for the benefit of the Initial Purchasers and any subsequent holder or holders of the Convertible Notes or Underlying Shares. The execution and delivery of this Agreement is a condition to the Initial Purchasers' obligation to purchase the Firm Notes under the Purchase Agreement.

The parties hereby agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the following meanings:

Additional Amounts Payment Date: See Section 3(c) hereof.

Additional Amounts: See Section 3(a) hereof.

Additional Notes: See the second introductory paragraph hereto.

Agreement: See the first introductory paragraph hereto.

Amendment Effectiveness Deadline Date: See Section 2(d) hereof.

Amount of Registrable Securities: (a) With respect to Convertible Notes

constituting Registrable Securities, the aggregate principal amount of all such Convertible Notes outstanding, (b) with respect to Underlying Shares constituting Registrable Securities, the aggregate number of such Underlying Shares outstanding multiplied by the Conversion Price

(as defined in the Indenture) in effect at the time of computing the Amount of Registrable Securities or, if no such Convertible Notes are then outstanding, the last Conversion Price that was in effect under the Indenture when any such Convertible Notes were last outstanding, and (c) with respect to combinations thereof, the sum of (a) and (b) for the relevant Registrable Securities.

Blue Sky Laws: State securities or "blue sky" laws.

Business Day: Any day that is not a Saturday, Sunday or a day on which banking institutions in New York are authorized or required by law to be closed.

Closing Date: January 29, 2002.

Company: See the first introductory paragraph hereto.

Convertible Notes: See the second introductory paragraph hereto.

Depository: The Depository Trust Company until a successor is appointed by

the Company.

Effectiveness Date: The 180th day after the Closing Date.

Effectiveness Period: See Section 2(a) hereof.

Exchange Act: The Securities Exchange Act of 1934, as amended, and the

rules and regulations of the SEC promulgated thereunder.

Filing Date: The 90/th/ day after the Closing Date.

Firm Notes: See the second introductory paragraph hereto.

Holder: Any holder of Registrable Securities.

Indemnified Holder: See Section 6 hereof.

Indemnified Person: See Section 6 hereof.

Indemnifying Person: See Section 6 hereof.

Indenture: See the second introductory paragraph hereto.

Initial Purchasers: See the first introductory paragraph hereto.

Initial Shelf Registration: See Section 2(a) hereof.

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Initial Shelf Registration Statement: See Section 2(a) hereof.

Inspectors: See Section 4(l) hereof.

Losses: See Section 6 hereof.

New Requirements: See Section 2(a) hereof.

NASD: See Section 4(o) hereof.

Notice and Questionnaire: A written notice delivered to the Company

containing substantially the information called for by the Form of Selling
Securityholder Notice and Questionnaire attached as Annex A to the Offering
Circular of the Company dated January 24, 2002 relating to the Convertible
Notes.

Notice Holder: On any date, any Holder that has delivered a Notice and

Questionnaire to the Company at least 5 Business Days prior to such date.

Person: An individual, partnership, corporation, limited liability company,

unincorporated association, trust or joint venture, or a governmental agency or
political subdivision thereof.

Prospectus: The prospectus included in any Registration Statement

(including, without limitation, any prospectus subject to completion and a
prospectus that includes any information previously omitted from a prospectus
filed as part of an effective registration statement in reliance upon Rule 430A
promulgated under the Securities Act), as amended or supplemented by any
prospectus supplement, and all other amendments and supplements to the
Prospectus, including post-effective amendments, and all material incorporated
by reference or deemed to be incorporated by reference in such Prospectus.

Purchase Agreement: See the second introductory paragraph hereto.

Records: See Section 4(1) hereof.

Registrable Securities: All Convertible Notes and all Underlying Shares

upon original issuance thereof and at all times subsequent thereto until the
earliest to occur of (i) a Registration Statement covering such Convertible
Notes and Underlying Shares having been declared effective by the SEC and such
Convertible Notes and Underlying Shares having been disposed of in accordance
with such effective Registration Statement, (ii) such Convertible Notes and
Underlying Shares having been sold in compliance with Rule 144, (iii) such
Convertible Notes and any Underlying Shares ceasing to be outstanding and (iv)
the date that is two years from the Closing Date. For purposes of this
definition, Underlying Shares shall not include shares of Common Stock of the
Company issued upon conversion of Convertible

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Notes that were previously disposed of in accordance with an effective
Registration Statement or with Rule 144.

Registration Default: See Section 3(a) hereof.

Registration Statement: Any registration statement of the Company filed

with the SEC pursuant to the provisions of this Agreement, including the
Prospectus, amendments and supplements to such registration statement, including
post-effective amendments, all exhibits and all material incorporated by
reference or deemed to be incorporated by reference in such registration
statement.

Rule 144: Rule 144 promulgated under the Securities Act, as such rule may

be amended from time to time, or any similar rule (other than Rule 144A) or
regulation hereafter adopted by the SEC providing for offers and sales of
securities made in compliance therewith resulting in offers and sales by
subsequent holders that are not affiliates of an issuer of such securities being
free of the registration and prospectus delivery requirements of the Securities
Act.

Rule 144A: Rule 144A promulgated under the Securities Act, as such rule may

be amended from time to time, or any similar rule (other than Rule 144) or
regulation hereafter adopted by the SEC.

Rule 415: Rule 415 promulgated under the Securities Act, as such rule may

be amended from time to time, or any similar rule or regulation hereafter
adopted by the SEC.

SEC: The Securities and Exchange Commission.

Securities Act: The Securities Act of 1933, as amended, and the rules and

regulations of the SEC promulgated thereunder.

Shelf Registration: See Section 2(b) hereof.

Shelf Registration Statement: See Section 2(b) hereof.

Subsequent Shelf Registration: See Section 2(b) hereof.

Suspension Period: See Section 3(b) hereof.

TIA: The Trust Indenture Act of 1939, as amended, and the rules and

regulations of the SEC promulgated thereunder.

Trustee: The Trustee under the Indenture.

Underlying Shares: See the second introductory paragraph hereto.

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2. Shelf Registration. -----

(a) Shelf Registration. The Company shall file with the SEC a Registration

Statement (the "Initial Shelf Registration Statement") for an offering to be

made on a continuous basis pursuant to Rule 415 covering all of the Registrable
Securities (the "Initial Shelf Registration") on or prior to the Filing Date.

The Initial Shelf Registration shall be on Form S-3 or another appropriate form
permitting registration of such Registrable Securities for resale by Holders in
the manner or manners designated by them (including, without limitation, one or
more underwritten offerings). The Company shall not permit any securities other
than Registrable Securities to be included in the Initial Shelf Registration or
any Subsequent Shelf Registration (as defined below).

The Company shall use its reasonable efforts to cause the Initial Shelf
Registration to be declared effective under the Securities Act as soon as
practicable after such Initial Shelf Registration is filed and, in any event, on
or prior to the Effectiveness Date and to keep such Initial Shelf Registration
continuously effective under the Securities Act until the earlier of when (i)
all the Registrable Securities are registered under the Shelf Registration (as
defined below) and have been disposed of in the manner set forth and as
contemplated therein, (ii) all the Registrable Securities have been resold
pursuant to Rule 144 under the Securities Act, (iii) all the Registrable
Securities cease to be outstanding (the "Effectiveness Period") and (iv) two

years have passed from the Closing Date.

No Holder of Registrable Securities may include any of its Registrable Securities in any Shelf Registration pursuant to this Agreement unless and until such Holder becomes a Notice Holder and, in the case that requirements under the Securities Act are changed after the date of this Agreement (all such requirements, the "New Requirements"), furnishes to the Company, upon request by

the Company, any additional information pursuant to the New Requirements concerning such Holder required to be included in any Shelf Registration Statement or Prospectus included therein. Each Holder of Registrable Securities as to which any Shelf Registration Statement is being effected agrees to furnish promptly to the Company all information required to be disclosed so that the information previously furnished to the Company by such Holder is not materially misleading and does not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading in the light of the circumstances under which they were made. Subject to the foregoing, at the time the Initial Shelf Registration Statement is declared effective, each Holder that became a Notice Holder at the time of effectiveness shall be named as a selling securityholder in the Initial Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of Registrable Securities in accordance with applicable law. None of the Company's securityholders (other than Holders of Registrable Securities) shall have the right to include any of the Company's securities in the Shelf Registration Statement.

(b) Subsequent Shelf Registrations. If the Initial Shelf Registration or

any Subsequent Shelf Registration ceases to be effective for any reason at any time during the

Effectiveness Period (other than because of the sale of all of the securities registered thereunder), the Company shall use its reasonable efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within 45 days of such cessation of effectiveness amend the Initial Shelf Registration or any Subsequent Shelf Registration, as the case may be, in a manner to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional "shelf" Registration Statement pursuant to Rule 415 covering all of the Registrable Securities (a "Subsequent

Shelf Registration"). If a Subsequent Shelf Registration is filed, the Company

shall use its reasonable efforts to cause the Subsequent Shelf Registration to be declared effective under the Securities Act as soon as practicable after such filing and to keep such Registration Statement continuously effective for a period equal to the number of days in the Effectiveness Period. As used herein the term "Shelf Registration" means the Initial Shelf Registration and any

Subsequent Shelf Registration and the term "Shelf Registration Statement" means

any Registration Statement filed in connection with a Shelf Registration.

(c) Supplements and Amendments. The Company shall promptly supplement and

amend the Shelf Registration if required by the rules, regulations or instructions applicable to the registration form used for such Shelf

Registration, if required by the Securities Act, or if reasonably requested by the Holders of the majority in Amount of Registrable Securities covered by such Registration Statement; provided, however, that the Company shall not be

required to supplement or amend any Shelf Registration upon the request of a Holder if such requested supplement or amendment would, in the good faith judgment of the Company, violate the Securities Act, the Exchange Act or the rules and regulations promulgated thereunder.

(d) Holder Procedures. Each Holder of Registrable Securities wishing to

sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus agrees to deliver a Notice and Questionnaire to the Company at least 5 Business Days prior to any intended distribution of Registrable Securities under the Shelf Registration Statement. From and after the date the Initial Shelf Registration Statement is declared effective, the Company shall, as promptly as practicable after the date a Notice and Questionnaire is delivered, and in any event upon the later of (x) 5 Business Days after such date or (y) 5 Business Days after the expiration of any Suspension Period in effect when the Notice and Questionnaire is delivered or put into effect within 5 Business Days of such delivery date, (i) if required by applicable law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other document required under the Securities Act so that the Holder delivering such Notice and Questionnaire is named as a selling securityholder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of the Registrable Securities in accordance with applicable law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use its reasonable efforts to cause such post-effective amendment to

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be declared effective under the Securities Act as promptly as is practicable, but in any event by the date (the "Amendment Effectiveness Deadline Date") that

is 45 days after the date such post-effective amendment is required by this clause to be filed; (ii) provide such Holder copies of any documents filed pursuant to Section 2(d)(i); and (iii) notify such Holder as promptly as practicable after the effectiveness under the Securities Act of any post-effective amendment filed pursuant to Section 2(d)(i); provided, that if such Notice and Questionnaire is delivered during a Suspension Period, the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of the Suspension Period. Notwithstanding anything contained herein to the contrary, (i) the Company shall be under no obligation to name any Holder that is not a Notice Holder as a selling securityholder in any Registration Statement or related Prospectus and (ii) the Amendment Effectiveness Deadline Date shall be extended by up to 10 Business Days from the expiration of a Suspension Period (and the Company shall incur no obligation to pay Additional Amounts during such extension) if such Suspension Period shall be in effect on the Amendment Effectiveness Deadline Date; provided, that after the date that is 180 days of the date of effectiveness of the Initial Shelf Registration Statement, the Company shall not be obligated to file more than one post-effective amendment or supplement in any 30-day period for the purpose of naming Holders as selling securityholders who were not so named in the Initial Shelf Registration Statement at the time of effectiveness.

3. Additional Amounts.

(a) The Company and the Initial Purchasers agree that the Holders of Registrable Securities will suffer damages if the Company fails to fulfill its obligations under Section 2 hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Company agrees to pay additional amounts on the Registrable Securities ("Additional

Amounts") under the circumstances and to the extent set forth below (each of

which shall be given independent effect; each a "Registration Default"):

(i) if the Initial Shelf Registration is not filed on or prior to

the Filing Date, then commencing on the day after the Filing Date, Additional Amounts shall accrue on the Registrable Securities at a rate of 0.5% per annum on the Amount of Registrable Securities;

(ii) if the Initial Shelf Registration is not declared effective by the SEC on or prior to the Effectiveness Date, then commencing on the day after the Effectiveness Date, Additional Amounts shall accrue on the Registrable Securities at a rate of 0.5% per annum on the Amount of Registrable Securities; and

(iii) if a Shelf Registration has been declared effective and such Shelf Registration ceases to be effective at any time during the Effectiveness Period (other than as permitted under Section 3(b)), then commencing on the day after such cessation of effectiveness Additional Amounts shall accrue on the Registrable Securities at a rate of 0.5% per annum on the Amount of Registrable Securities;

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provided, however, that Additional Amounts on the Registrable Securities may not

accrue under more than one of the foregoing clauses (i), (ii) or (iii) at any one time; provided, further, however, that (1) upon the filing of the Shelf

Registration as required hereunder (in the case of clause (a)(i) of this Section 3), (2) upon the effectiveness of the Shelf Registration as required hereunder (in the case of clause (a)(ii) of this Section 3) or (3) upon the effectiveness of a Shelf Registration which had ceased to remain effective (in the case of clause (a)(iii) of this Section 3), Additional Amounts on the Registrable Securities as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue. It is understood and agreed that, notwithstanding any provision to the contrary, so long as any Registrable Security is then covered by an effective Shelf Registration Statement, no Additional Amounts shall accrue on such Registrable Security. No Holder of Registrable Securities shall be entitled to Additional Amounts pursuant this Section 3 until such Holder is a Notice Holder and until such Holder shall have provided all information required to be provided by such Holder to the Company pursuant to Section 2(a) hereof.

(b) Notwithstanding paragraph (a) of this Section 3, the Company shall be permitted to suspend the effectiveness of a Shelf Registration for up to 30 consecutive days (a "Suspension Period") in any 90-day period without being

required to pay Additional Amounts. The aggregate duration of any Suspension Periods shall not, without incurring any obligation to pay Additional Amounts, exceed 90 days in any 365-day period.

(c) So long as Convertible Notes remain outstanding, the Company shall notify the Trustee within three Business Days after each and every date on which an event occurs in respect of which Additional Amounts is required to be paid. Any amounts of Additional Amounts due pursuant to clause (a)(i), (a)(ii) or (a)(iii) of this Section 3 will be payable in cash semi-annually on each February 1 and August 1 (each an "Additional Amounts Payment Date"), commencing

with the first such date occurring after any such Additional Amounts commences to accrue, to Holders to whom regular interest is payable on such Additional Amount Payment Date with respect to Convertible Notes that are Registrable Securities and to Persons that are registered Holders on January 15 or July 15 preceding such Additional Amount Payment Date with respect to Underlying Shares that are Registrable Securities. The amount of Additional Amounts for Registrable Securities will be determined by multiplying the rate of Additional Amounts by the Amount of Registrable Securities outstanding on the Additional Amount Payment Date following such Registration Default in the case of the first such payment of Additional Amounts with respect to a Registration Default and thereafter at the next succeeding Additional Amount Payment Date until the cure of such Registration Default.

4. Registration Procedures.

In connection with the filing of any Registration Statement pursuant to Section 2 hereof, the Company shall effect such registrations to permit the resale of the securities covered thereby in accordance with the intended method or methods of disposition thereof,

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and pursuant thereto and in connection with any Registration Statement filed by the Company hereunder the Company shall:

(a) Prepare and file with the SEC prior to the Filing Date, a Registration Statement or Registration Statements as prescribed by Section 2 hereof, and use its reasonable efforts to cause each such Registration Statement to become effective and remain effective as provided herein; provided, however, that

before filing any Registration Statement or Prospectus or any amendments or supplements thereto, the Company shall, upon request of any Holder of Registrable Securities covered by such Registration Statement furnish to and afford such Holder and such Holder's counsel, if any, a reasonable opportunity to review copies of all such documents proposed to be filed (in each case, where possible, at least five Business Days prior to such filing, or such later date as is reasonable under the circumstances), and shall incorporate into such filings such comments and changes as may be reasonably requested by such persons. The provisions of this paragraph (a) shall not apply to the filing by the Company of annual, quarterly or current reports, or proxy statements or schedules under the Exchange Act. The Company shall not file any Registration Statement or Prospectus or any amendments or supplements thereto if Holders of a majority in Amount of Registrable Securities covered by such Registration Statement or their counsel, shall reasonably object.

(b) Prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration Statement as may be necessary to keep such Registration Statement continuously effective for the Effectiveness Period; cause the related Prospectus to be supplemented by any prospectus supplement required by applicable law, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; and comply with the provisions of the Securities Act and the Exchange Act applicable to it with respect to the disposition of all securities covered by such Registration Statement as so amended or in such Prospectus as so supplemented. Except as provided in Section 3(b), the Company shall be deemed not to have used its reasonable efforts to keep a Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would result in selling Holders of the Registrable Securities covered thereby that are Notice Holders not being able to sell such Registrable Securities during that period unless such action is required by applicable law or unless the Company complies with this Agreement, including, without limitation, the provisions of Sections 2(b) and 4(1) hereof.

(c) Notify the applicable selling Holders of Registrable Securities and their counsel promptly (but in any event within three Business Days) and, confirm such notice in writing, (i) when a Prospectus or any prospectus supplement or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective under the Securities Act, (ii) of the issuance by the SEC of any stop order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or the initiation of any proceedings for that purpose, (iii) of the happening of any event, the existence of any

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condition or any information becoming known that makes any statement made in a Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in or amendments or supplements to a Registration Statement, Prospectus or documents so that, in the case of a Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of a Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (iv) of the Company's determination that a post-effective amendment to a Registration Statement would be appropriate.

(d) Use its reasonable efforts to prevent the issuance of any order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of a Prospectus and, if any such order is issued, to use its reasonable efforts to obtain the withdrawal of any such order at the earliest possible time.

(e) Furnish to each selling Holder of Registrable Securities, a single counsel to such Holders (chosen in accordance with Section 5(b)), at the sole expense of the Company, one conformed copy of the Registration Statement or Registration Statements and each post-effective amendment thereto, including financial statements and schedules, and, if requested, all documents incorporated or deemed to be incorporated therein by reference and all exhibits.

(f) Deliver to each selling Holder of Registrable Securities and a single counsel to such Holders (chosen in accordance with Section 5(b)), at the sole expense of the Company, as many copies of the Prospectus (including each form of preliminary prospectus) and each amendment or supplement thereto and any documents incorporated by reference therein as such Persons may reasonably request; and, subject to the second paragraph of Section 4(r) hereof, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(g) Prior to any public offering of Registrable Securities, to use its reasonable efforts to register or qualify, to the extent required by applicable law, and to cooperate with the selling Holders of Registrable Securities and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities or offer and sale under the Blue Sky Laws of such jurisdictions within the United States as any selling Holder reasonably request and to cause the Company's counsel to perform Blue Sky investigations and file registrations and qualifications required to be filed pursuant to this Section 4(g); keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things reasonably necessary or advisable to

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enable the disposition in such jurisdictions of the Registrable Securities covered by the applicable Registration Statement; provided, however, that the

Company shall not be required to (A) qualify generally to do business in any jurisdiction where it is not then so qualified, (B) take any action that would subject it to general service of process in any jurisdiction where it is not then so subject or (C) subject itself to taxation in excess of a nominal dollar amount in any jurisdiction where it is not then so subject.

(h) Cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing shares of Registrable Securities to be sold, which certificates shall not bear

any restrictive legends and shall be in a form eligible for deposit with the Depository; and enable such shares of Registrable Securities to be in such denominations and registered in such names as the Holders may reasonably request.

(i) Use its reasonable efforts to cause the Registrable Securities covered by any Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be reasonably necessary to enable the seller or sellers thereof, to consummate the disposition of such Registrable Securities, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Company will cooperate in all reasonable respects with the filing of such Registration Statement and the granting of such approvals.

(j) Upon the occurrence of any event contemplated by paragraph 4(c) (ii), 4(c) (iii) or 4(c) (iv) hereof, as promptly as practicable (and after any applicable Suspension Period) prepare and (subject to Section 4(a) hereof) file with the SEC, at the sole expense of the Company, a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, any such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) Prior to the effective date of the first Registration Statement relating to the Registrable Securities, (i) provide the Trustee with certificates for the Registrable Securities in a form eligible for deposit with the Depository and (ii) provide required CUSIP numbers for the Registrable Securities.

(l) Upon such party's execution of a confidentiality agreement, reasonably acceptable to the Company, make available for inspection by any selling Holder of such Registrable Securities being sold, and any attorney, accountant or other agent retained by any such selling Holder, (collectively, the "Inspectors"), at

the offices where normally kept, during reasonable business hours at such time or times as shall be mutually convenient for the Company and the Inspectors as a group, all financial and other records, pertinent corporate documents and instruments of the Company and its subsidiaries (collectively, the "Records")

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as shall be reasonably necessary to enable them to exercise any applicable due diligence responsibilities, and cause the officers, directors and employees of the Company and its subsidiaries to supply all information reasonably requested by any such Inspector in connection with such Registration Statement.

(m) Provide the Holders of the Registrable Securities to be included in such Registration Statement and a single counsel to such Holders (chosen in accordance with Section 5(b)), reasonable opportunity to participate in the preparation of such Registration Statement, each prospectus included therein or filed with the SEC, and each amendment or supplement thereto.

(n) Comply with all applicable rules and regulations of the SEC and make generally available to its securityholders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) commencing on the first day of the first fiscal quarter of the Company after the effective date of a Registration Statement, which statements shall cover said 12-month periods.

(o) Cooperate with each seller of Registrable Securities covered by any Registration Statement, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. (the "NASD").

(p) Cause the Indenture to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Registrable Securities; and in connection therewith, cooperate with the Trustee and the Holders of the Registrable Securities to effect such changes to the Indenture as may be required for the Indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable efforts to cause the Trustee to execute, all documents as may be required to effect such changes and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner.

(q) Use its reasonable efforts to take all other steps necessary or advisable to effect the registration of the Registrable Securities covered by a Registration Statement contemplated hereby.

(r) Use its best efforts to list, subject to notice of issuance, the Underlying Shares on the NYSE and to maintain the listing of such Underlying Shares on the NYSE for so long as the Convertible Notes or the Underlying Shares are outstanding.

Each Holder of Registrable Securities agrees by acquisition of such Registrable Securities that, upon actual receipt of any notice from the Company of the happening of any event of the kind described in Section 4(c)(ii), 4(c)(iii) or 4(c)(iv) hereof, such Holder will

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forthwith discontinue disposition of such Registrable Securities covered by such Registration Statement or Prospectus until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 4(j) hereof, or until it is advised in writing by the Company that the use of the applicable Prospectus may be resumed, and has received copies of any amendments or supplements thereto.

5. Registration Expenses.

(a) All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company, including, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses of compliance with Blue Sky Laws (including, without limitation, reasonable fees and disbursements of counsel in connection with Blue Sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as provided in Section 4(g) hereof), (ii) printing expenses, including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with the Depository and of printing prospectuses if the printing of prospectuses is reasonably requested by the Holders of the majority in Amount of Registrable Securities included in any Registration Statement, (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company and reasonable fees and disbursements of one special counsel for the sellers of Registrable Securities (subject to the provisions of Section 5(b) hereof), (v) fees and disbursements of the Company's independent certified public accountants, (vi) Securities Act liability insurance, if the Company desires such insurance, (vii) fees and expenses of all other Persons retained by the Company, (viii) internal expenses of the Company (including, without limitation, all salaries and expenses of officers and employees of the Company performing legal or accounting duties), (ix) the expense of any annual audit of the Company's financial statements, (x) the fees and expenses incurred in connection with the listing of the securities

to be registered on any securities exchange, if applicable, and (xi) the expenses relating to printing, word processing and distributing all Registration Statements and any other documents necessary in order to comply with this Agreement.

(b) The Company shall reimburse the Holders of the Registrable Securities being registered in or Shelf Registration for the reasonable fees and disbursements of not more than one counsel chosen by the Holders of a majority in Amount of Registrable Securities to be included in such Registration Statement.

6. Indemnification.

The Company agrees to indemnify and hold harmless (i) each Initial Purchaser, (ii) each Holder, (iii) each Person, if any, who controls (within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act) any of the foregoing (any of the Persons referred to in this clause (iii) being hereinafter referred to as a "controlling person"), (iv) the respective officers, directors, partners, employees, representatives and agents of each

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Initial Purchaser, the Holders (including predecessor Holders) or any controlling person (any person referred to in clause (i), (ii), (iii) or (iv) may hereinafter be referred to as an "Indemnified Holder"), from and against any

and all losses, claims, damages, liabilities, joint or several, and judgments (including, without limitation, reasonable legal fees and other expenses incurred in connection with any suit, action or proceeding or any claim asserted) to which they become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement or Prospectus or any amendment or supplement thereto or any related preliminary prospectus, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and agrees to reimburse each such Indemnified Person, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, except insofar as such losses, claims, damages or liabilities arise out of or are based on any untrue statement or omission or alleged untrue statement or omission made in the Registration Statement or Prospectus, or any amendment thereof or supplement thereto or any related preliminary prospectus, in reliance upon and in conformity with information relating to any Holder furnished to the Company in writing by or on behalf of any such Holder expressly for use therein; provided, that the Company shall not

be liable to any Indemnified Holder under the indemnity agreement in this Article 6 with respect to any preliminary prospectus to the extent that any such loss, claim, damage or liability of such Indemnified Holder results from the fact that such Indemnified Holder sold Registrable Securities to a Person as to whom it shall be established that there was not sent or given, at or prior to the written confirmation of such sale, a copy of the final Prospectus in any case where such delivery is required by the Securities Act if the Company had previously furnished copies thereof in sufficient quantities to such Indemnified Holder and the loss, claim, damage or liability of such Indemnified Holder results from an untrue statement or omission of a material fact contained in the preliminary prospectus that was (i) identified to such Indemnified Holder at or prior to the earlier of the filing with the SEC or the furnishing to such Indemnified Holder of the corrected Prospectus and (ii) corrected in the final Prospectus. The Company shall notify each Indemnified Holder promptly of the institution, threat or assertion of any claim, proceeding (including any governmental investigation) or litigation in connection with the matters

addressed by this Agreement which involves the Company or such Indemnified Holder.

Each Holder agrees, severally and not jointly, to indemnify and hold harmless the Company, each of its directors, each of its officers and each Person who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to each Holder, but only with reference to such losses, claims, damages or liabilities which are caused by any untrue statement or omission or alleged untrue statement or omission made in reliance

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upon and in conformity with information relating to a Holder furnished to the Company in writing by such Holder expressly for use in any Registration Statement or Prospectus, or any amendment or supplement thereto or any related preliminary prospectus.

If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any Person in respect of which indemnity may be sought pursuant to either of the two preceding paragraphs, such Person (the "Indemnified Person") shall promptly

notify the Person or Persons against whom such indemnity may be sought (each an "Indemnifying Person") in writing of the commencement thereof; but the failure

so to notify the Indemnifying Person (i) will not relieve it from liability under the two immediately preceding paragraphs unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the Indemnifying Person of substantial rights and defenses; and (ii) will not, in any event, relieve the Indemnifying Person from any obligations to any Indemnified Person other than the indemnification obligation provided in the two preceding paragraphs. Such Indemnifying Person, upon request of the Indemnified Person, shall retain counsel satisfactory to the Indemnified Person to represent the Indemnified Person and any others entitled to indemnification pursuant to this Section 6 that the Indemnifying Person may designate in such proceeding and shall pay the fees and expenses of such counsel related to such proceeding. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the use of counsel chosen by the Indemnifying Person to represent the Indemnified Person would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Person and the Indemnifying Person and the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it and/or other Indemnified Person(s) which are different from or additional to those available to the Indemnifying Person; (iii) the Indemnifying Person shall not have employed counsel satisfactory to the Indemnified Person to represent the Indemnified Person within a reasonable time after notice of the institution of such action; or (iv) the Indemnifying Person shall authorize the Indemnified Person to employ separate counsel at the expense of the Indemnifying Person. It is understood that an Indemnifying Person shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Persons, and that all such fees and expenses shall be reimbursed as they are incurred. Any such separate firm for the Indemnified Holders shall be designated in writing by the Holders of the majority in Amount of Registrable Securities, and any such separate firm for the Company, its directors, respective officers and such control Persons of the Company shall be designated in writing by the Company. No Indemnifying Person shall, without the prior written consent of the Indemnified Person, effect any settlement or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action), unless such settlement, compromise or consent

includes an unconditional release of each such Indemnified Person from all liability arising out of such claims, actions, suits or proceedings.

If the indemnification provided for in the first and second paragraphs of this Section 6 is insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending the same) (collectively, "Losses") (i) in such proportion as is

appropriate to reflect the relative benefits received by the Indemnifying Person on the one hand, and the Indemnified Person on the other hand, pursuant to the Purchase Agreement or from the offering of the Registrable Securities pursuant to any Shelf Registration or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Indemnifying Person on the one hand, and the Indemnified Person on the other, in connection with the statements or omissions that resulted in such Losses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand, and any Indemnified Holder on the other, shall be deemed to be in the same proportion as the total net proceeds from the initial offering and sale of Convertible Notes (before deducting expenses) received by the Company bear to the total net proceeds received by such Indemnified Holder from sales of Registrable Securities giving rise to such obligations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or such Indemnified Holder and the parties' intent, relative knowledge, information and opportunity to correct or prevent such statement or omission.

The Company and each of the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 6 were determined by pro rata allocation or by any other method of allocation that does not take

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account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 6, in no event shall any Holder be required to contribute any amount in excess of the amount by which the net proceeds received by such Holder from the sale of the Registrable Securities pursuant to a Shelf Registration Statement exceeds the amount of damages which such Holder would have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 6, each person who controls an Initial Purchaser within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of an Initial Purchaser shall have the same rights to contribution as such Initial Purchaser, and each person who controls the Company within the meaning of either the Securities Act or the Exchange Act and each officer and director of the Company shall have

the same rights to contribution as the Company, subject in each case to the applicable terms and conditions set forth in this paragraph.

The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies that may otherwise be available to any Indemnified Person at law or in equity.

The indemnity and contribution agreements contained in this Section 6 shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Holder or any Person controlling any Holder or by or on behalf of the Company, its officers or directors or any other Person controlling any of the Company and (iii) acceptance of and payment for any of the Registrable Securities.

7. Rules 144 and 144A.

The Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in a timely manner in accordance with the requirements of the Securities Act and the Exchange Act and, for so long as any Registrable Securities remain outstanding, if at any time the Company is not required to file such reports, it will, upon the request of any Holder or beneficial owner of Registrable Securities, make available such information necessary to permit sales pursuant to Rule 144A under the Securities Act. The Company further covenants that, for so long as any Registrable Securities remain outstanding, it will use its reasonable efforts to take such further action as any Holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144(k) and Rule 144A under the Securities Act, as such rules may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the SEC. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. Miscellaneous.

(a) No Inconsistent Agreements. The Company has not, as of the date

hereof, and the Company shall not, after the date of this Agreement, enter into any agreement with respect to any of its securities that is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The Company has not entered and will not enter into any agreement with respect to any of its securities that will grant to any Person piggyback registration rights with respect to a Registration Statement, except to the extent that any existing right has heretofore been waived.

(b) Amendments and Waivers. The provisions of this Agreement may not be

amended, modified or supplemented, and waivers or

consents to departures from the provisions hereof may not be given, otherwise than with the prior written consent of the Company and the Holders of not less than the majority in Amount of Registrable Securities; provided, however, that

Section 6 and this Section 8(b) may not be amended, modified or supplemented without the prior written consent of the Company and each Holder (including, in the case of an amendment, modification or supplement of Section 6, any Person who was a Holder of Registrable Securities disposed of pursuant to any Registration Statement). Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Securities whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of other Holders of Registrable Securities may be given by Holders of at least a majority in Amount of the Registrable Securities being sold by such Holders pursuant to such

Registration Statement.

(c) Notices. All notices and other communications (including, without

limitation, any notices or other communications to the Trustee) provided for or
permitted hereunder shall be made in writing by hand-delivery, registered
first-class mail, next-day air courier or facsimile:

(1) if to a Holder of the Registrable Securities, at the most
current address of such Holder set forth on the records of the registrar under
the Indenture, in the case of Holders of Convertible Notes, and the stock ledger
of the Company, in the case of Holders of Underlying Shares.

(2) if to the Initial Purchasers:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, NY 10010
Facsimile No.: (212) 325-4296
Attention: Transactions Advisory Group

Salomon Smith Barney Inc.
388 Greenwich Street, 3/rd/ floor
New York, NY 10013
Facsimile No.: (212)816-7912
Attention: General Counsel

with copies to:

Davis Polk & Wardwell
1600 El Camino Real
Menlo Park, CA 94025
Facsimile No.: (650) 752-2116
Attention: Alan Denenberg, Esq.

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(3) if to the Company, at the addresses as follows:

Advanced Micro Devices, Inc.
One AMD Place
Sunnyvale, CA 94088
Facsimile No.: (408) 732-6164
Attention: General Counsel

with copies to:

Latham & Watkins
135 Commonwealth Drive
Menlo Park, CA 94025
Facsimile No.: (650) 463-2600
Attention: Christopher L. Kaufman, Esq.

All such notices and communications shall be deemed to have been duly
given: when delivered by hand, if personally delivered; five Business Days after
being deposited in the mail, postage prepaid, if mailed; one Business Day after
being timely delivered to a next-day air courier; and when receipt is
acknowledged by the addressee, if sent by facsimile.

(d) Successors and Assigns. This Agreement shall inure to the benefit of

and be binding upon the successors and assigns of each of the parties hereto,
including the Holders; provided, however, that this Agreement shall not inure to

the benefit of or be binding upon a successor or assign of a Holder unless and
except to the extent such successor or assign holds Registrable Securities.

(e) Counterparts. This Agreement may be executed in any number of

counterparts and by the parties hereto in separate counterparts, each of which
when so executed shall be deemed to be an original and all of which taken
together shall constitute one and the same agreement.

(f) Headings. The headings in this Agreement are for convenience of

reference only and shall not limit or otherwise affect the meaning hereof.

(g) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN

ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. EACH OF THE PARTIES HERETO
AGREES TO SUBMIT TO THE JURISDICTION OF THE FEDERAL AND NEW YORK STATE COURTS
SITTING IN MANHATTAN, NEW YORK CITY, THE STATE OF NEW YORK, IN ANY ACTION OR
PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT.

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(h) Severability. If any term, provision, covenant or restriction of this

Agreement is held by a court of competent jurisdiction to be invalid, illegal,
void or unenforceable, the remainder of the terms, provisions, covenants and
restrictions set forth herein shall remain in full force and effect and shall in
no way be affected, impaired or invalidated, and the parties hereto shall use
their reasonable efforts to find and employ an alternative means to achieve the
same or substantially the same result as that contemplated by such term,
provision, covenant or restriction. It is hereby stipulated and declared to be
the intention of the parties that they would have executed the remaining terms,
provisions, covenants and restrictions without including any of such that may be
hereafter declared invalid, illegal, void or unenforceable.

(i) Securities Held by the Company or Its Affiliates. Whenever the consent

or approval of Holders of a specified percentage in Amount of Registrable
Securities is required hereunder, Registrable Securities held by the Company or
its affiliates (as such term is defined in Rule 405 under the Securities Act)
shall not be counted in determining whether such consent or approval was given
by the Holders of such required percentage.

(j) Third Party Beneficiaries. Holders of Registrable Securities are

intended third party beneficiaries of this Agreement and this Agreement may be
enforced by such Persons.

(k) Entire Agreement. This Agreement, together with the Purchase Agreement

and the Indenture, is intended by the parties as a final and exclusive statement
of the agreement and understanding of the parties hereto in respect of the
subject matter contained herein and therein and any and all prior oral or
written agreements, representations, or warranties, contracts, understandings,
correspondence, conversations and memoranda between the Initial Purchasers on
the one hand, and the Company on the other, or between or among any agents,
representatives, parents, subsidiaries, affiliates, predecessors in interest or
successors in interest with respect to the subject matter hereof and thereof are
merged herein and replaced hereby.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the
date first written above.

ADVANCED MICRO DEVICES, INC.

By: /s/ Thomas M. McCoy

Name: Thomas M. McCoy
Title: Senior Vice President, General
Counsel and Secretary

CREDIT SUISSE FIRST BOSTON
CORPORATION

By: /s/ Francisco J. Paret

Name: Francisco J. Paret
Title: Director

SALOMON SMITH BARNEY INC.

By: /s/ William L. Frauenhofer

Name: William L. Frauenhofer
Title: Vice President

AMD'S
U.S. Stock Option
Program

For options granted
after April 24, 2001.

[LOGO]

AMD[LOGO]

AMD's success is a direct result of the creativity, innovation, and hard work of employees like you. In recognition of this, we maintain a portfolio of programs that enable you to share in our success.

- . Cash and deferred profit sharing plans, which entitle you to a share of AMD's profits.
- . The stock purchase plan, which enables you to buy AMD common stock at a discounted price and participate as an owner of the company.
- . The stock option program, under which you can benefit from AMD's long-term success as the company's common stock price grows.

Who Receives Stock Options?

Congratulations on being selected to receive a stock option grant. AMD limits the granting of stock options to those employees whose individual contributions most influence AMD's performance and add to shareholder value. The number of options you are granted reflects competitive compensation practices, your position at AMD, and, most importantly, your individual performance.

What Are Stock Options?

Stock options give you the right to buy shares of AMD common stock at the "exercise price" within a specified number of years. You "exercise" your option by purchasing the underlying shares any time after you "vest" in the option (see How Your Stock Options Vest), but before the option expires.

The attractiveness of stock options lies in the potential for increases in the market price of the company's common stock over time. For example, if you are granted options to buy 100 shares of AMD stock at an exercise price of \$35 per share, and the market price of the stock rises to \$45, then your "unrealized" financial gain is \$10 per share (the difference between the exercise price and the current market price). To realize that gain, you must first have the right to buy those 100 shares. If you do, you can buy the stock. You can then keep the shares for potential future gain, or sell them in the market at any time for the current market price. In this example, if you purchase shares and then sell them when the market price moved up to \$50, you would have a gain of \$15 per share (\$50-\$35).

Enclosed with this brochure is your stock option document. It gives the date your option was granted, the price to purchase the shares, and the first and last dates you can purchase the shares.

How Your Stock Options Vest

You earn the right to purchase shares according to the schedule for your grant ("vesting"). Each stock option grant has its own vesting period.

If you receive stock option grants in several years, their vesting periods will

overlap. For example, the following chart illustrates the vesting for a hypothetical employee who receives an initial grant when he/she joins AMD and then annual grants thereafter based on varying performance ratings:

| Calendar Year | # of Options Granted | Options Vesting in the Year | | | | |
|------------------|-------------------------|-----------------------------|----|----|-----|-----|
| | | 2 | 3 | 4 | 5 | 6 |
| 1 | 150 | 60 | 45 | 30 | 15 | |
| 2 | 100 | | 25 | 25 | 25 | 25 |
| 3 | 160 | | | 40 | 40 | 40 |
| 4 | 200 | | | | 50 | 50 |
| 5 | 220 | | | | | 55 |
| Total | | 60 | 70 | 95 | 130 | 170 |

The above vesting chart is based on continuous active service with AMD. The stock option document for your grant shows the vesting dates for your options.

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If AMD Experiences a "Change in Control"

You become 100% vested in your outstanding options if AMD experiences a "change in control," and your employment is terminated by AMD for any reason other than for misconduct or, if applicable, by constructive termination within one year after such a change. A "change in control" occurs when:

- . More than 20% of AMD has acquired by a single person or entity,
- . Certain changes in the majority of AMD's Board of Directors occur during a two-year period,
- . A merger or consolidation of the company with or into another company,
- . Stockholders of the company approve a plan of complete liquidation, or
- . There is a sale or disposition of all or substantially all the company's assets.

Exercising Your Stock Options

Once your options are vested, you can exercise them--that is, you can purchase AMD common stock at the exercise price. You have a limited number of years from the date of grant to exercise the options and take advantage of any increase in the price of AMD stock above the exercise price. Most grants have a ten-year life. The document for your stock option grant discloses the date on which your options expire.

Your final opportunity to purchase your vested options is the last regular business day of AMD before their expiration date. If you are waiting until that last day, be sure that Treasury Services receives your completed Stock Option Exercise form before 5:00 p.m. Pacific time.

If you leave AMD before the expiration date for your options, you have a limited period of time after your termination date in which to exercise vested options. See the section When You Leave AMD.

Treasury Services must receive your completed Stock Option Exercise form in order for you to exercise your options and purchase shares, unless you are doing an E*TRADE OptionsLink sale. You are responsible for knowing which options can be exercised and the expiration dates for your options.

Detailed information regarding the number of shares exercisable can be obtained 24 hours a day/7 days a week via the following:

- . The internet at www.optionslink.com, or

. The OptionsLink interactive voice response system at 1-800-838-0908.

Note: While you may look at your account information at any time through OptionsLink, if you conduct an electronic transaction on the internet, then E*Trade will act as your broker for that transaction (see the E*Trade OptionsLink brochure for further details). If you wish to utilize a broker other than E*Trade, you will have to contact that broker directly.

For more details on exercising your options, please refer to the summary entitled "Stock Option Exercise Procedures" which is available at <http://amdonline/treassvc>.

There are four ways to exercise vested AMD options that have not expired:

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. Cash Purchase

You can pay for the options yourself or arrange for your broker to pay for them. On the next business day after receipt of your completed Stock Option Exercise form, Treasury Services will notify you of the cost for the exercised options plus applicable federal, state, Social Security and Medicare tax withholding. You must give Treasury Services a cashier's check or money order for the exercise cost plus taxes within two weeks from the exercise date. You may elect to receive either a stock certificate or have your shares electronically transferred to your brokerage account.

. Financing through a Broker (also known as "Same Day Sale and Exercise")

You can contact any of AMD's designated brokers or you can do an electronic trade through E*Trade (refer to the E*Trade OptionsLink brochure). If you elect a "same day exercise and sale," you may:

. Sell all shares.

. Sell enough shares to cover the cost of the exercise and associated required taxes. You will then receive the remaining shares from your exercise.

. Sell only the number of shares you decide on and receive the balance of the shares. If the shares sold do not cover all the costs of exercising the options and associated required taxes, you must pay the balance through sending a certified check or bank wire to Treasury Services on the next business day following your exercise date. This option may not be available through E*Trade.

. Stock Swap Exercise

You can use AMD shares you have owned at least six months to pay for the exercise price of the options. To initiate a stock swap, you must complete and submit a Share Withholding/Delivery Election form in addition to a Stock Option Exercise form to Treasury Services.

. Stock Withholding Exercise

You can exercise options and pay the required tax withholding from the shares of AMD stock that you would otherwise receive through exercising your options. You receive the balance of the AMD shares obtained through the purchased options. To withhold shares to pay your taxes, you must send a completed Share Withholding/Delivery Election form and a Stock Option Exercise form to Treasury Services. You may not pay the exercise price of your options by having Treasury Services withhold some of the shares that would otherwise be issued to you.

. When To Exercise

It is entirely your decision when to exercise vested options, keeping in mind the expiration date for your options. (See the sections Exercising Stock Options and When You Leave AMD.)

The timing of an exercise and/or sale can have a large impact on any value you ultimately obtain from the option. In deciding when to exercise you may wish to consult with your financial advisor, stockbroker, or reputable publications in which stock market analysts voice their opinions about future potential stock values. It is also prudent to consult with a tax advisor to determine the impact of exercising stock options on your tax obligations.

. Taxes

Your stock options are what the IRS calls "nonqualified" options. The table on the next page summarizes the current U.S. federal tax consequences associated with these options. Depending on your state of residence, you may also owe state and local taxes when you exercise your options or sell the shares obtained by exercising your options.

| On the date... | You Owe Federal Taxes on... |
|---|---|
| ----- | ----- |
| Your stock option grant is approved. | No taxes are due. |
| ----- | ----- |
| You exercise your options and sell the shares of AMD stock at a later date. | The difference (gain) between the market value of the shares of AMD common stock on the exercise date, and the exercise price of the options upon purchasing the options. The gain is taxable as ordinary income and subject to mandatory withholding for federal income, FICA, Medicare and applicable state and local taxes. |
| | When you sell the shares of stock, you owe tax on the difference between the market value of the shares on the sale date and the market value of the shares on the option exercise date. Gains are taxed at the short-term or long-term capital gains rate based on how long you have held the shares. The holding period starts on the option exercise date. |
| | Months Held Capital Gains Rate |
| | 12 or less short-term |
| | more than 12 long-term |
| ----- | ----- |
| You exercise your options and sell the shares on the same day. | The difference between the market value of the shares and the exercise price of the options. The gain is taxable as ordinary income and subject to mandatory withholding for federal income, FICA, Medicare and applicable state and local taxes. |

If You Die or Become Totally Disabled

If you have at least 15 years of AMD service and your AMD employment is terminated because of your death or total disability, here's what happens on your termination date:

- . If you are on an unpaid leave of absence, any options that would have become vested in the calendar year in which your leave began are immediately vested.
- . If you are not on an unpaid leave of absence, you become immediately vested in any options that would have become vested in that calendar year.

This accelerated vesting of options does not occur if your AMD employment is terminated because of your death or disability and you have less than 15 years of service. See the section When You Leave AMD for information on length of time

to exercise after termination.

If You Take a Leave of Absence

You may not exercise any options during an unpaid leave of absence. Also, if your unpaid leave of absence exceeds 30 consecutive days, the vesting dates for your unvested options are automatically extended by the number of days by which your unpaid leave exceeds 30 days. "Unpaid" means that AMD is not paying you a salary. Unpaid leaves include personal leaves as well as disability, medical, pregnancy and workers compensation leaves during which you are receiving disability or workers' compensation benefits through AMD's benefit plans or insurance. For more details, check with Treasury Services.

When You Leave AMD

You forfeit all unvested options when you leave AMD. If you are not a Vice President or Officer of AMD, you normally have three months from your termination date in which to exercise vested options that have not expired. For example, if March 14 is your final day as an AMD employee, your last day to purchase vested options is June 14 if it is a regular business day at AMD. If June 14 is not a regular business day, the final day to buy your options is the last regular AMD business day before June 14.

However, you (or your beneficiary) have a longer period to exercise options under the circumstances shown in the table below.

Months to Exercise Vested Options After Termination

If you Are Not a VP or Officer

| Age at Termination | Years of Service | Months to Exercise | |
|--------------------|---------------------|---|----------------------|
| | | Termination is Due to Death or Disability | Other Terminations + |
| less than 50 | Any | 12 | 3 |
| 50 or more | less than 15 | 12 | 3 |
| 50 or more | 15 but less than 20 | 24* | 15* |
| 50 or more | 20 or more | 36* | 27* |

If You Have Been a VP or Officer For at Least 90 Days

| Age at Termination | Years of Service | Months to Exercise + |
|--------------------|---------------------|----------------------|
| less than 50 | Any | 12 |
| 50 or more | less than 15 | 12 |
| 50 or more | 15 but less than 20 | 24* |
| 50 or more | 20 or more | 36* |

* If you leave AMD to work for a competitor, this extension does not apply and you have 3 or 12 months to exercise your options.

+ If you are terminated because of misconduct, AMD reserves the right to cancel all your options, whether vested or unvested.

In no event will an exercise period extend beyond the expiration date of the options.

If you are uncertain about the final day to purchase options, be sure to contact Treasury Services at least several weeks before the date on which you think your

right to exercise your options ends.

Forfeiting Stock Options

Your stock options are forfeited under the earliest of these circumstances:

- . You do not exercise the options before their expiration date,
- . You are not vested to them when you leave AMD, or
- . You or your beneficiary (if you die) do not exercise your options within the applicable period for exercising them after you leave AMD.

If you are terminated because of misconduct, AMD reserves the right to cancel all your options, whether vested or unvested.

No Reinstatement of Forfeited Stock Options If Rehired By AMD

If you have a break in service with AMD, your nonvested options are canceled and will not be reinstated, even if you are rehired the day after your break in service.

Treasury Services Department

Treasury Services is located at AMD's Sunnyvale, California office. The staff can be contacted as follows:

Phone: 010-408-749-3790

Fax: 010-408-749-3106

Treasury Services' normal hours are between 9:00 a.m. and 5:00 p.m. U.S. Pacific time during AMD's regular business day.

Transfer of Stock Options

Your stock options may be transferred only as follows:

- . By a court-issued qualified domestic relations order,
- . By your last will and testament, or
- . By the laws of descent and distribution if you left no valid will.

Stock options transferred by a qualified domestic relations order expire twelve months after the date of transfer.

Any other transfer or assignment of your stock options will not be accepted and gives AMD the right to terminate your options as of the date of the attempted transfer or assignment.

Changes in Capitalization of AMD

The Board of Directors will adjust the number of shares or the class of stock subject to your options if the outstanding number of AMD common stock changes as a result of changes in the capitalization of the company. These changes in capitalization include stock dividends, mergers, consolidations, re-capitalization, or split-up, combinations or exchange of shares.

For More Information

This brochure summarizes some of the important features of the current AMD stock option program. For more details, consult the official plan documents, your individual stock option documents, and the stock option plan prospectus, all of which can be obtained from Treasury Services, One AMD Place, Sunnyvale,

California. The mailing address is Treasury Services, P.O. Box 3453, MS 106,
Sunnyvale, CA 94088, U.S.A.

In the case of any conflict between this brochure and the official plan documents, the official plan documents will govern. AMD reserves the right to amend or terminate the program in whole or in part, at any time and for any reason, with or without notice to participants.

Participation in the AMD stock option program does not confer on any participant any rights whatsoever with respect to continued employment with the company.

AMD[LOGO]
Benefits Department
One AMD Place
P.O. Box 3453, Mailstop 181
Sunnyvale, CA 94088

Rev. 4/01

January 31, 2002

Mr. Hector Ruiz
8218 Chalk Knoll Drive
Austin, TX 78735

Re: Employment Agreement

Dear Hector:

On behalf of the Board of Directors of Advanced Micro Devices, Inc. (including as successor thereto, "AMD"), I am pleased to offer you the position of President and Chief Executive Officer of AMD on the terms set forth below.

1. Position.

(a) You will be employed by AMD as its President and Chief Executive Officer commencing on April 26, 2002 (the "Commencement Date"). You will have overall responsibility for the management of AMD and will report directly to its Board of Directors ("Board"). During the Employment Period (as defined below), you will also be nominated to and, if elected by the stockholders of AMD, shall serve on the Board and such committees that you may be appointed to by the Board. You shall succeed to the position of Chairman of the Board when the person serving in such capacity on the Effective Date shall cease to hold that position.

(b) You will be expected to devote your full business time and attention to the affairs of AMD, and you will not render services to any other business without the prior approval of the Board of Directors or, directly or indirectly, engage or participate in any business that is competitive in any manner with the business of AMD, except for (i) his current board membership with Eastman Kodak Company and (ii) managing personal investments, so long as such activities do not significantly interfere with the performance of your responsibilities as an employee of AMD in accordance with this Agreement. You will be expected to comply with and be bound by AMD's operating policies, procedures and practices that are from time to time in effect during the term of your employment.

2. Term. This Agreement shall be in effect upon the signing by both

parties (the "Effective Date"), and shall expire five (5) years after the Commencement Date (the "Employment Period"), unless sooner terminated pursuant to Section 8 or extended pursuant to this Section 2. Commencing on the fourth (4th) anniversary of the Effective Date and on each anniversary thereafter, the Employment Period shall be automatically extended for one (1) -year terms unless either AMD or you shall give the other party not less than ninety (90) days' prior written notice of the intention to terminate this Agreement (a "Notice of Non-Renewal").

3. Annual Base Salary. During the Employment Period, you shall receive

an annual base salary (the "Annual Base Salary") of at least \$950,000, payable in accordance with AMD's normal payroll practices. Your Annual Base Salary will be reviewed on an annual basis by the Compensation Committee of the Board of Directors and may be increased from time to time, in the discretion of the Compensation Committee. Any increase in Annual Base Salary shall not

Mr. Hector Ruiz
January 31, 2002

serve to limit or reduce any other obligation to you under this Agreement. Annual Base Salary shall not be reduced at any time (including after any such increase), other than as part of an across-the-board salary reduction applicable to other senior officers of AMD. The term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as adjusted from time to time.

4. Bonus.

(a) You will receive an annual bonus ("Annual Bonus") under AMD's 1996 Executive Incentive Plan or any other successor plan in an amount equal to four-tenths of one percent (0.4%) of Adjusted Operating Profits of AMD in excess of twenty percent (20%) of the Adjusted Operating Profits of AMD for AMD's immediately preceding fiscal year. The Annual Bonus shall be paid immediately upon release by AMD of its operational results for the last quarter of each fiscal year unless you and AMD shall have previously agreed to a deferred payment. The amount payable under this Section 4 shall not be subject to the further discretion of AMD's Compensation Committee and shall not be reduced except as specifically provided in Section 4(b) or as otherwise agreed to by you. For purposes of this Agreement, "Adjusted Operating Profits" of AMD shall be deemed to constitute operating income, as reported on AMD's financial statements, increased for any pre-tax operating income and decreased for any pre-tax operating loss from the Fujitsu joint venture (and any other joint ventures approved by you and the Board for these purposes) and increased by any expenses accrued for cash profit sharing and contributions to the deferred profit sharing account under AMD's Retirement Savings and Deferred Profit Sharing Plan, bonuses under AMD's 1996 Executive Incentive Plan, special bonuses to the Chairman of the Board and other participating corporate officers of AMD, and bonuses provided for in this Section 4.

(b) The maximum bonus initially payable to you under Section 4(a) above in each fiscal year shall not be greater than \$5,000,000. The amount of the bonus which exceeds the maximum bonus payable in any one fiscal year, if any (the "Excess Bonus") shall be carried over (on a "first-in, first-out" basis) and added to the Annual Bonus (if any) determined for any of the next three (3) fiscal years, whether or not any one or more of such fiscal years ends before or after the end of the Employment Period; provided the Excess Bonus, or portion thereof, does not cause the Annual Bonus payable in any fiscal year to exceed \$5,000,000 or any higher maximum bonus payable in that year.

(c) In addition to the bonus payable in each fiscal year under Section 4(a), you shall be eligible to receive an additional bonus (the "Additional Bonus") in an amount determined by AMD's Compensation Committee in its discretion. In determining the amount of such additional bonus, the Compensation Committee shall consider, among other things, your contribution to the accomplishment of AMD's long-range business goals, the success of various corporate strategies in which you participated in reaching those goals, and your unique services in connection with the maintenance or increase in stockholder value of AMD.

(d) If there shall be a combination of AMD with another company or a reorganization or capital restructuring of AMD, or any other occurrence similar to any of the foregoing, and as a result thereof the amount or value of the bonuses payable pursuant to the

Mr. Hector Ruiz
January 31, 2002
Page 3

bonus formula set forth in Section 4(a) would be, or could reasonably be expected to be, significantly affected thereby, appropriate adjustment will, at the request of either party, be negotiated to establish a substitute formula to yield an equitable and comparable result.

5. Stock Options.

(a) You shall be eligible for the grant of equity compensation awards from time to time under the equity compensation plans and arrangements maintained by AMD. Any option grants made to you pursuant to such plans and arrangements shall be subject to the provisions of this Section 5 and Section 10 hereof.

(b) On the Effective Date, you shall be granted a time-based option to purchase 400,000 shares of AMD's Common Stock in accordance with the following terms: The option shall have an exercise price equal to one hundred percent (100%) of the fair market value of AMD's Common Stock as of the date of grant. Of these options shares, 100,000 shares shall become fully exercisable on October 15, 2002; 100,000 shares shall become fully exercisable on October 15, 2003; 100,000 shares shall become fully exercisable on October 15, 2004; 50,000 shares shall become fully exercisable on October 15, 2005; and 50,000 shares shall become fully exercisable on October 15, 2006.

(c) On the Effective Date, you shall be granted a time-based option to purchase 200,000 shares of AMD's Common Stock in accordance with the following terms: The option shall have an exercise price equal to one hundred percent (100%) of the fair market value of AMD's Common Stock as of the date of grant. Of these options shares, 50,000 shares shall become fully exercisable on October 15, 2003; 50,000 shares shall become fully exercisable on October 15, 2004; 50,000 shares shall become fully exercisable on October 15, 2005; and 50,000 shares shall become fully exercisable on June 19, 2006.

(d) On the Effective Date, you shall be granted an option to purchase 600,000 shares of AMD's Common Stock ("Performance Accelerated Options"). The Performance Accelerated Options shall have an exercise price equal to one hundred percent (100%) of the fair market value of AMD's Common Stock as of the date of grant. For any Measurement Period, the vesting with respect to 25,000 Performance Accelerated Options will be accelerated to the earliest possible Measurement Date (the "Release Date") for that Measurement Period if (i) for any Target Period during that Measurement Period the Average Stock Price meets or exceeds the Stock Price Target for that Target Period and (ii) you are employed on that Release Date. The number of Performance Accelerated Options for which the vesting will be accelerated as of any Release Date will be increased by the number of Performance Accelerated Options on which the vesting has not been accelerated but which would have been accelerated on any preceding Measurement Date had the Stock Price Target been satisfied for a prior Target Period within the current calendar year or the immediately preceding calendar years. Notwithstanding the foregoing, 300,000 of the Performance Accelerated Options shall become fully exercisable on October 31, 2007, reduced by any Performance Accelerated Options the vesting of which has previously been accelerated pursuant to this subparagraph 5(d), and 300,000 of the Performance Accelerated Options shall become fully exercisable on October 31, 2008.

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(e) For purposes of this Section 5:

(i) "Average Stock Price" means the sum of the closing prices of AMD's Common Stock on the New York Stock Exchange as reported in The Wall Street Journal during the applicable Target Period,

divided by the number of days in which AMD's Common Stock traded during such period.

(ii) "Measurement Date" means the fifteenth (15th) calendar day after the end of any Target Period.

(iii) "Target Period" means the calendar month set forth in

Column (2) of Exhibit A.

(iv) "Stock Price Target" means a target stock price as set forth in Column (3) of Exhibit A.

(v) "Measurement Period" means any consecutive three (3) month period commencing on or after May 1, 2002, as set forth in Column (1) of Exhibit A.

(f) All options granted to you pursuant to Sections 5(b), 5(c) and 5(d) shall be in addition to, and not in lieu of, any grant of equity compensation awards pursuant to Section 5(a) during the Employment Period. You shall receive annual option grants no less than the annual option grants made to other executive officers of AMD commencing in 2003 and continuing throughout the Employment Period.

(g) Each option granted pursuant to Sections 5(a), 5(b), 5(c), 5(d) and 5(f) shall be transferable upon your election, to the extent consistent with applicable restrictions under AMD's registration of the underlying shares with the SEC.

(h) All of your options (including any options that are outstanding on the Effective Date) shall be subject to, and governed by, the terms and provisions in the applicable AMD stock incentive plan, except to the extent of modifications that are expressly provided for in this Agreement. Notwithstanding anything in the applicable AMD stock incentive plan to the contrary, all of your options that are granted pursuant to Section 5 of this Agreement, and all other options held by you either (x) after the Effective Date or (y) prior to the Effective Date with an exercise price on the Effective Date equal to or greater than the fair market value of AMD's Common Stock on the Effective Date shall be exercisable, to the extent vested, at least for the following periods after the Date of Termination (as defined below):

(i) in the case of a Termination for Death or Disability (as defined below), Retirement (as defined below) or Termination without Cause (as defined below) or Involuntary Termination (as defined below) on or following a Change in Control (as defined below), five (5) years;

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(ii) in the case of an Involuntary Termination or a Termination without Cause prior to a Change in Control, two (2) years.

(i) If there is any change in the Common Stock of AMD by reason of any stock dividend, stock split, spin-off, split up, merger, consolidation, recapitalization, reclassification, combination or exchange of shares, or any other similar corporate event or reorganization, however structured, then the number of shares subject to your options, the exercise price of your options and the Stock Price Targets for the Performance Accelerated Options shall be equitably and appropriately adjusted by the Compensation Committee of AMD to effectuate the intent of this Section 5. Notice of any adjustment shall be given by AMD to you.

(j) Notwithstanding any other provision of this Section 5 to the contrary, upon an Involuntary Termination, a Termination without Cause, a Termination for Death or Disability or Retirement, all or a portion of any unvested options awarded to you shall immediately vest as provided in Section 10 below.

(k) AMD shall register the shares issuable under the option on a Form S-8 registration statement and shall keep such registration statement in effect for the entire period the options remain outstanding.

6. Vacation: You will be eligible for four (4) weeks of paid vacation

annually.

7. Other Employee Benefits.

(a) During the period of any service hereunder, you shall also be entitled to receive all other benefits and perquisites which are, and which may be in the future, generally available to members of AMD's senior management, including without limitation, the group health, disability, and life insurance benefits and participation in any AMD profit sharing, retirement or pension plan, and any other benefits generally available to executive officers of AMD. You shall be permitted use of a leased airplane consistent with AMD policy for business purposes and an allowance for use of automobiles as provided from time to time by action of the Board of Directors.

(b) AMD will provide up to \$17,500 per year for commuting expenses for your spouse from Austin, Texas to Sunnyvale, California.

(c) AMD shall reimburse you up to \$25,000 each year for out-of-pocket expenses incurred by you for estate planning, financial planning, tax planning and tax return preparation. If such expenses are less than \$25,000 in any year, the unused amounts shall cumulate and be available to you in any year thereafter, through the end of the year in which the Employment Period ends.

(d) If and to the extent that you are required to pay state income taxes to the State of California, in connection with income attributable to payments or benefits under this Agreement and the exercise of any option granted by AMD, no later than March 31st of each year during the Employment Period, AMD shall pay to you an amount necessary to reimburse

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you for such state income taxes. In addition, AMD shall pay you an amount necessary to reimburse you for any federal and state income taxes payable with respect to such reimbursement pursuant to this Section 7(d), such that you will be in the same after-tax position as if no such state taxes had been imposed. In no event will the total payments under this Section 7(d) for any year exceed \$400,000 (\$800,000 in the event payments are made or benefits are provided pursuant to Sections 10(a) or 10(e)). If such total payments are less than \$400,000 (\$800,000 in the event payments are made or benefits are provided pursuant to Sections 10(a) or 10(e)) in any year, such excess shall be carried over (on a "first-in, first-out" basis) and added to the tax reimbursements (if any) determined for any of the next three (3) years, whether or not any one or more of such years ends before or after the end of the Employment Period; provided such payments, or portion thereof, do not cause the tax reimbursement payable in any year to exceed \$400,000 (\$800,000 in the event payments are made or benefits are provided pursuant to Sections 10(a) or 10(e)) in that year; and further provided that such carried over amounts shall be made available only in connection with income attributable to payments or benefits under this Agreement and the exercise of any option granted by AMD. The benefit provided pursuant to this Section 7(d) is herein referred to as the "California Tax Payment."

8. Employment and Termination. Your employment with AMD will be at-will

and may be terminated by you or by AMD at any time for any reason as follows:

(a) You may terminate your employment at any time for Good Reason (as defined below) and AMD may terminate your employment by providing a timely Notice of Non-Renewal (an "Involuntary Termination");

(b) You may terminate your employment at any time in your discretion

without Good Reason ("Voluntary Termination");

(c) AMD may terminate your employment for "Cause" (as defined below) ("Termination for Cause");

(d) AMD may terminate your employment without Cause ("Termination without Cause");

(e) Your employment will terminate upon your Disability (as defined below) and will automatically terminate upon your death ("Termination for Death or Disability"); or

(f) You may terminate your employment at any time after your sixty-fifth (65th) birthday, and AMD may terminate your employment by providing a Notice of Non-Renewal which would result in the Employment Period ending after your sixty-fifth (65th) birthday ("Retirement").

(g) Notice of Termination. Any termination by AMD or by you shall be

communicated by Notice of Termination to the other party given in accordance with Section 14(f). For purposes of this Agreement, a "Notice of Termination" means (x) a Notice of Non-Renewal or (y) a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the

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provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty (30) days after the giving of such notice). The failure by you or AMD to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of yours or of AMD, respectively, hereunder or preclude you or AMD, respectively, from asserting such fact or circumstance in enforcing your or AMD's rights hereunder.

(h) Date of Termination. "Date of Termination" means (i) if your

employment is terminated by AMD other than for Disability, the date of receipt of the Notice of Termination or any later date specified therein within thirty (30) days of such notice (provided that if you receive a Notice of Non-Renewal, the Date of Termination shall be the date on which the Employment Period ends unless subparagraph (ii) below is applicable), (ii) if your employment is terminated by you, thirty (30) days after receipt of the Notice of Termination (provided that AMD may accelerate the Date of Termination to an earlier date by providing you with notice of such action, or, alternatively, AMD may place you on paid leave during such period) and (iii) if your employment is terminated by reason of death or Disability, the Date of Termination shall be the date of your death or the Disability Effective Date (as defined below), as the case may be.

9. Definitions. As used in this Agreement, the following terms have the

following meanings:

(a) "Good Reason" shall mean in the absence of your written consent:

(i) the assignment to you of any duties inconsistent with your title, position, authority, duties or responsibilities as contemplated by Section 1, or any other action which results in a diminution in such title, position, authority, duties or responsibilities, other than an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by AMD promptly after receipt of notice given by you; provided

that if AMD appoints any person as President other than yourself on or after AMD's Annual Meeting in 2002, and you remain Chief Executive Officer of AMD, such appointment shall not constitute Good Reason;

(ii) any failure by AMD to comply with any of the provisions of Sections 3, 4 or 5, or any other material breach by AMD of any of its obligations hereunder, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by AMD promptly after receipt of notice thereof given by you;

(iii) any failure by AMD to nominate you for election to the Board or, if so nominated, the failure to be elected to the Board;

(iv) your not being appointed the Chairman of the Board in accordance with Section 1(a) when the person serving in such capacity on the Effective Date shall cease to hold that position;

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(v) any termination by AMD of your employment otherwise than as expressly permitted pursuant to Section 8 of this Agreement;

(vi) the delivery of a Notice of Non-Renewal by AMD which would result in the Employment Period ending prior to your sixty-fifth (65th) birthday;

(vii) any requirement that you be based, without your consent, anywhere more than fifty (50) miles from Sunnyvale, California;

(viii) the occurrence of a Change in Control (as defined below); or

(ix) any failure by AMD to comply with and satisfy Section 14(e).

If you do not deliver to AMD a Notice of Termination within sixty (60) days (one hundred eighty (180) days on or following a Change in Control) after you have knowledge that an event constituting Good Reason has occurred, the event will no longer constitute Good Reason.

(b) "Cause" means the termination of your employment by AMD for repeated failure to perform assigned duties (other than by reason of your Disability) after being notified in writing of such failure with an opportunity to correct, or if you are determined by a court of law or pursuant to Section 13 below to have committed or participated in a willful act of embezzlement, fraud or dishonesty which resulted in material loss, material damage or material injury to AMD. For purposes of this provision, no act or failure to act, on your part, shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of AMD. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer (while you do not serve as such) or based upon the advice of counsel for AMD shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of AMD. The cessation of your employment shall not be deemed to be for Cause unless and until (i) there shall have been delivered to you a copy of a resolution duly adopted by the Board at a meeting of the Board called and held for such purpose

(after reasonable notice is provided to you and you are given an opportunity to be heard by the Board), finding that, in the good faith opinion of the Board, you are guilty of the conduct described above, and specifying the particulars thereof in detail; provided, however, that on or following a Change in Control, any such resolution must be adopted by the affirmative vote of not less than seventy-five percent (75%) of the entire membership of the Board (excluding you) and (ii) if you contest such finding, the arbitrators by final determination in an arbitration proceeding pursuant to Section 13 hereof have concluded that your conduct met the standard for termination for Cause above and that the Board's conduct met the standards of good faith and satisfied the procedural and substantive conditions of this Section 9(b). If AMD does not deliver to you a Notice of Termination within sixty (60) days after the Board has knowledge that an event constituting Cause has occurred, the event will no longer constitute Cause.

(c) "Change in Control" means a change in control of a nature which would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A

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promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act") or in response to any other form or report to the Securities and Exchange Commission or any stock exchange on which AMD's shares are listed which requires the reporting of a change of control. In addition, a Change in Control shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of securities of AMD (not including in the securities beneficially owned by any person, any securities acquired directly from AMD or any of its affiliates), representing more than 20% of the combined voting power of AMD's then outstanding securities; or (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of securities of AMD representing more than 35% of the combined voting power of AMD's then outstanding securities; or (iii) in any two-year period without your consent, individuals who were members of AMD's Board of Directors at the beginning of such period plus each new director whose election or nomination for election was approved by at least two-thirds of the directors in office immediately prior to such election or nomination, cease for any reason to constitute at least a majority of the Board; (iv) there is consummated a merger or consolidation of AMD with or into any other entity, other than a merger or consolidation which would result in the holders of the voting securities of AMD outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 50% of the combined voting power of the voting securities of either AMD or the other entity which survives such merger or consolidation; (v) the stockholders of AMD approve a plan of complete liquidation of AMD or there is consummated the sale or disposition by AMD of all or substantially all of AMD's assets, other than a sale or disposition by AMD of all or substantially all of AMD's assets to an entity at least 65% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of AMD immediately prior to such sale; or (vi) a majority of the members of the Board in office prior to the happening of any event and who are still in office after such event, determines in its sole discretion within one year after such event, that as a result of such event there has been a Change in Control.

(d) "Disability" means your absence from your duties with AMD on a full-time basis for 180 days during any consecutive twelve-month period as a result of incapacity due to mental or physical illness as determined by a physician selected by AMD and acceptable to you or by the company which administers AMD's long-term disability plan in which you are eligible to participate. If AMD determines in good faith that your Disability has occurred during the Employment Period, it may give you written notice in accordance with Section 8(g) of this Agreement of its intention to terminate your employment. In

such event, your employment shall terminate effective on the thirtieth (30th) day after your receipt of such notice (the "Disability Effective Date"), unless, within the thirty (30) days after such receipt, you shall have been cleared by the physician to return to work and have returned to full-time performance of your duties.

10. Separation Benefits.

(a) Termination Without Cause or Involuntary Termination Prior to a

Change in Control. In the event of a Termination without Cause or an Involuntary

Termination or your

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termination on account of your accidental death after you have provided a Notice of Termination for an Involuntary Termination,

(i) AMD shall pay to you in a lump sum in cash within thirty (30) days after the Date of Termination (or such later date as may be specified below for such payment):

- (A) the amount equal to the sum of (x) the product of (I) two (2) multiplied by (II) your Annual Base Salary plus (y) the sum of the highest Annual Bonus and Additional Bonus paid to you for any of the three (3) years prior to the Date of Termination (this sum of the Annual Bonus and the Additional Bonus shall be referred to as the "Recent Annual Bonus") (including as paid for this purpose any compensation earned but deferred, whether or not at your election);
- (B) the sum of (x) your Annual Base Salary through the Date of Termination to the extent not theretofore paid, plus (y) the product of (I) the Annual Bonus that you would have received had you remained Chief Executive Officer through the end of the calendar year in which occurs your Date of Termination, multiplied by (II) a fraction, the numerator of which is the number of days in the fiscal year in which the Date of Termination occurs through the Date of Termination and the denominator of which is 365, but only to the extent not previously paid; provided that any payments pursuant to this paragraph (B) shall be made within 30 days following the end of the calendar year in which occurs your Date of Termination; and
- (C) any remaining Excess Bonus provided that any payments pursuant to this subparagraph (C) shall be paid consistent with the provisions in Section 4(b) (the sum of the amounts described in subparagraphs (B) and (C)) shall be hereinafter referred to as the "Accrued Obligations";

Notwithstanding the foregoing, in the event that an Involuntary Termination occurs by reason of subparagraph (a)(vi) of Section 9 or by a Notice of Non-Renewal pursuant to Section 8(a) on or after the date that you have been appointed to the position of Chairman of the Board, AMD shall be required to pay to you instead of the amount specified in subparagraph (A) above only an amount equal to two (2) times your Annual Base Salary.

(ii) AMD shall pay you the accrued Retirement Benefit (as defined below);

(iii) For 24 months following the Date of Termination, AMD shall continue to provide medical and dental benefits to you, your spouse and your eligible dependents on the same basis as such benefits are provided during such period to the senior executive officers of AMD; provided that such benefits shall be secondary to any other coverage obtained by you and further provided that the aggregate amount of benefit payments for each of you and your spouse shall not exceed \$1,000,000 in lifetime benefits or such larger limit available under AMD's medical plans (the "Medical Benefits"); provided, however, that if AMD's welfare plans do not permit such coverage, AMD will provide you the Medical Benefits (with the same after tax effect) outside of such plans;

(iv) All of the AMD stock options granted pursuant to this Agreement and all other AMD stock options granted to you either (x) after the Effective Date or (y) prior to the Effective Date with an exercise price on the Effective Date equal to or greater than the fair market value of AMD's Common Stock on the Effective Date shall vest and be fully exercisable. All restrictions on any AMD awards granted to you after the Effective Date shall immediately lapse and such awards shall become nonforfeitable;

(v) To the extent not theretofore paid or provided, AMD shall timely pay or provide to you any other amounts or benefits required to be paid or provided or which you are eligible to receive under any plan, program, policy or practice or contract or agreement of AMD and its affiliates, including accrued vacation to the extent unpaid through the Date of Termination, through the Date of Termination, (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits");

(vi) AMD shall reimburse you (or your surviving spouse) for all reasonable expenses of relocation for you and your family from the Sunnyvale, California area to Austin, Texas within twelve (12) months of the Termination Date, in accordance with the most favorable terms of AMD's relocation policy (whether or not your residence in the Sunnyvale, California area is considered your primary residence) (the "Relocation Benefit");

(vii) The California Tax Payment for the calendar year in which your Date of Termination occurs pursuant to Section 7(d); and

(viii) For a period of ten (10) years following the Date of Termination, you shall continue to be indemnified under AMD's Certificate of Incorporation and Bylaws at least to the same extent as prior to the Date of

Termination and you shall continue to be covered by the directors' and officers' liability insurance, the fiduciary liability insurance and the professional liability insurance policies that are the same as, or shall be provided coverage at least equivalent to, those carried prior to the Date of

Termination (the "Indemnification Benefit").

(b) Termination for Death or Disability. In the event of a

Termination for death (other than your accidental death after you have provided a Notice of Termination for an Involuntary Termination) or Disability prior to your having provided a Notice of Termination, this Agreement shall terminate without further obligations to you other than to pay and provide you (or your estate or surviving spouse, as the case may be) with (i) the Accrued Obligations, (ii) the accrued Retirement Benefit, (iii) the Medical Benefits for your life and the life of your spouse, (iv) the Other Benefits, (v) the Relocation Benefit, (vi) the California Tax Payment pursuant to Section 7(d) and (vii) the Indemnification Benefit. In addition, all of your AMD options that would have become vested within twenty four (24) months of your Date of Termination and that are (A) granted pursuant to this Agreement or (B) that were granted to you either (x) after the Effective Date or (y) prior to the Effective Date with an exercise price on the Effective Date equal to or greater than the fair market value of AMD's Common Stock on the Effective Date shall vest and be fully exercisable. All restrictions on any AMD awards granted to you after the Effective Date shall immediately lapse and such awards shall become nonforfeitable.

(c) Voluntary Termination. In the event of a Voluntary Termination,

this Agreement shall terminate without further obligations to you other than to pay and provide you with (i) your Annual Base Salary to the extent unpaid, (ii) any Excess Bonus, (iii) the accrued Retirement Benefit, (iv) the Other Benefits and (v) the Indemnification Benefit.

(d) Termination for Cause. In the event of a Termination for Cause,

this Agreement shall terminate without further obligations to you other than the obligation to pay and provide you with (i) your Annual Base Salary to the extent unpaid and (ii) the Other Benefits.

(e) Termination without Cause or Involuntary Termination on or

following a Change in Control. In the event of a Termination without Cause or an

Involuntary Termination (or your termination on account of your accidental death after you have provided a Notice of Termination for an Involuntary Termination), (i) within twelve (12) months after a Change in Control or (ii) prior to a Change in Control and you reasonably demonstrate that such termination (or event that constitutes Good Reason) was at the request of a third party who had indicated an intention or taken steps reasonably calculated to effect a Change in Control,

(i) AMD shall pay to you in a lump sum within thirty (30) days after the Date of Termination:

- (A) the amount equal to (x) the product of three (3) multiplied by your Annual Base Salary plus (y) the Recent Annual Bonus;
- (B) the Accrued Obligations;

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(ii) AMD will pay and provide you with (A) the accrued Retirement Benefit, (B) the Medical Benefits for your life and the life of your spouse, (C) the Other Benefits, (D) the Relocation Benefit, (E) the California Tax Payment pursuant to Section 7(d); and

(iii) All of your AMD stock options shall vest and be fully exercisable and the restrictions on all of your other AMD awards shall immediately lapse and such awards shall become nonforfeitable.

(f) Retirement. In the event of your Retirement:

(i) you shall be entitled to an annual retirement benefit payable monthly (the "Retirement Benefit") equal to (A) a service-related percentage (the "Accrual Percentage") of the average of one-twelfth (1/12) of your Annual Base Salary for the three (3) years in which such amount was highest within the last ten (10) years of the Employment Period less (B) the monthly annuity equivalent of any benefit payable to you pursuant to (x) AMD's tax-qualified defined benefit retirement plan and (y) any nonqualified defined benefit retirement plan maintained by AMD in which you participate (it is understood that there shall be no reduction relating to amounts payable to you pursuant to the Supplemental Agreement referred to in Section 14(g)). In calculating the Retirement Benefit, your Accrual Percentage shall be four percent (4%) for each of your first ten full years of service with AMD. Notwithstanding the foregoing, (i) Annual Base Salary shall not exceed \$1,000,000, increased by a compound annual rate of three percent (3%) from January 1, 2002 and (ii) in the event payments are made or benefits are provided pursuant to Section 10(e), you shall be credited with additional service through April 26, 2007 but in no event will you be credited with less than two (2) years of service credit.

The normal form of payment for the Retirement Benefit shall be a life annuity, guaranteed for ten (10) years commencing the first month after your sixty-fifth (65th) birthday. In lieu of the normal form of payment, you may elect that, upon your death (whether prior to or after commencement of the Retirement Benefit), your surviving spouse shall be paid an annual benefit of up to one hundred percent (100%) of the Retirement Benefit for her life. If you make this election, the amount of the benefit payable to you shall be actuarially reduced in the same manner as any payments to you from AMD's tax-qualified defined benefit retirement plan or, if no such tax-qualified plan is maintained by AMD, such benefit shall be reduced consistent with the group annuity mortality table and interest assumptions specified in the General Agreement on Tariffs and Trade (GATT Agreement) as of the date which is two (2) months prior to the date of election of the alternate form of annuity.

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In addition, the Retirement Benefit shall be payable in such other forms and at such other times as may be provided under AMD's tax-qualified defined benefit retirement plan.

The Retirement Benefit shall be an unfunded and unsecured obligation of AMD and shall be paid out of the general assets of AMD.

(ii) AMD will pay and provide you with (A) the Accrued Obligations, (B) the Medical Benefits for your life and the life of your surviving spouse, (C) the Other Benefits, (D) the Relocation Benefit, (E) the California Tax Payment pursuant to Section 7(d) to the extent not otherwise received by you in the

year in which the Employment Period ends and (F) the Indemnification Benefit; and

(iii) all of your AMD options that are (A) granted pursuant to this Agreement or (B) that were granted to you either (x) after the Effective Date or (y) prior to the Effective Date with an exercise price equal to or greater than the fair market value of AMD's Common Stock on the Effective Date shall vest.

(g) Condition. AMD shall not be required to make the payments and

provide the benefits specified in this Section 10 unless you execute and deliver to AMD a termination and general release agreement (substantially in the form attached hereto as Exhibit B).

(h) Non-exclusivity of Rights. Nothing in this Agreement shall

prevent or limit your continuing or future participation in any plan, program, policy or practice provided by AMD or any of its affiliated companies and for which you may qualify, nor, subject to Section 14(g), shall anything herein limit or otherwise affect such rights as you may have under any contract or agreement with AMD or any of its affiliated companies. Amounts which are vested benefits or which you are otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with AMD or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement; provided that you shall not be eligible for cash severance benefits under any other program or policy of AMD.

(i) Full Settlement. AMD's obligation to make the payments provided

for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which AMD may have against you or others. In no event shall you be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to you under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not you obtain other employment.

(j) Excise Taxes. If all or any portion of the amounts payable to you

on your behalf under this Agreement or otherwise are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code," or similar state tax and/or

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assessment), AMD shall pay to you an amount necessary to place you in the same after-tax position as you would have been in had no such excise tax been imposed. The amount payable pursuant to the preceding sentence shall be increased to the extent necessary to pay income and excise taxes due on such amount. The determination of the amount of any such tax indemnity shall be made by the independent accounting firm employed by AMD immediately prior to the Change in Control.

11. Indemnification Agreement. In the event you are made, or threatened to

be made, a party to any legal action or proceeding, whether civil or criminal or administrative, by reason of the fact that you are or were a director or officer of AMD or serve or served any other corporation fifty percent (50%) or more owned or controlled by AMD in any capacity at AMD's request, you shall be indemnified by AMD, and AMD shall pay your related expenses when and as

incurred, all to the full extent permitted by law. Any termination of your employment or this Agreement shall have no effect on the continuing operation of this Section 11.

12. No Solicitation. During the term of your employment with AMD and for -----
one (1) year thereafter, you will not, on behalf of yourself or any third party, solicit or attempt to induce any employee of AMD to terminate his or her employment with AMD.

13. Mandatory Arbitration. Subject to the provisions of this Section 13, -----
any controversy or claim between you and AMD arising out of or relating to or concerning this Agreement or any aspect of your employment with AMD or the termination of that employment will be finally settled by arbitration in San Jose, California by Judicial Arbitration and Mediation Services ("JAMS") under the then existing JAMS rules rather than by litigation in court, trial by jury, administrative proceeding or in any other forum. AMD shall pay all of the fees, if any, and expenses (other than legal fees, except as provided in Section 14) of such arbitration, incurred in connection with the arbitration regardless of the final outcome of such arbitration. The parties will be entitled to reasonable discovery of essential matters of determination by the arbitrator. In the arbitration, the parties will be entitled to all remedies that would have been available if the matter were litigated in a court of law.

14. Miscellaneous. -----

(a) Captions and Amendments. The captions of this Agreement are not part of -----
the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Authority to Enter into Agreement. AMD represents that its Chairman of -----
the Compensation Committee has due authority to execute and deliver this Agreement on behalf of AMD.

(c) Absence of Conflicts. You represent that upon the Commencement Date -----
your performance of your duties under this Agreement will not breach any other agreement as to which you are a party.

Mr. Hector Ruiz
January 31, 2002
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(d) Costs. AMD will pay or reimburse (i) all legal fees and expenses -----
incurred by you (A) in contesting or disputing any termination of employment by AMD or in seeking to obtain or enforce any right or benefit provided by this Agreement on or after a Change in Control (you shall have no obligation to repay any such legal fees or expenses regardless of the outcome of any contest or dispute), or (B) in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder and (ii) all legal fees and expenses incurred by you in contesting or disputing any termination of employment by AMD prior to a Change in Control or in seeking to obtain or enforce any right or benefit under this Agreement prior to a Change in Control, in each case provided you substantially prevail on your claims.

(e) Successors. This Agreement is binding on and may be enforced by AMD -----
and its successors and assigns and is binding on and may be enforced by you and

your heirs and legal representatives. Any successor to AMD or substantially all of its business (whether by purchase, merger, consolidation or otherwise) will in advance assume in writing and be bound by all of AMD's obligations under this Agreement. As used in this Agreement, "AMD" shall mean AMD as hereinbefore defined and any successor to its business and/or assets as aforesaid.

(f) Notices. All notices and other communications hereunder shall be in

writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to you:

at your current primary residential
address as shown on the records of AMD

If to AMD:

Advanced Micro Devices, Inc.
One AMD Place
Sunnyvale, California 94088
Telecopy Number: (408) 749-2034
Attention: Stanley Winvick

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(g) Entire Agreement. This Agreement, including the attached Exhibits,

supercedes the Amended and Restated Employment Agreement, effective as of January 13, 2000, between AMD and you, a copy of which is attached hereto as Exhibit C (the "Supplemental Agreement") and represents the entire agreement between us concerning the subject matter of your employment by AMD; provided that Section 5 of the Supplemental Agreement shall not be superceded or replaced by this Agreement and shall continue to be of full force and effect and governed by the terms of the Supplemental Agreement; and provided further

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that the term "Cause" used in Section 8(a) of the Supplemental Agreement shall have the meaning ascribed to such term in Section 9(b) hereof.

(h) Governing Law. This Agreement will be governed by and construed in

accordance with the laws of the State of California without reference to conflict of laws provisions.

(i) Validity and Enforceability. The invalidity or unenforceability of any

provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(j) Tax Withholding. AMD may withhold from any amounts payable under this

Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(k) Waiver. Failure by you or AMD to insist upon strict compliance with any

provision of this Agreement or the failure to assert any right you or AMD may have hereunder, including, without limitation, your right to terminate employment for Good Reason pursuant to Section 8(a) or AMD's right to terminate

you for Cause pursuant to Section 8(c), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(1) Sections. Any reference to a Section herein is a reference to a section

of this Agreement unless otherwise stated.

Mr. Hector Ruiz
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Hector, we are very pleased to extend this promotion to you and look forward to your continuing employment with AMD. Please indicate your acceptance of the terms of this Agreement by signing in the place indicated below.

Very truly yours,

/s/ Charles M. Blalack

Charles M. Blalack, Chairman,
Compensation Committee of
Advanced Micro Devices, Inc.

/s/ W. J. Sanders, III

W.J. Sanders, III
Chairman and Chief Executive Officer
Advanced Micro Devices, Inc.

Accepted:

/s/ Hector Ruiz

Hector Ruiz

January 31, 2002

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 from expectations. The forward-looking statements relate to, among other things: operating results; anticipated cash flows; capital expenditures; gross margins; adequacy of resources to fund operations and capital investments; our ability to produce AMD Athlon(TM) and AMD Duron(TM) microprocessors with the performance and in the volume required by customers on a timely basis; our ability to maintain average selling prices of seventh-generation microprocessors despite aggressive marketing and pricing strategies of our competitors; the ability of third parties to provide timely infrastructure solutions (motherboards and chipsets) to support our microprocessors; our ability to increase customer and market acceptance of our seventh- and eighth-generation microprocessors; a recovery in the communication and networking industries leading to an increase in the demand for Flash memory products; the effect of foreign currency hedging transactions; the process technology transition in our submicron integrated circuit manufacturing and design facility in Dresden, Germany (Dresden Fab 30); and the financing, construction and utilization of 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 30, 2001 and December 31, 2000 and for each of the three years in the period ended December 30, 2001, which are included in this annual report.

AMD, the AMD Arrow logo, and combinations thereof, Advanced Micro Devices, AMD-K6, AMD Athlon, AMD Duron and MirrorBit are either trademarks or registered trademarks of Advanced Micro Devices, Inc. Vantis is a trademark of Vantis Corporation. Legerity is a trademark of Legerity, Inc. Microsoft and Windows are either registered trademarks or trademarks of Microsoft Corporation. Other terms used to identify companies and products may be trademarks of their respective owners.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our investments, allowance for doubtful accounts, revenues, inventories, asset impairments, income taxes, commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of

which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies relate to those policies that are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Investments in Debt and Equity Securities. We hold minority interests in companies having operations or possessing technology primarily in areas within our strategic focus, some of which are publicly traded and have highly volatile stock prices. We also make investments in marketable equity and debt securities. We record an investment impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary. In determining if a decline in market value below cost for a publicly traded security or debt instrument is other-than-temporary, we evaluate the relevant market conditions, offering prices, trends of earnings, price multiples and other key measures providing an indication of the instrument's fair value. For private equity investments, we evaluate the financial condition of the investee, market conditions, trends of earnings and other key factors that provide indicators of the fair market value of the investment. When a decline in value is deemed to be other-than-temporary, we recognize an impairment loss in the current period to the extent of the decline below the carrying value of the investment. Adverse changes in market conditions or poor operating results of underlying investments could result in additional other-than-temporary losses in future periods.

Allowance for Doubtful Accounts. We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsened, additional allowances may be required in the future.

Revenue Reserves. We record a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

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

Inventory Valuation. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. Inventories on hand, in excess of forecasted demand, generally six months or less, are not valued. In addition, we write off inventories that are considered obsolete. Remaining inventory balances are adjusted to approximate the lower of our standard manufacturing cost or market value. If future demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets. We routinely consider whether indicators of impairment of long-lived assets are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we

recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, we recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. We may incur impairment losses in future periods if factors influencing our estimates change.

Deferred Income Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance covers the tax benefit from the exercise of employee stock options. When these tax benefits are realized the valuation allowance will be reversed and credited to capital in excess of par value.

Commitments and Contingencies. From time to time, we are a defendant or plaintiff in various legal actions, which arise in the normal course of business. We are also a party to environmental matters, including local, regional, state and federal governed clean-up activities at or near locations where we currently or have in the past conducted our business. We are also a guarantor of various third-party obligations and commitments. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these contingencies, if any, which would be charged to earnings, is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. Changes in required reserves could increase or decrease our earnings in the period the changes are made.

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

RESULTS OF OPERATIONS

In 2001, we participated in all three technology areas within the digital integrated circuit (IC) market--microprocessors, memory circuits and logic circuits--through our Core Products and Foundry Services segments. In 2000 and 1999, in addition to our Core Products and Foundry Services segments, we also participated in the digital IC market through our Voice Communications and Vantis segments. Our Core Products segment includes our PC processor products, Memory products and Other IC products. PC processor products include our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors, and our sixth-generation microprocessors. Memory products include Flash memory devices and Erasable Programmable Read-Only Memory (EPROM) devices. Other IC products include embedded processors, networking products and platform products, which primarily consist of chipsets. Our Foundry Services segment consists of service fees from Legerity, Inc. and Vantis Corporation. Our Voice Communications segment consisted of our voice communications products subsidiary, Legerity, Inc. (Legerity), until July 31, 2000, the effective date of its sale. Our Vantis segment consisted of our programmable logic devices subsidiary, Vantis Corporation (Vantis), until June 15, 1999, the date of its sale.

We sold 90 percent of Legerity for approximately \$375 million in cash, effective July 31, 2000. We sold Vantis to Lattice Semiconductor Corporation (Lattice) for

approximately \$500 million in cash, effective June 15, 1999.

The following is a summary of net sales by segment for 2001, 2000 and 1999:

| (Millions) | 2001 | 2000 | 1999 |
|------------------------------|----------|----------|----------|
| Core Products segment: | | | |
| PC Processors | \$ 2,419 | \$ 2,337 | \$ 1,387 |
| Memory Products | 1,133 | 1,567 | 773 |
| Other IC Products | 242 | 457 | 400 |
| | 3,794 | 4,361 | 2,560 |
| Foundry Services segment | 98 | 143 | 43 |
| Voice Communications segment | - | 140 | 168 |
| Vantis segment | - | - | 87 |
| Total | \$ 3,892 | \$ 4,644 | \$ 2,858 |

Net Sales Comparison for Years Ended December 30, 2001 and December 31, 2000

Total net sales of \$3,892 million decreased by 16 percent in 2001 compared to 2000.

PC processors net sales of \$2,419 million increased by four percent in 2001 compared to 2000. This increase was primarily due to an increase in unit sales of our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors, partially offset by a decline in average selling prices. We expect PC processor unit shipments and average selling prices in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001. Maintaining PC processor sales levels in 2002 depends on a continuing successful technology transition in Dresden Fab 30, our ability to maintain average selling prices for our seventh-generation microprocessors, continuing growth in

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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unit shipments of our PC processors, and increasing market acceptance of the newest versions of the AMD Athlon and AMD Duron microprocessors.

Memory products net sales of \$1,133 million decreased by 28 percent in 2001 compared to 2000. The decrease was primarily due to continuing weakness in the communications and networking equipment industries and excess inventories held by major customers. Although we expect shipments to remain flat, we expect a decline in revenues from memory products in the first quarter of 2002, as compared to the fourth quarter of 2001, primarily due to continuing pricing pressures.

Other IC products net sales of \$242 million decreased by 47 percent in 2001 compared to 2000. The decrease was due to decreased net sales of platform products, embedded processors and networking products as a result of the sustained market declines in the communications and networking equipment industries. We expect Other IC revenues in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001.

The Foundry Services segment service fees of \$98 million decreased by 31 percent in 2001 compared to 2000. The decrease was primarily due to a significant reduction in demand for wafer fabrication services from Vantis, partially offset by an increase in overall service fees from Legerity. We expect that service

fees will continue to decline in the first quarter of 2002 due to our plan to discontinue these services in 2002. Other than the restructuring and other special charges recorded in the third quarter of 2001, we do not expect to have any termination liabilities associated with our plan to discontinue these services.

There were no sales from the Voice Communications segment in our 2001 net sales. Voice Communications products contributed \$140 million to our 2000 net sales, prior to our sale of Legerity, effective July 31, 2000.

There were no sales from the Vantis segment in our 2001 and 2000 net sales.

Net Sales Comparison for Years Ended December 31, 2000 and December 26, 1999

Total net sales increased by \$1,786 million in 2000, or 62 percent, to \$4,644 million from \$2,858 million in 1999.

PC processors net sales of \$2,337 million increased by 68 percent in 2000 compared to 1999. This increase was primarily due to a strong increase in net sales of our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors. The AMD Duron microprocessor, a derivative of the AMD Athlon microprocessor designed to provide a solution for value conscious PC buyers, became available in June 2000. The strong increase in unit sales of our seventh-generation microprocessors more than offset the decline in average selling prices. The increase was partially offset by a decrease in net sales of AMD-K6(TM) family microprocessors as a result of the market shift toward our seventh-generation microprocessors.

Memory products net sales of \$1,567 million increased by 103 percent in 2000 compared to 1999 primarily due to growth in sales volume, higher average selling prices and a rich product mix of Flash memory devices, which was slightly offset by a decline in net sales of EPROMs.

Other IC products net sales of \$457 million increased by 14 percent in 2000 compared to 1999. The increase was primarily due to increased net sales from our platform and networking products.

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

The Foundry Services segment included service fees of \$143 million from Lattice and Legerity in 2000 compared to \$43 million from Lattice in 1999. The increase was primarily due to the addition of service fees from Legerity and secondarily to an increase in service fees from Lattice during 2000.

Voice Communications products net sales of \$140 million decreased by 17 percent in 2000 compared to 1999 as a result of the sale of our Legerity subsidiary, effective July 31, 2000.

There were no sales from the Vantis segment in our 2000 net sales. Vantis segment contributed \$87 million to our 1999 net sales, prior to our sale of Vantis, effective June 15, 1999.

Comparison of Expenses, Gross Margin Percentage and Interest and Other Income, Net

The following is a summary of expenses, gross margin percentage, and interest and other income, net for 2001, 2000 and 1999:

| (Millions except for gross margin percentage) | 2001 | 2000 | 1999 |
|---|---------|---------|---------|
| Cost of sales | \$2,590 | \$2,515 | \$1,964 |
| Gross margin percentage | 33% | 46% | 31% |

| | | | |
|---|--------|--------|--------|
| Research and development | \$ 651 | \$ 642 | \$ 636 |
| Marketing, general and administrative | 620 | 599 | 540 |
| Restructuring and other special charges | 89 | - | 38 |
| Gain on sale of Vantis | - | - | 432 |
| Gain on sale of Legerity | - | 337 | - |
| Interest and other income, net | 26 | 86 | 32 |
| Interest expense | 61 | 60 | 69 |

We operate in an industry characterized by intense competition and high fixed costs due to capital-intensive manufacturing processes, particularly the costs to build and maintain state-of-the-art production facilities required for PC processors and memory devices. As a result, our gross margin percentage is significantly affected by fluctuations in unit sales and average selling prices.

Gross margin percentage decreased to 33 percent in 2001 compared to 46 percent in 2000. The decrease in gross margin in 2001 was primarily due to lower unit sales and average selling prices from Flash memory devices, networking products and embedded processors and lower average selling prices of PC processors. We expect gross margins in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001. Maintenance of gross margin percentage depends on continually increasing unit sales of microprocessors and memory products because of pricing pressures and because fixed costs continue to rise with ongoing capital investments required to expand production capability and capacity.

Gross margin percentage increased to 46 percent in 2000 compared to 31 percent in 1999. The increase in gross margin in 2000 was primarily due to higher net sales from PC processors and Flash memory devices, partially offset by a reduction in gross margin as a result of the sale of Legerity, effective July 31, 2000, and an increase in fixed costs.

Research and development expenses of \$651 million in 2001 increased slightly compared to 2000. This slight increase was due to increased costs related to research and development activities for PC processors.

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

Research and development expenses of \$642 million in 2000 increased slightly compared to 1999. This slight increase was due to increased costs related to research and development activities for PC processors, offset by a substantial portion of Dresden Fab 30 expenses shifting to cost of sales as production commenced in the second quarter of 2000 and research and development subsidies received from the German government.

Marketing, general and administrative expenses of \$620 million in 2001 increased four percent compared to 2000 primarily as a result of increased advertising and marketing expenses associated with our core products and the AMD Athlon XP processor launch, offset by the absence of Legerity expenses during 2001.

Marketing, general and administrative expenses of \$599 million in 2000 increased 11 percent compared to 1999 primarily as a result of marketing and promotional activities for the AMD Athlon microprocessor, our launch of the AMD Duron microprocessor and higher expenses associated with higher labor costs, including profit sharing. These increases were partially offset by the absence of Legerity expenses during the second half of 2000.

On September 25, 2001, due to the continued slowdown in the semiconductor industry and a resulting decline in revenues, we announced a restructuring plan to accelerate key components of our strategy to reduce costs and enhance the financial performance of our core products. In connection with the plan, we will close Fabs 14 and 15 in Austin, Texas by the end of June 2002. These facilities support certain of our older products and Foundry Service operations, which will

be discontinued as part of our plan. We will also reorganize other manufacturing facilities and reduce activities primarily in Penang, Malaysia, along with associated administrative support.

The restructuring plan will result in the reduction of approximately 2,300 direct manufacturing and related administrative support positions, or approximately 15 percent of our worldwide workforce, by the end of the second quarter of 2002. Approximately 1,000 of these positions are associated with closing Fabs 14 and 15 in Austin. The balance of the reductions will result from reorganizing activities primarily in Penang, Malaysia.

Pursuant to the September 25, 2001 plan, we recorded restructuring costs and other special charges of \$89.3 million, consisting of \$34.1 million of anticipated severance and employee benefit costs, \$16.2 million of anticipated exit costs to close facilities in Austin and Penang and \$39.0 million of non-cash asset impairment charges. The asset impairment charges relate primarily to buildings and production equipment and have been incurred as a result of our decision to implement the plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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The following table summarizes activity under the plan through December 30, 2001:

| (Thousands) | Severance and employee benefits | Facility and equipment impairment | Facility and equipment decommission costs | Other facilities exit costs | Total |
|-------------------------------|---------------------------------------|--|--|-----------------------------------|-----------|
| 2001 provision | \$ 34,105 | \$ 39,000 | \$ 15,500 | \$ 700 | \$ 89,305 |
| Cash charges | (7,483) | - | - | (54) | (7,537) |
| Non-cash charges | - | (39,000) | - | - | (39,000) |
| Accruals at December 30, 2001 | \$ 26,622 | \$ - | \$ 15,500 | \$ 646 | \$ 42,768 |

We expect to substantially complete execution of our restructuring plan by the end of the second quarter of 2002. As a result of this restructuring plan, we expect to realize overall cost reductions of \$125 million on an annualized basis. As of December 30, 2001, 786 employees had been terminated resulting in cash payments of approximately \$7.5 million in severance and employee benefit costs.

During 1999, we initiated a review of our cost structure. Based upon this review, we recorded restructuring and other special charges of \$38 million in 1999 to better align our cost structure with expected revenue growth rates.

The restructuring and other special charges for the year ended December 26, 1999, and related activity during 1999, 2000 and 2001, are reflected in the following table:

| (Thousands) | Severance and employee benefits | Facilities | Equipment | Equipment disposal costs | Discontinued system projects | Total |
|-------------------------------|--|------------|-----------|--------------------------------|------------------------------------|-----------|
| 1999 provision | \$ 3,024 | \$ 968 | \$ 23,769 | \$ 4,380 | \$ 6,089 | \$ 38,230 |
| Cash charges | (3,024) | (56) | - | (1,937) | - | (5,017) |
| Non-cash charges | - | - | (23,769) | - | (6,089) | (29,858) |
| Accruals at December 26, 1999 | - | 912 | - | 2,443 | - | 3,355 |
| Cash charges | - | (429) | - | (2,443) | - | (2,872) |

| | | | | | | |
|-------------------------------|------|-------|------|------|------|-------|
| Accruals at December 31, 2000 | - | 483 | - | - | - | 483 |
| Cash charges | - | (443) | - | - | - | (443) |
| Accruals at December 30, 2001 | \$ - | \$ 40 | \$ - | \$ - | \$ - | \$ 40 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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We anticipate that the remaining accrual related to sales office facilities will be utilized over the period through lease terminations in the second quarter of 2002.

We sold 90 percent of Legerity to Francisco Partners, L.P. for approximately \$375 million in cash, effective July 31, 2000. Prior to the sale, Legerity was a wholly owned subsidiary of AMD, selling voice communications products. Our pre-tax gain on the sale of Legerity was \$337 million. The gain was computed based on the excess of the consideration received for Legerity's net assets as of July 31, 2000, less direct expenses related to the sale. The applicable tax rate on the gain was 37 percent, resulting in an after-tax gain of \$212 million.

On June 15, 1999, we sold Vantis to Lattice for approximately \$500 million in cash. Our pre-tax gain on the sale of Vantis was \$432 million. The gain was computed based on the excess of the consideration received for Vantis' net assets as of June 15, 1999, less direct expenses related to the sale. The applicable tax rate on the gain was 40 percent, resulting in an after-tax gain of \$259 million.

Interest and other income, net, decreased \$60 million or 70 percent in 2001 compared to 2000 primarily due to \$27 million in charges for other-than-temporary declines in our equity investments, a \$14 million decrease in interest income due to a decrease in short-term investments and a \$9 million decrease due to the absence of a gain on the sale of real property.

Interest expense increased slightly in 2001 compared to 2000 due to a decrease in capitalized interest expense attributable to the substantial completion of Dresden Fab 30 and increased borrowings by AMD Saxony Manufacturing GmbH (AMD Saxony) under the Dresden Loan Agreements, offset by the effect of redeeming our 6% convertible subordinated notes in May 2001.

Interest and other income, net, increased \$54 million or 168 percent in 2000 compared to 1999 primarily due to higher average cash and short- and long-term investment balances.

Interest expense decreased \$9 million or 13 percent in 2000 compared to 1999 primarily due to lower average debt balances resulting from retirement of a portion of our 11% Senior Secured Notes due 2003 (Senior Secured Notes) in August 2000, offset by a reduction of capitalized interest as a result of the completion of the initial phase of Dresden Fab 30.

Income Tax

We recorded an income tax benefit of \$14 million in 2001 and income tax provisions of \$257 million in 2000 and \$167 million 1999. The effective benefit rate of 15.4 percent for the year ended December 30, 2001 was less than the statutory rate because of a 24 percent tax benefit rate on the restructuring charges, reflecting the allocation of the charges between U.S. and foreign low-taxed jurisdictions, and a provision for U.S. taxes on certain previously undistributed earnings of low-taxed foreign subsidiaries. The effective tax rate was 20.5 percent for the year ended December 31, 2000. The effective tax rate, excluding the gain on the sale of Legerity, was 14.5 percent reflecting the benefit of realizing previously reserved deferred tax assets. The tax rate recorded in 2000 attributable to the gain on the sale of Legerity was 37

percent. The effective tax rate was 227 percent for the year ended December 26, 1999. The effective tax rate, excluding the gain on the sale of Vantis and restructuring charges, was zero. This reflected the establishment of reserves against our deferred tax assets due to current and prior operating losses. The tax rate recorded in 1999 attributable to the gain on the sale of Vantis net of restructuring charges was 39 percent.

We had net deferred tax assets of \$51 million as of December 30, 2001.

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

Other Items

International sales as a percent of net sales were 66 percent in 2001 and 60 percent in both 2000 and 1999. During 2001, approximately two 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 accounting principles generally accepted in the United States). 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)

In 2001, we operated in two reportable segments: the Core Products segment, which reflects the aggregation of the PC processors and memory products operating segments, and the Foundry Services segment. The Core Products segment includes PC processors, Flash memory devices, EPROMs, embedded processors, platform products and networking products. The Foundry Services segment included fees for services provided to Legerity and Vantis. Our previous Voice Communications segment included the voice communications products of our former subsidiary, Legerity, prior to its sale effective July 31, 2000. Our former Vantis segment included the programmable logic devices (PLD) of our former subsidiary, Vantis, prior to its sale in 1999. For a comparison of segment net sales, refer to the previous discussions on net sales by product group.

The following is a summary of operating income (loss) by segment for 2001, 2000 and 1999:

| (Millions) | 2001 | 2000 | 1999 |
|----------------------|-------|--------|----------|
| Core Products | \$ 72 | \$ 832 | \$ (342) |
| Foundry Services | (34) | 22 | 1 |
| Voice Communications | - | 35 | 14 |
| Vantis | - | - | 6 |
| Total | \$ 38 | \$ 889 | \$ (321) |

Core Products segment operating income decreased by \$760 million in 2001 compared to 2000 due to a decrease in net sales. The decrease was primarily due to a decline in the average selling prices and unit sales of our core products due to the sustained downturn in the microprocessor, communications, and networking equipment industries and our restructuring plan previously discussed.

The Foundry Services segment operating income decreased by \$56 million in 2001 compared to 2000 primarily due to the significant reduction in demand for wafer fabrication services from Vantis and Legerity.

The Voice Communications segment operating income was zero in 2001 due to our sale of Legerity, effective July 31, 2000.

The Vantis segment operating income was zero in 2001 due to our sale of Vantis,

effective June 15, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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FINANCIAL CONDITION

Net cash provided by operating activities was \$168 million in 2001 as a result of our net loss of \$61 million, adjusted for non-cash charges, including, \$623 million of depreciation and amortization expense, \$82 million of restructuring charges, \$27 million of impairment charges on equity investments and \$10 million of provision for doubtful accounts, offset by non-cash credits of \$93 million from net changes in deferred income taxes and foreign grant and subsidy income, and other uses of cash in operating activities of approximately \$428 million due to net changes in operating assets and liabilities.

Net cash provided by operating activities was \$1,206 million in 2000 primarily due to net income of \$983 million and depreciation and amortization of \$579 million, offset by a nonrecurring \$337 million reduction to operating cash flows from the gain on the sale of Legerity in 2000, a decrease of \$269 million in other assets, an increase of \$158 million from income tax benefits from employee stock option exercises, a decrease of \$156 million in inventory, an increase of \$157 million in payables and accrued liabilities, an increase of \$143 million from customer deposits under long-term purchase agreements, a decrease of \$140 million in accounts receivable, an increase of \$79 million in prepaid expenses and a decrease of \$35 million from foreign grant and subsidy income.

Net cash provided by operating activities was 260 million in 1999 primarily due to the net loss of \$89 million, a nonrecurring \$432 million reduction in operating cash flows from the gain on the sale of Vantis in 1999, an increase of \$516 million from depreciation and amortization, an increase of \$160 million from deferred income taxes, an increase of \$241 million in payables and accrued liabilities, a decrease of \$102 million in prepaid expenses, an increase of \$55 million in other assets, a decrease of \$50 million from foreign grant and subsidy income not received in cash and a decrease of \$48 million in accounts receivable.

Net cash used in investing activities was \$554 million in 2001 primarily due to \$679 million used for the purchases of property, plant, and equipment, primarily for Dresden Fab 30 and Asia manufacturing facilities, and \$122 million for additional equity investments in FASL, offset by \$246 million of net proceeds from sales and maturities of available-for-sale securities.

Net cash used in investing activities was \$816 million in 2000 primarily due to \$805 million used for purchases of property, plant and equipment, offset by \$375 million we received in 2000 from the sale of Legerity and \$398 million of net purchases of available-for-sale securities.

Net cash used in investing activities was \$142 million in 1999 primarily due to \$454 million from the sale of Vantis, a decrease of \$620 million from purchases of property, plant and equipment offset by \$19 million in net proceeds from sales of available-for-sale securities and \$4 million in proceeds from sales of property, plant and equipment.

Net cash provided by financing activities was \$232 million in 2001 primarily due to \$63 million in proceeds from the issuance of notes payable to banks, \$308 million in proceeds from Dresden borrowing activities, \$38 million in proceeds from the receipt of foreign grants and subsidies and

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\$37 million in proceeds from the issuance of stock in connection with stock option exercises and purchases under our Employee Stock Purchase Plan, offset by \$137 million in payments on debt and capital lease obligations and \$77 million used to repurchase our common stock.

Net cash used in financing activities was \$101 million in 2000 primarily due to \$375 million in payments on debt and capital lease obligations, offset by \$136 million in proceeds from borrowing activities, \$123 million in proceeds from the issuance of stock and \$15 million in proceeds from foreign grants and subsidies.

Net cash used in financing activities was \$174 million in 1999 primarily due to \$244 million in payments on debt and capital lease obligations, offset by \$12 million in proceeds from borrowings, \$44 million in proceeds from issuance of stock and \$14 million in proceeds from foreign grants and subsidies.

Contractual Cash Obligations And Commercial Commitments

The following tables summarize our contractual cash obligations and commercial commitments at December 30, 2001 and are supplemented by the discussion following the tables:

Contractual Cash Obligations at December 30, 2001 were:

| (In Thousands) | Total | Less than 1 year | Payments due by period | | |
|------------------------------------|-------------|---------------------|------------------------|-----------|------------------|
| | | | 1-3 years | 4-5 years | After 5 years |
| Notes payable to banks | \$ 63,362 | \$ 63,362 | \$ - | \$ - | \$ - |
| Dresden term loans | 602,046 | 186,842 | 342,544 | 72,660 | - |
| Commercial mortgage | 1,190 | 182 | 423 | 245 | 340 |
| Capital lease obligations | 36,075 | 13,589 | 20,060 | 2,426 | - |
| Operating leases | 457,176 | 57,612 | 91,375 | 40,636 | 267,553 |
| Unconditional purchase commitments | 54,979 | 15,036 | 20,067 | 9,895 | 9,981 |
| Total contractual cash obligations | \$1,214,828 | \$336,623 | \$474,469 | \$125,862 | \$277,874 |

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Commercial Commitments at December 30, 2001 were:

| (In Thousands) | Total amounts committed | Amounts of commitment expiration per period | | | |
|------------------------------|----------------------------|---|-----------|-----------|-----------------|
| | | Less than 1 year | 1-3 years | 4-5 years | Over 5 years |
| Dresden guarantee | \$ 277,000 | \$ - | \$ - | \$ - | \$277,000 |
| FASL guarantee | 192,000 | - | - | - | 192,000 |
| Fujitsu guarantee | 125,000 | - | 125,000 | - | - |
| Total commercial commitments | \$ 594,000 | \$ - | \$125,000 | \$ - | \$469,000 |

Notes Payable to Banks

We entered into a Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by a domestic financial institution on July 13, 1999. The Loan Agreement provides for a four-year secured revolving line of credit of up to \$200 million. We can borrow, subject to amounts that 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 must comply with certain financial covenants if the level of domestic cash we hold declines to \$200 million or the amount of borrowings under the Loan Agreement rises to 50 percent of available credit. Under these circumstances the Loan Agreement restricts our ability to pay cash dividends on our common stock. Our obligations under the Loan Agreement are secured by a pledge of all of our accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, \$50 million was outstanding under the Loan Agreement, which was repaid in January 2002.

As of December 30, 2001, we had approximately \$18 million in lines of credit available to our foreign subsidiaries under the other financing agreements, of which approximately \$13 million is outstanding.

Dresden Term Loans and Dresden Guarantee

AMD Saxony, an indirect wholly owned German subsidiary of AMD, continues to facilitate Dresden Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony, and a consortium of banks are providing credit support for the project. We currently estimate construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. As of December 30, 2001, we had invested \$1.8 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 in order to finance the project. Because most of the amounts under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth below are subject to change based on applicable conversion rates. We used the exchange rate as of December 30, 2001, which was approximately 2.17 deutsche marks to one U.S. dollar, to value the amounts denominated in deutsche marks. The Dresden Loan Agreements provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

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

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The Dresden Loan Agreements 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 \$334 million as of December 30, 2001 in the form of subordinated loans to and equity investments in AMD Saxony, which are eliminated in our consolidated financial statements. In addition to support from AMD, the consortium of banks referred to above has made available \$692 million in loans to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$602 million of such loans outstanding as of December 30, 2001, which are included in our consolidated balance sheets.

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:

- o guarantees of the lesser of 65 percent of AMD Saxony bank debt or \$692

million;

- o capital investment grants and allowances totaling \$286 million; and
- o interest subsidies totaling \$142 million.

Of these amounts, AMD Saxony had received \$284 million in capital investment grants and allowances and \$64 million in interest subsidies through December 30, 2001, which are included in our consolidated financial statements. The grants and subsidies are subject to conditions, including meeting specified levels of employment by 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 December 30, 2001, we were in compliance with all of the conditions of the grants and subsidies.

In February 2001, the Dresden Loan Agreements were amended to reflect new capacity and increased capital expenditure plans for Dresden Fab 30. Under the February 2001 amendments, we agreed to increase and extend our guaranty of AMD Saxony's obligations and to make available to AMD Saxony revolving loans of up to \$500 million. We expanded our obligation to reimburse AMD Saxony for the cost of producing wafers for us, and we also agreed to cancel the cost overrun facility made available by the banks. Under the February 2001 amendments, we were released from financial covenants limiting capital expenditures and requiring AMD Saxony to achieve capacity and production cost targets by the end of 2001. As of December 30, 2001, \$59 million of revolving loans were outstanding. The revolving loan amounts are denominated in European Union euros and are, therefore, subject to change due to foreign exchange rate fluctuations. We used the December 30, 2001 exchange rate of 1.11 euros to one U.S. dollar to translate the amount of the revolving loans. Because the loans are due to be repaid by our subsidiary, AMD Saxony, the related receivable is not recorded on our consolidated financial statements.

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The Dresden Loan Agreements, as amended, also require that we:

- o 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;
- o fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates; and
- o guarantee up to 35 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$100 million or more than \$277 million, until the bank loans are repaid in full.

AMD Saxony would be in default under the Dresden Loan Agreements if we, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding), the parent company of AMD Saxony and a wholly owned subsidiary of AMD, fail to comply with certain obligations thereunder or upon the occurrence of certain events including:

- o material variances from the approved plans and specifications;
- o our failure to fund equity contributions or shareholder loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- o the sale of shares in AMD Saxony or AMD Holding;

- o the failure to pay material obligations;
- o 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
- o the occurrence of default under the Loan Agreement.

Generally, any default with respect to borrowing made or guaranteed by AMD that results in recourse to us of more than \$2.5 million and is not cured by us, would result in a cross-default under the Dresden Loan Agreements and the Loan Agreement. As of December 30, 2001, we were in compliance with all conditions of the Dresden Loan Agreements.

In the event we are unable to meet our obligations to AMD Saxony as required under the Dresden Loan Agreements, we will be in default under the Dresden Loan Agreements and the Loan Agreement, which would permit acceleration of certain indebtedness, which would have a material adverse effect on us. We cannot assure that we will be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on us.

Commercial Mortgage

As of December 30, 2001, we had a \$1.2 million commercial mortgage outstanding relating to one of our research facilities. The mortgage balance will be repaid through 2007.

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Capital Lease Obligations

As of December 30, 2001, we had capital lease obligations of approximately \$36 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2005.

Operating Leases and Purchase Commitments

We lease certain of our facilities, including our executive offices in Sunnyvale, California, under agreements which expire at various dates through 2018. We lease certain of our manufacturing and office equipment for terms ranging from one to five years. Total future lease obligations as of December 30, 2001 were approximately \$457 million.

We enter into purchase commitments for manufacturing supplies and services. Total purchase commitments as of December 30, 2001 were approximately \$55 million for periods through 2009.

FASL Facilities and Guarantees

FASL, a joint venture formed by AMD and Fujitsu Limited in 1993, operates advanced integrated circuit manufacturing facilities in Aizu-Wakamatsu, Japan, to produce Flash memory devices. FASL is continuing the facilitization of its second and third Flash memory device wafer fabrication facilities, FASL JV2 and FASL JV3. We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately 1.5 billion of these costs had been funded by cash generated from FASL operations. These costs are incurred in Japanese yen and are, therefore, subject to change due to foreign exchange rate fluctuations. On December 30, 2001, the exchange rate was 128.02 yen to one U.S. dollar, the rate we used to translate the amounts denominated in yen into U.S. dollars.

In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication

facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

A significant portion of FASL capital expenditures in 2002 will continue to be funded by cash generated from FASL operations. In addition, both Fujitsu and AMD made capital contributions of 15 billion yen (\$122 million) each to FASL during the second quarter of 2001. Further, to the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, AMD will be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL, up to 25 billion yen (\$192 million). As of December 30, 2001, we had \$148 million in loan guarantees outstanding with respect to these third-party loans.

UMC

On January 31, 2002, we announced an alliance with United Microelectronics Corporation (UMC) under which UMC and AMD will establish a joint venture to own and operate a state-of-

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the-art, 300-mm wafer fabrication facility in Singapore for high-volume production of PC processors and other logic products. As part of the alliance, we and UMC will collaborate in the development of advanced process technologies for semiconductor logic products. We separately announced a foundry agreement under which UMC will produce PC processors to augment Dresden Fab 30 production capacity for devices produced on 130-nanometer and smaller-geometry technology.

Other Financing Activities

On January 29, 2002, we closed a private offering of \$500 million aggregate principal amount of our 4 3/4% Convertible Senior Debentures due 2022 issued pursuant to Rule 144A and Regulation S. The Debentures bear interest at a rate of 4 3/4% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4 3/4% and will not exceed 6 3/4%. The Debentures will be convertible into our common stock initially at a conversion price of \$23.38 per share. At the initial conversion price, each \$1,000 principal amount of the Debentures will be convertible into approximately 43 shares of our common stock. We intend to use the net proceeds generated from the offering for capital expenditures, working capital, and general corporate purposes.

On August 1, 2001, we redeemed for cash the remaining \$43 million of our outstanding Senior Secured Notes.

On May 21, 2001, we called for redemption of the then outstanding \$517.1 million

6% Convertible Subordinated Notes due 2005, which resulted in the conversion of \$509.6 million of such Notes, into approximately 28 million shares of our common stock, net of unamortized debt issuance cost of \$7.3 million. The remaining \$0.2 million was paid in cash to investors.

On January 29, 2001, we announced that our Board of Directors had authorized a program to repurchase up to \$300 million worth of our common stock over a period of time to be determined by management. These repurchases may be made in the open market or in privately negotiated transactions from time to time in compliance with the SEC's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. This program does not obligate us to

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acquire any particular amount of our common stock and the program may be suspended at any time at our discretion. As of December 30, 2001, we had acquired approximately 6.3 million shares of our common stock at an aggregate cost of \$77 million. Shares repurchased under this program will be used in connection with our stock option plans.

We plan to make capital investments of approximately \$850 million during 2002, including amounts related to the continued facilitization of Dresden Fab 30. We believe that cash flows from operations and current cash balances, together with available external financing and the extension of existing facilities, will be sufficient to fund operations and capital investments for at least the next 12 months.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization and impairment provisions of SFAS 142 are effective upon the adoption of SFAS 142. We are required to adopt SFAS 141 and SFAS 142 at the beginning of 2002. Presently these accounting standards would not have a material effect on our consolidated financial statements as we do not have material amounts of intangibles or any goodwill.

In August 2001, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which supersedes both Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets to be "held and used." In addition, the statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset or group of assets to be disposed of other than by sale be classified as "held-and-used" until they are disposed of, and establishes more restrictive criteria to classify an asset or group of assets as "held for sale."

SFAS 144 also retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). We will adopt SFAS 144 at the beginning of 2002. We do not believe the adoption of SFAS 144 will have a material impact on our operating results or financial position.

 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and short-term debt obligations. We mitigate default risk by investing in only the highest credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk.

We use proceeds from debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 30, 2001 and comparable fair values as of December 31, 2000:

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| (Thousands) | 2001 | | | | | | Total | 2000 | |
|----------------------------|-----------|-----------|------------|-----------|--------|------------|------------|------------|-------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter | | Fair value | Fair value |
| Investment portfolio | | | | | | | | | |
| Cash equivalents: | | | | | | | | | |
| Fixed rate amounts | \$125,334 | \$ - | \$ - | \$ - | \$ - | \$ - | \$125,334 | \$126,379 | \$ 202,010 |
| Weighted-average rate | 2.70% | - | - | - | - | - | - | - | - |
| Variable rate amounts | \$152,122 | - | - | - | - | - | \$152,122 | \$152,140 | \$ 78,300 |
| Weighted-average rate | 2.09% | - | - | - | - | - | - | - | - |
| Short-term investments: | | | | | | | | | |
| Fixed rate amounts | \$427,183 | - | - | - | - | - | \$427,183 | \$426,359 | \$ 477,118 |
| Weighted-average rate | 4.17% | - | - | - | - | - | - | - | - |
| Variable rate amounts | \$ 16,350 | - | - | - | - | - | \$ 16,350 | \$ 16,350 | \$ 224,590 |
| Weighted-average rate | 2.86% | - | - | - | - | - | - | - | - |
| Long-term investments: | | | | | | | | | |
| Equity investments | - | \$ - | - | - | - | - | \$ 11,571 | \$ 19,342 | \$ 26,856 |
| Fixed rate amounts | - | \$ 13,323 | - | - | - | - | \$ 13,323 | \$ 13,323 | 2,103 |
| Weighted-average rate | - | 2.40% | - | - | - | - | - | - | - |
| Total Investment portfolio | \$720,989 | \$ 13,323 | \$ - | \$ - | \$ - | \$ - | \$745,883 | \$753,893 | \$1,010,977 |
| Debt Obligations | | | | | | | | | |
| Debt-fixed rate amounts | \$187,024 | \$197,423 | \$ 145,544 | \$ 72,905 | \$ 270 | \$ 70 | \$603,236 | \$571,679 | \$ 853,288 |
| Weighted-average rate | 4.83% | 5.23% | 5.74% | 6.49% | 9.88% | 9.88% | - | - | - |
| Notes payable to banks | \$ 63,362 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 63,362 | \$ 63,362 | \$ - |
| Weighted-average rate | 5.23% | - | - | - | - | - | - | - | - |
| Capital leases | \$ 10,779 | \$ 10,499 | \$ 8,765 | \$ 2,426 | \$ - | \$ - | \$ 32,469 | \$ 31,550 | \$ 15,874 |
| Weighted-average rate | 7.48% | 7.38% | 6.90% | 6.75% | - | - | - | - | - |
| Total Debt Obligations | \$261,165 | \$207,922 | \$ 154,309 | \$ 75,331 | \$ 270 | \$ 70 | \$ 699,067 | \$ 666,591 | \$ 869,162 |

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Foreign Exchange Risk. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations on our foreign currency exposures

in our foreign sales subsidiaries, on liabilities for products purchased from FASL and AMD Saxony, and for foreign currency denominated fixed asset purchase commitments. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisition. Our accounting policy for these instruments is based on our designation of such instruments as hedges of underlying exposure to variability in cash flows. We do not use derivative financial instruments for speculative or trading purposes.

We had an aggregate of \$507 million (notional amount) of short-term foreign currency forward contracts and option contracts denominated in Japanese yen, European Union euro and Singapore dollar outstanding as of December 30, 2001.

Gains and losses related to the foreign currency forward and option contracts for the year ended December 30, 2001 were not material. We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. We cannot give any assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The table below provides information about our foreign currency forward and option contracts as of December 30, 2001 and December 31, 2000. All of our foreign currency forward contracts and option contracts mature within the next 12 months.

| (Thousands except contract rates) | 2001 | | | 2000 | | |
|-------------------------------------|-----------------|-----------------------|----------------------|-----------------|-----------------------|----------------------|
| | Notional amount | Average contract rate | Estimated fair value | Notional Amount | Average contract rate | Estimated fair value |
| Foreign currency forward contracts: | | | | | | |
| Japanese yen | \$105,895 | 122.76 | \$ (4,066) | \$ 54,915 | 110.22 | \$ (781) |
| British pound | - | - | - | 5,103 | 1.45 | (16) |
| European Union euro | 195,907 | 0.89 | 1,778 | 134,867 | 0.88 | (1,602) |
| Singapore dollar | 19,854 | 1.81 | 171 | 5,573 | 1.70 | 7 |
| Thai baht | - | - | - | 6,712 | 39.52 | (619) |
| Foreign currency option contracts: | | | | | | |
| Japanese yen | 86,400 | 125.00 | (1,375) | - | - | - |
| European Union euro | 99,076 | 0.92 | 93 | - | - | - |
| | \$507,132 | | \$ (3,399) | \$207,170 | | \$ (3,011) |

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RISK FACTORS

We Depend Upon Market Demand for Our Flash Memory Products. The demand for Flash memory devices continues to be weak due to the sustained downturn in the communications and networking equipment industries and excess inventories held by our customers. In addition, we expect competition in the market for Flash memory devices to increase in 2002 and beyond as competing manufacturers introduce new products and industry-wide production capacity increases. We may be unable to maintain or increase our market share in Flash memory devices as the market develops and Intel and other competitors introduce competitive products. A decline in sales of our Flash memory devices and/or lower average selling prices could have a material adverse effect on us.

In 2001, we announced a new memory cell architecture, our MirrorBit(TM) technology that enables Flash memory products to hold twice as much data as standard Flash memory devices. MirrorBit technology is expected to result in reduced cost of our products. We plan to produce our first products with

MirrorBit technology in the second half of 2002. Any delay in our transition to MirrorBit technology, or failure to achieve the cost savings we expect, could reduce our ability to be competitive in the market and could have a material adverse effect on us.

We Depend on the Commercial Success of Our Microprocessor Products. 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 fast pace and offer higher-performance microprocessors in significantly greater volumes. If we fail to achieve yield and volume goals or to offer higher-performance microprocessors in significant volume on a timely basis, we could be materially adversely affected.

We must continue to market successfully our seventh-generation Microsoft Windows compatible microprocessors, the AMD Athlon and AMD Duron microprocessors. To sell the volume of AMD Athlon and AMD Duron microprocessors we currently plan to manufacture through 2002, we must increase sales to existing customers and develop new customers in both consumer and commercial markets. Our production and sales plans for microprocessors are subject to other risks and uncertainties, including:

- o our ability to achieve a successful marketing position for the AMD Athlon XP microprocessor, which relies on market acceptance of a metric based on overall processor performance versus processor speed;
- o our ability to maintain average selling prices of microprocessors despite increasingly aggressive Intel pricing strategies, marketing programs, new product introductions and product bundling of microprocessors, motherboards, chipsets and combinations thereof;
- o our ability to continue offering new higher performance microprocessors competitive with Intel's Pentium 4 processor;
- o our ability, on a timely basis, to produce microprocessors in the volume and with the performance and feature set required by customers;
- o the pace at which we are able to ramp production in Dresden Fab 30 on 0.13 micron copper interconnect process technology;
- o our ability to expand our chipset and system design capabilities;
- o the availability and acceptance of motherboards and chipsets designed for our microprocessors; and
- o 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 our seventh-generation and future generation microprocessors, and the availability of chipsets from vendors who will develop, manufacture and sell chipsets with the EV6 interface in volumes required by us.

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

Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors depends on the continuing success of the AMD Athlon and AMD Duron microprocessors, our seventh-generation processors, and future generations of microprocessors, beginning with the eighth-generation "Hammer" family of processors that we currently plan to introduce at the end of 2002.

If we fail to achieve continued and expanded market acceptance of our seventh-generation microprocessors or if we fail to introduce in a timely manner, or achieve market acceptance for, the Hammer microprocessors, we may be materially adversely affected.

We Face Significant Competition from Intel Corporation. Intel has dominated the market for microprocessors used in PCs for many years. As a result, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the market requires of Intel's competitors. In addition, the financial strength of Intel allows it to market its product aggressively, target our customers and our channel partners with special incentives and discipline customers who do business with us. These aggressive activities can result in lower average selling prices for us and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially adversely affected by its:

- o pricing and allocation strategies;
- o product mix and introduction schedules;
- o product bundling, marketing and merchandising strategies;
- o control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system (BIOS) suppliers; and
- o user brand loyalty.

We expect Intel to maintain its dominant position in the marketplace as well as to continue to invest heavily in research and development, new manufacturing facilities and other technology companies.

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, distributors of 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, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel micro-

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

processors. Our ability to compete with Intel in the market for seventh-generation and eighth-generation microprocessors will depend on our ability to ensure that the microprocessors can be used in PC platforms designed to support our microprocessors or that platforms are available that support both Intel processors and our microprocessors. A failure of the designers and producers of motherboards, chipsets, processor modules and other system components to support our microprocessor offerings would have a material adverse effect on us.

The Cyclical Nature of the Semiconductor Industry May Limit Our Ability to Maintain or Increase Revenue and Profit Levels During Industry Downturns. The semiconductor industry is highly cyclical, to a greater extent than other less dynamic or less technology-driven industries. In the past, including during 2001 and currently, our financial performance has been negatively affected by significant downturns in the semiconductor industry as a result of:

- o the cyclical nature of the demand for the products of semiconductor customers;
- o excess inventory levels by customers;
- o excess production capacity; and
- o accelerated declines in average selling prices.

If current conditions do not improve in the near term or if these or other conditions in the semiconductor industry occur in the future, we will be adversely affected.

Our Business Is Subject to Fluctuations in the Personal Computer Market. Our business is closely tied to the personal computer industry. Industry-wide fluctuations in the PC marketplace have materially adversely affected us, including the industry downturn experienced during 2001 and currently, and may materially adversely affect us in the future.

Worldwide Economic and Political Conditions May Affect Demand for Our Products. The economic slowdown in the United States and worldwide, exacerbated by the occurrence and threat of terrorist attacks and consequences of sustained military action, has adversely affected demand for our microprocessors, Flash memory devices and other integrated circuits. Similarly, a continued decline of the worldwide semiconductor market or a significant decline in economic conditions in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us.

We Depend on Microsoft Corporation's Support for Our Products and Its 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 our x86 instruction sets, independent software providers may forego designing their software applications to take advantage of our innovations. In addition, we have entered into logo license agreements with Microsoft that allow us to label our products as "Designed for Microsoft Windows." If we fail to retain the support and certification of Microsoft, our ability to market our processors could be materially adversely affected.

We Will Have Significant Capital Requirements in 2002. We plan to continue to make significant capital expenditures to support our microprocessor and Flash memory products both in the near and long term, including \$850 million in 2002. These capital expenditures will be a substantial drain on our cash flow and may also decrease our cash balances. To the extent that we

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

cannot generate the required capital internally or obtain such capital externally, we could be materially adversely affected.

In March 1997, our indirect wholly owned subsidiary, AMD Saxony, entered into a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, and equity investments in, AMD Saxony. We currently estimate that the construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. We had invested \$1.8 billion as of December 30, 2001. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the loan agreement, which would permit acceleration of indebtedness.

We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately \$1.5 billion

of this cost had been funded. To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million. If we are unable to fulfill our obligations with respect to FASL, our business could be materially and adversely affected.

While the FASL joint venture has been successful to date, there can be no assurance that Fujitsu and AMD will elect to continue the joint venture in its present form or at all.

Fluctuations in Demand for Our Products Relative to the Capacity of Our Manufacturing Facilities Could Have a Material Adverse Effect on Us. Because we cannot quickly adapt our manufacturing capacity to rapidly changing market conditions, at times we underutilize our manufacturing facilities as a result of reduced demand for certain of our products. We are substantially increasing our manufacturing capacity by making significant capital investments in Dresden Fab 30, FASL JV3 and our test and assembly facility in Suzhou, China. If the increase in demand for our products is not consistent with our expectations,

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we may underutilize our manufacturing facilities, and we could be materially adversely affected. This has in the past had, and in the future may have, a material adverse effect on our earnings.

We have also begun to convert our manufacturing facility in Austin, Texas (Fab 25) from production of microprocessors to production of our Flash memory devices. At this time, the most significant risk is that we will have underutilized capacity in Fab 25 as we continue to transition the production of microprocessors out of Fab 25 and into Dresden Fab 30 and as we convert Fab 25 to a Flash memory device production facility while demand for flash memory products remains depressed.

There may also be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on us. Further, we cannot be certain that we will be able to implement the process technology for the conversion of Fab 25 in a timely manner. During this period of conversion, Fab 25 may not be fully productive. Similarly, Dresden Fab 30 is expected to be fully facilitized by the end of 2003. During this process, Dresden Fab 30 will not be fully productive. A substantial delay in the successful conversion of Fab 25 or the facilitization of Dresden Fab 30 could have a material adverse effect on us.

We Make Substantial Investments in Research and Development of Process Technologies That May Not Be Successful. We make substantial investments in research and development of process technologies in an effort to improve the technologies and equipment used to fabricate our products. For example, the successful development and implementation of silicon on insulator technology is critical to the Hammer family of microprocessors currently under development. However, we cannot be certain that we will be able to develop or obtain or successfully implement leading-edge process technologies needed to fabricate future generations of our products.

Any Substantial Interruption of or Problems with Our Manufacturing Operations Could Materially Adversely Affect Us. Any substantial interruption of our manufacturing operations, either as a result of a labor dispute, equipment failure or other cause, could materially adversely affect us. Further, manufacturing yields may be adversely affected by, among other things, errors and interruptions in the fabrication process, defects in raw materials, implementation of new manufacturing processes, equipment performance and process controls. A decline in manufacturing yields may have a material adverse effect on our earnings.

Our Products May not Be Compatible with Some or All Industry-Standard Software and Hardware. It is possible that our products may not be compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on us.

Costs Related to Defective Products Could Have a Material Adverse Effect on Us. It is possible that one or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

We Rely on the Availability of Essential Raw Materials to Manufacture Our Products. Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure certain of

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these materials, we might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

We Are Subject to Political and Economic Risks Associated with Our Operations in Foreign Countries. Nearly all product assembly and final testing of our products are performed at our manufacturing facilities in Penang, Malaysia; Bangkok, Thailand; Suzhou, China; Japan; and Singapore; or by subcontractors in the United States and Asia. We also depend on foreign foundry suppliers and joint ventures for the manufacture of a portion of our finished silicon wafers and have international sales operations. The political and economic risks associated with our operations in foreign countries include:

- o expropriation;
- o changes in a specific country's or region's political or economic conditions;
- o trade protection measures and import or export licensing requirements;

- o difficulty in protecting our intellectual property;
- o changes in foreign currency exchange rates and currency controls;
- o changes in freight and interest rates;
- o disruption in air transportation between the United States and our overseas facilities; and
- o loss or modification of exemptions for taxes and tariffs;

any of which may have a material adverse effect on us.

We Rely on Our Ability to Attract and Retain Key Personnel. Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be otherwise adversely affected.

Our Operating Results are Subject to Substantial Quarterly and Annual Fluctuations. Our operating results are subject to substantial quarterly and annual fluctuations due to a variety of factors, including decreases in average selling prices of our products, general worldwide economic conditions, the gain or loss of significant customers, market acceptance of our products and new product introductions by us or our competitors. In addition, changes in the mix of products produced and sold in the mix of sales by distribution channels, in the availability and cost of products from our suppliers or in production capacity and manufacturing yields can contribute to periodic fluctuations in operating results.

Our operating results also tend to vary seasonally. Our revenues are generally lower in the first, second and third quarters of each year than in the fourth quarter. This seasonal pattern is largely a result of decreased demand in Europe during the summer months and higher demand in the retail sector of the PC

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market during the winter holiday season.

The Market for Our Products Is Subject to Rapid Technological Change. 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. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products, develop and introduce new products that take advantage of technological advances and meet the demands of our customers.

We Face Intense Competition in the Integrated Circuit Industry. The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market and successive generations of products are developed and introduced for sale. Failure to reduce our costs on existing products or to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins, would have a material adverse effect on us.

Our Customers Can Cancel or Revise Purchase Orders Without Penalty. As a Result,

We Must Commit Resources to the Manufacture of Products Without Any Advance Purchase Commitments from Customers. Sales of our products 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 manufacture of products without any advance purchase commitments from customers. Therefore, the failure of demand for our products to match the supply of our products could result in the expenditure of excess costs, which could have a material adverse effect on us.

Our Obligations Under Specific Provisions in our Agreements with Distributors Expose Us to Material Adverse Effects When We Experience an Unexpected Significant Decline in the Price of Our Products. Distributors typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, 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. The price protection and return rights we offer to our distributors could materially adversely affect us if there is an unexpected significant decline in the price of our products.

We May Not Be Able to Adequately Protect Our Technology or Other Intellectual Property, in the United States and Abroad, Through Patents, Copyrights, Trade Secrets, Trademarks and Other Measures. We may not be able to adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Further, patent applications that we file may not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property on a worldwide basis.

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

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third party's intellectual property rights. We cannot assure you that all necessary licenses can be obtained on satisfactory terms, if at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us and others will always be avoided or successfully concluded.

Our Inability to Effectively Transition to a New Enterprise Resource Planning Program Could Have a Material Adverse Effect on Us. We are currently in the process of transitioning to a new enterprise resource planning program. If we are unsuccessful in transitioning to this new system in an effective and timely manner, we could be materially adversely affected.

Failure to Comply with Applicable Environmental Regulations Could Materially Adversely Affect our Business. Our business involves the use of hazardous materials. If we fail to comply with governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process, we may be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations. Such regulations could require us to procure expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure to control the use of, 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 us. Violations of environmental laws may result in criminal and civil liabilities.

Terrorist Attacks, Such as the Attacks That Occurred in New York and Washington, DC on September 11, 2001, and Other Acts of Violence or War May Materially Adversely Affect the Markets in which We Operate, Our Operations and Our Profitability. Terrorist attacks may negatively affect our operations. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive and ultimately affect our sales.

Also as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our sales, our supply chain, and our ability to deliver products to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and

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economy. They also could result in or exacerbate economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs, volatility of the market price for our securities and on the future price of our securities.

We Are Located in an Earthquake Zone. 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. In the event of a major earthquake, we could experience business interruptions, destruction of facilities, and/or loss of life, all of which could materially adversely affect us.

We Have a Substantial Amount of Debt and Debt Service Obligations, Which Could Adversely Affect Our Financial Position. Our Loan Agreement provides for a four-year secured revolving line of credit of up to \$200 million, which currently expires on July 14, 2003. Under this agreement, we can borrow, subject to amounts which may be set aside by the lenders, up to 85% of our eligible accounts receivable from OEMs and 50% of our eligible accounts receivable from distributors. We must comply with certain financial covenants if the level of cash we hold in the United States declines to certain levels. Our obligations under this agreement are secured by a pledge of most of our accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, we had \$50 million outstanding under the Loan Agreement, which has subsequently been repaid.

Our indirect wholly owned subsidiary, AMD Saxony, is a party to a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the Bank of America loan and security agreement, which would permit acceleration of indebtedness under both agreements. In addition, the Dresden Loan Agreement prohibits AMD Saxony from paying any dividends, so cash held by AMD Saxony will not be available for the repayment of the debentures.

To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. If we are unable to fulfill our obligations to FASL, our business could be materially and adversely affected. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

On January 29, 2002, we closed a private offering of \$500 million aggregate principal amount of its 4 3/4% Convertible Senior Debentures Due 2022 (the Debentures). The Debentures bear interest at a rate of 4 3/4% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4 3/4% and will not exceed 6 3/4%.

Our ability to make payments on and to refinance our debt or our guarantees of other parties' debts will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our Loan Agreement in an amount sufficient to enable us to pay our debt or Debentures, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt, including the Debentures, on or before maturity. We cannot assure you that we will be able to

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refinance any of our debt, including our Loan Agreement or the Debentures, on commercially reasonable terms or at all.

We may incur substantial additional debt in the future. As of December 30, 2001, we had the ability to borrow \$150 million under the loan and security agreement, and currently have the ability to borrow the full \$200 million. If new debt is added to our and our subsidiaries' current debt levels, the risk of our inability to repay our debt, including the Debentures, could intensify.

The Price of Our Common Stock Continues to Be Highly Volatile. Based on the trading history of our common 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:

- o quarterly fluctuations in our operating and financial results;
- o announcements of new technologies, products and/or pricing by us or our competitors;

- o the pace of new process technology and product manufacturing ramps;
- o fluctuations in the stock price and operating results of our competitors, particularly Intel;
- o changes in earnings estimates or buy/sell recommendations by financial analysts;
- o changes in the ratings of our debentures or other securities;
- o production yields of key products; and
- o 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. Technology company stocks in general have experienced extreme price and volume fluctuations that are often unrelated to the operating performance of the companies. Market volatility may adversely affect the market price of our common stock, which could affect the price of our debentures and limit our ability to raise capital or to make acquisitions.

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Years Ended December 30, 2001
(Thousands except per share amounts)

| | 2001 | 2000 | 1999 |
|---|--------------|-------------|-------------|
| Net sales | \$ 3,891,754 | \$4,644,187 | \$2,857,604 |
| Expenses: | | | |
| Cost of sales | 2,589,747 | 2,514,637 | 1,964,434 |
| Research and development | 650,930 | 641,799 | 635,786 |
| Marketing, general and administrative | 620,030 | 599,015 | 540,070 |
| Restructuring and other special charges | 89,305 | - | 38,230 |
| | 3,950,012 | 3,755,451 | 3,178,520 |
| Operating income (loss) | (58,258) | 888,736 | (320,916) |
| Gain on sale of Vantis | - | - | 432,059 |
| Gain on sale of Legerity | - | 336,899 | - |
| Interest and other income, net | 25,695 | 86,301 | 31,735 |
| Interest expense | (61,360) | (60,037) | (69,253) |
| Income (loss) before income taxes, equity in net income of joint venture and extraordinary item | (93,923) | 1,251,899 | 73,625 |
| Provision (benefit) for income taxes | (14,463) | 256,868 | 167,350 |
| Income (loss) before equity in net income of joint venture and extraordinary item | (79,460) | 995,031 | (93,725) |
| Equity in net income of joint venture | 18,879 | 11,039 | 4,789 |
| Net income (loss) before extraordinary item | (60,581) | 1,006,070 | (88,936) |
| Extraordinary item - debt retirement, net of \$13,497 tax benefit | - | (23,044) | - |
| Net income (loss) | \$ (60,581) | \$ 983,026 | \$ (88,936) |
| Net income (loss) per common share: | | | |
| Basic - income (loss) before extraordinary item | \$ (0.18) | \$ 3.25 | \$ (0.30) |
| Diluted - income (loss) before extraordinary item | \$ (0.18) | \$ 2.95 | \$ (0.30) |
| Basic - income (loss) after extraordinary item | \$ (0.18) | \$ 3.18 | \$ (0.30) |
| Diluted - income (loss) after extraordinary item | \$ (0.18) | \$ 2.89 | \$ (0.30) |
| Shares used in per share calculations: | | | |
| Basic | 332,407 | 309,331 | 294,577 |
| Diluted | 332,407 | 350,000 | 294,577 |

See accompanying notes

CONSOLIDATED BALANCE SHEETS

| December 30, 2001, and December 31, 2000 (Thousands except share and per share amounts) | 2001 | 2000 |
|---|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 427,288 | \$ 591,457 |
| Short-term investments | 442,709 | 701,708 |
| ----- | | |
| Total cash, cash equivalents and short-term investments | 869,997 | 1,293,165 |
| Accounts receivable, net of allowance for doubtful accounts of \$19,270 in 2001 and \$22,712 in 2000 | 659,783 | 547,200 |
| Inventories: | | |
| Raw materials | 26,489 | 34,413 |
| Work-in-process | 236,679 | 154,854 |
| Finished goods | 117,306 | 154,274 |
| ----- | | |
| Total inventories | 380,474 | 343,541 |
| Deferred income taxes | 155,898 | 218,527 |
| Prepaid expenses and other current assets | 286,957 | 255,256 |
| ----- | | |
| Total current assets | 2,353,109 | 2,657,689 |
| Property, plant and equipment: | | |
| Land | 33,207 | 33,094 |
| Buildings and leasehold improvements | 1,461,228 | 1,420,313 |
| Equipment | 4,162,652 | 3,563,125 |
| Construction in progress | 469,191 | 445,269 |
| ----- | | |
| Total property, plant and equipment | 6,126,278 | 5,461,801 |
| Accumulated depreciation and amortization | (3,387,140) | (2,825,334) |
| ----- | | |
| Property, plant and equipment, net | 2,739,138 | 2,636,467 |
| Investment in joint venture | 363,611 | 261,728 |
| Other assets | 191,384 | 211,851 |
| ----- | | |
| | \$ 5,647,242 | \$ 5,767,735 |
| ===== | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable to banks | \$ 63,362 | \$ - |
| Accounts payable | 304,990 | 477,369 |
| Accrued compensation and benefits | 129,042 | 172,815 |
| Accrued liabilities | 443,995 | 276,721 |
| Income taxes payable | 56,234 | 74,806 |
| Deferred income on shipments to distributors | 47,978 | 92,828 |
| Current portion of long-term debt, capital lease obligations and other | 268,336 | 129,570 |
| ----- | | |
| Total current liabilities | 1,313,937 | 1,224,109 |
| Deferred income taxes | 105,305 | 203,986 |
| Long-term debt, capital lease obligations and other, less current portion | 672,945 | 1,167,973 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Capital stock: | | |
| Common stock, par value \$0.01; 750,000,000 shares authorized in 2001 and 2000; 340,502,883 shares issued and outstanding in 2001 and 314,137,160 in 2000 | 3,405 | 3,141 |
| Capital in excess of par value | 1,966,374 | 1,406,290 |
| Treasury stock, at cost: 6,310,580 shares | (77,157) | - |
| Retained earnings | 1,795,680 | 1,856,261 |
| Accumulated other comprehensive loss | (133,247) | (94,025) |
| ----- | | |
| Total stockholders' equity | 3,555,055 | 3,171,667 |
| ----- | | |
| | \$ 5,647,242 | \$ 5,767,735 |
| ===== | | |

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| Three Years Ended December 30, 2001 (Thousands) | Common Stock | | Capital in excess of par value | Treasury Stock | Retained Earnings | Accumulated other comprehensive income (loss) | Total stockholders' equity |
|---|---------------------|----------|--------------------------------------|-------------------|----------------------|--|----------------------------------|
| | Number of shares | Amount | | | | | |
| December 27, 1998 | 290,954 | \$ 2,910 | \$ 1,070,146 | \$ - | \$ 962,171 | \$ (30,178) | \$ 2,005,049 |
| Comprehensive income (loss): | | | | | | | |
| Net loss | - | - | - | - | (88,936) | - | (88,936) |
| Other comprehensive income (loss): | | | | | | | |
| Net change in unrealized gains (losses) on investments, net of taxes of \$2,635 | - | - | - | - | - | 12,121 | 12,121 |
| Less: Reclassification adjustment for gains included in earnings | - | - | - | - | - | (4,603) | (4,603) |
| Net change in cumulative translation adjustments | - | - | - | - | - | (5,246) | (5,246) |
| Total other comprehensive income | | | | | | | 12,764 |
| Total comprehensive loss | | | | | | | (76,172) |
| Issuance of shares: | | | | | | | |
| Employee stock plans | 5,358 | 53 | 31,126 | - | - | - | 31,179 |
| Fujitsu Limited | 1,000 | 10 | 12,588 | - | - | - | 12,598 |
| Compensation recognized under employee stock plans | - | - | 6,619 | - | - | - | 6,619 |
| December 26, 1999 | 297,312 | 2,973 | 1,120,479 | - | 873,235 | (17,414) | 1,979,273 |
| Comprehensive income (loss): | | | | | | | |
| Net income | - | - | - | - | 983,026 | - | 983,026 |
| Other comprehensive income: | | | | | | | |
| Net change in unrealized gains (losses) on investments, net of taxes of \$745 | - | - | - | - | - | (1,135) | (1,135) |
| Net change in cumulative translation adjustments | - | - | - | - | - | (75,476) | (75,476) |
| Total other comprehensive loss | | | | | | | (76,611) |
| Total comprehensive income | | | | | | | 906,415 |
| Issuance of shares: | | | | | | | |
| Employee stock plans | 16,805 | 168 | 122,826 | - | - | - | 122,994 |
| Conversion of our 6% Subordinated Notes | 20 | - | 360 | - | - | - | 360 |
| Income tax benefits realized from employee stock option exercises | - | - | 158,253 | - | - | - | 158,253 |
| Compensation recognized under employee stock plans | - | - | 4,372 | - | - | - | 4,372 |
| December 31, 2000 | 314,137 | 3,141 | 1,406,290 | - | 1,856,261 | (94,025) | 3,171,667 |
| Comprehensive income (loss): | | | | | | | |
| Net loss | - | - | - | - | (60,581) | - | (60,581) |
| Other comprehensive income (loss): | | | | | | | |
| Net change in unrealized gains (losses) on investments, net of taxes of \$5,166 | - | - | - | - | - | (9,655) | (9,655) |
| Plus: Reclassification adjustment for losses included in earnings | - | - | - | - | - | 1,583 | 1,583 |
| Net change in cumulative translation adjustments | - | - | - | - | - | (27,751) | (27,751) |
| Net change in unrealized losses on cash flow hedges | - | - | - | - | - | (3,399) | (3,399) |
| Total other comprehensive loss | | | | | | | (39,222) |
| Total comprehensive loss | | | | | | | (99,803) |
| Issuance of shares: | | | | | | | |
| Employee stock plans | 4,734 | 47 | 44,029 | - | - | - | 44,076 |
| Conversion of 6% Subordinated Notes | 27,943 | 280 | 509,310 | - | - | - | 509,590 |
| Common stock repurchases | (6,311) | (63) | - | (77,157) | - | - | (77,220) |
| Premium from put options issued in Company stock | - | - | 2,153 | - | - | - | 2,153 |
| Compensation recognized under employee stock plans | - | - | 4,592 | - | - | - | 4,592 |
| December 30, 2001 | 340,503 | \$ 3,405 | \$ 1,966,374 | \$(77,157) | \$1,795,680 | \$ (133,247) | \$ 3,555,055 |

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Years Ended December 30, 2001
(Thousands)

2001

2000

1999

| | | | |
|--|-------------|-------------|-------------|
| ----- | | | |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ (60,581) | \$ 983,026 | \$ (88,936) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Gain on sale of Vantis | - | - | (432,059) |
| Gain on sale of Legerity | - | (336,899) | - |
| Depreciation | 601,673 | 558,378 | 491,424 |
| Amortization | 21,194 | 20,692 | 24,096 |
| Provision for doubtful accounts | 9,791 | 8,154 | 3,543 |
| Impairment of equity investments | 27,164 | - | - |
| (Increase) decrease in deferred income tax assets | (36,052) | (19,076) | 159,964 |
| Restructuring and other special charges | 81,768 | - | 29,858 |
| Foreign grant and subsidy income | (57,156) | (35,187) | (50,178) |
| Net loss on disposal of property, plant and equipment | 22,371 | 10,380 | 10,665 |
| Net loss (gain) realized on sale of available-for-sale securities | 1,565 | - | (4,250) |
| Compensation recognized under employee stock plans | 4,592 | 867 | 2,655 |
| Undistributed income of joint venture | (18,879) | (11,039) | (4,789) |
| Recognition of deferred gain on sale of building | (1,681) | (1,681) | (1,680) |
| Changes in operating assets and liabilities: | | | |
| Increase in accounts receivable | (122,174) | (140,479) | (48,069) |
| Increase in inventories | (36,975) | (156,284) | (23,138) |
| Decrease (increase) in prepaid expenses | 28,560 | 79,293 | (101,786) |
| (Increase) decrease in other assets | (88,775) | (269,392) | 55,485 |
| Income tax benefits from employee stock option exercises | - | 158,253 | - |
| Increase (decrease) in tax refund receivable and tax payable | (52,288) | 57,479 | (4,288) |
| (Refund) receipt of customer deposits under LT purchase agreements | (39,000) | 142,500 | - |
| Net (decrease) increase in payables and accrued liabilities | (117,472) | 156,567 | 241,403 |
| ----- | | | |
| Net cash provided by operating activities | 167,645 | 1,205,552 | 259,920 |
| ----- | | | |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (678,865) | (805,474) | (619,772) |
| Proceeds from sale of Vantis | - | - | 454,269 |
| Proceeds from sale of Legerity | - | 375,000 | - |
| Proceeds from sale of property, plant and equipment | 1,737 | 12,899 | 3,996 |
| Purchases of available-for-sale securities | (4,130,769) | (4,179,993) | (1,579,813) |
| Proceeds from sale and maturity of available-for-sale securities | 4,376,732 | 3,781,766 | 1,598,946 |
| Investment in joint venture | (122,356) | - | - |
| ----- | | | |
| Net cash used in investing activities | (553,521) | (815,802) | (142,374) |
| ----- | | | |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable to banks | 63,363 | - | - |
| Proceeds from borrowings | 308,457 | 135,789 | 12,101 |
| Payments on debt and capital lease obligations | (137,104) | (375,016) | (243,762) |
| Proceeds from foreign grants and subsidies | 37,510 | 15,382 | 14,341 |
| Proceeds from issuance of stock | 36,706 | 122,994 | 43,777 |
| Repurchase of common stock | (77,220) | - | - |
| ----- | | | |
| Net cash provided by (used in) financing activities | 231,712 | (100,851) | (173,543) |
| ----- | | | |
| Effect of exchange rate changes on cash and cash equivalents | (10,005) | 8,433 | (11,786) |
| Net increase (decrease) in cash and cash equivalents | (164,169) | 297,332 | (67,783) |
| ----- | | | |
| Cash and cash equivalents at beginning of year | 591,457 | 294,125 | 361,908 |
| ----- | | | |
| Cash and cash equivalents at end of year | \$ 427,288 | \$ 591,457 | \$ 294,125 |
| ===== | | | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized | \$ 52,749 | \$ 115,791 | \$ 51,682 |
| Income taxes | \$ 68,220 | \$ 46,009 | \$ 15,466 |
| ===== | | | |
| Non-cash financing activities: | | | |
| Debt converted to common stock | \$ 509,590 | \$ - | \$ - |
| Equipment capital leases | \$ 24,255 | \$ - | \$ 2,307 |
| ===== | | | |

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 30, 2001, December 31, 2000 and December 26, 1999

NOTE 1: NATURE OF OPERATIONS

AMD (the Company) is a semiconductor manufacturer with manufacturing facilities in the United States, Europe and Asia Pacific and sales offices throughout the world. The Company's products include a variety of industry-standard digital integrated circuits (ICs) that are used in many diverse product applications such as telecommunications equipment, data and network communications equipment, consumer electronics, personal computers (PCs), workstations and servers.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year. The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. Fiscal 2001 and 1999 were 52-week years, which ended on December 30 and December 26, respectively. Fiscal 2000 was a 53-week year, which ended on December 31, 2000. Fiscal 2002 will be a 52-week year ending December 29, 2002.

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

The Company classifies investments with maturities between three and 12 months as short-term investments. Short-term investments consist of money market auction rate preferred stocks and debt securities such as commercial paper, corporate notes, certificates of deposit and marketable direct obligations of United States governmental agencies. Available for sale securities with maturities greater than twelve months are classified as short-term, as they represent investments of cash that are for current operations.

Revenue Recognition. The Company recognizes revenue from products sold directly to customers when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company sells to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise held by them. The distributor agreements, which may be canceled by either party upon specified notice, generally contain a provision for the return of the Company's products in the event the agreement with the distributor is terminated and such products have not yet been sold by the distributor. Accordingly, the Company defers recognition of revenue and related profits from sales to distributors with agreements that have the aforementioned terms until the merchandise is resold by the distributors. The Company also sells its products to distributors with substantial independent operations under sales arrangements whose terms do not allow for rights of return or price protection on unsold products held by them. In these instances, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company recognizes revenue when it ships the product directly to the distributors. Shipping and handling costs associated with product sales are included in cost of sales.

Investments in Derivative Financial Instruments Indexed to Advanced Micro Devices Stock. In November 2000, the Financial Accounting Standards Board (FASB)

Emerging Issues Task Force ("EITF") reached a final consensus on EITF issue No. 00-19, "Determination of Whether Share Settlement is Within the Control of the Issuer" for purposes of applying EITF Issue No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19" or "the Consensus"). EITF 96-13 addresses accounting for equity derivative contracts indexed to, and potentially settled in, a company's own stock ("equity derivatives") by providing guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. EITF 00-19 addresses and clarifies whether specific contract provisions or other circumstances cause a net-share or physical settlement alternative to be within or outside the control of the issuer.

To qualify as permanent equity, all the following criteria must be met: the equity derivative contract must permit the Company to settle in unregistered shares; the Company must have sufficient authorized but unissued shares available to settle the contract; the contract must contain an explicit limit on the number of shares to be delivered in a share settlement; there can be no requirement in the contract to post collateral; there can be no "make whole" provisions in the contract; and there can be no provisions in the contract that indicate the counterparty has rights that rank higher than those of a common shareholder. Equity derivative contracts accounted for as permanent equity are recorded at their initial fair value and subsequent changes in fair value are not recognized unless a change in the contracts' classification occurs. Equity derivative contracts not qualifying for permanent equity accounting are recorded at fair value as an asset or liability with subsequent changes in fair value recognized through the statement of operations.

During the year ended December 30, 2001, the Company sold equity derivatives indexed to and potentially settled in its own stock and recorded the premiums received as permanent equity under the provisions of the Consensus. Premiums received during 2001 totaled approximately \$2 million. At December 30, 2001, there were no contracts outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-Lived Assets. If indicators of impairment of long-lived assets are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. If the assets determined to be impaired are to be held for use, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset is less than the asset's carrying value.

Treasury Stock. The Company accounts for treasury stock using the cost method.

Principles of Consolidation. The consolidated financial statements include the Company's accounts and those of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Also included in the financial statements, under the equity method of accounting, is the Company's 49.992 percent share of the operating results of Fujitsu AMD Semiconductor Limited (FASL).

Foreign Currency Translation. The functional currency of the Company's foreign subsidiaries, except AMD Saxony, is the U.S. dollar. The functional currency of AMD Saxony and the Company's unconsolidated joint venture, FASL, are their local currencies. Translation adjustments resulting from the process of remeasuring the foreign currency financial statements of the Company's foreign subsidiaries are included in operations. Adjustments resulting from translating the foreign currency financial statements of AMD Saxony and FASL are included in stockholders' equity.

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

Derivative Financial Instruments. On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 requires the Company to record all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through operating results. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through operations (fair value hedges) or recognized in other comprehensive income until the hedged item is recognized in operations (cash flow hedges). The ineffective portion of a derivative's change in fair value is immediately recognized in operations. As of January 1, 2001, the Company had entered into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of foreign currency denominated intercompany accounts into U.S. dollars. As a result, these derivatives, which were not designated as hedges, were recorded at fair value, with changes in their fair value recognized in operations. Accordingly, the initial adoption of SFAS 133 had no impact on the Company's consolidated financial position or operating results. These transactions in 2001 were denominated in Japanese yen, British pounds, Thai baht, Singapore dollars and European Union euros.

The Company purchases a significant volume of inventory from FASL, AMD's unconsolidated joint venture in Japan, and from AMD Saxony. Purchases from FASL and AMD Saxony are denominated in yen and euros, respectively. Therefore, in the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations. The Company's general practice is to ensure that material business exposure to foreign exchange risks are identified, measured and minimized using the most effective and efficient methods to eliminate or reduce such exposures. To protect against the reduction in value of forecasted yen and euro denominated cash flows resulting from these transactions, the Company has instituted a foreign currency cash flow hedging program. Under this program, the Company purchases foreign currency forward contracts and sells or purchases foreign currency option contracts, generally expiring within twelve months, to hedge portions of its forecasted foreign currency denominated cash flows. The hedging transactions in 2001 were denominated in yen and euros. These foreign currency contracts are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gain or loss initially

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

recorded in accumulated other comprehensive income (a component of stockholders' equity) and subsequently recognized in operations in the same period the hedged forecasted transaction affects operations. Generally, the gain or loss on derivative contracts, when recognized in operations, offsets the gain or loss on the hedged foreign currency assets, liabilities, or firm commitments. The Company does not use derivatives for trading purposes.

The effectiveness test for these foreign currency contracts utilized by the Company is the fair value to fair value comparison method. The Company includes in its effectiveness assessment the time value portion of the change in value of the currency forward contract.

If a cash flow hedge should be discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income will be reclassified into operations as a component of income and expense. No such amounts were recorded in operations during the year ended December 30, 2001.

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

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

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets for financial reporting purposes. Estimated useful lives for financial reporting purposes are as follows:

- o machinery and equipment, three to five years;
- o buildings, up to 26 years; and
- o leasehold improvements, the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Grants and Subsidies. The Federal Republic of Germany and the State of Saxony have agreed to support the Dresden Fab 30 project in the amount of \$428 million, consisting of capital investment grants and interest subsidies. Dresden Fab 30 is the Company's integrated circuit manufacturing and design facility in Dresden, Germany. The grants and subsidies are subject to conditions, including meeting specified levels of employment as of December 2001 and maintaining those levels until June 2007. As of December 30, 2001, AMD Saxony had received grants and subsidies totaling approximately \$348 million. 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 the amounts received to date. There have been no conditions of noncompliance through December 30, 2001 that would result in forfeiture of any of the grants and subsidies. The grants and subsidies are being recognized as a reduction of operating expense ratably over the life of the project. In 2001, grants and subsidies recognized as a reduction to operating expenses amounted to \$57 million. Grants and subsidies received but not yet recognized in operations as of December 30, 2001, were approximately \$206 million.

Advertising Expenses. The Company accounts for advertising costs as expenses in the period in which they are incurred. Advertising expenses for 2001, 2000 and 1999 were approximately \$184 million, \$148 million and \$101 million, respectively.

Net Income (Loss) Per Common Share. Basic net income (loss) per common share is computed using the number of weighted-average common shares outstanding. Diluted net income (loss) per common share is computed using weighted-average common shares and weighted-average dilutive potential common shares outstanding.

The following table sets forth the computation of basic and diluted net income (loss) per common share:

| (Thousands except per share data) | 2001 | 2000 | 1999 |
|--|-------------|--------------|------------|
| Numerator: | | | |
| Numerator for basic income (loss) per common share before extraordinary item | \$ (60,581) | \$ 1,006,070 | \$(88,936) |
| Numerator for basic extraordinary loss per common share | - | (23,044) | - |
| | | | |

| | | | |
|---|-------------|--------------|-------------|
| Numerator for basic income (loss) per common share | \$ (60,581) | \$ 983,026 | \$ (88,936) |
| Numerator for basic income (loss) per common share before extraordinary item | \$ (60,581) | \$ 1,006,070 | \$ (88,936) |
| Effect of adding back interest expense associated with convertible debentures | - | 27,507 | - |
| ----- | | | |
| Numerator for diluted income (loss) per common share before extraordinary item | \$ (60,581) | \$ 1,033,127 | \$ (88,936) |
| Numerator for diluted extraordinary loss per common share | - | (23,044) | - |
| ----- | | | |
| Numerator for diluted income (loss) per common share | \$ (60,581) | \$ 1,010,083 | \$ (88,936) |
| Denominator: | | | |
| Denominator for basic income (loss) per common share - weighted-average shares | 332,407 | 309,331 | 294,577 |
| Effect of dilutive securities: | | | |
| Employee stock options | - | 12,711 | - |
| Convertible debentures | - | 27,958 | - |
| ----- | | | |
| Dilutive potential common shares | - | 40,669 | - |
| ----- | | | |
| Denominator for diluted income (loss) per common share - adjusted weighted-average shares | 332,407 | 350,000 | 294,577 |
| Net income (loss) per common share: | | | |
| Basic: | | | |
| Income (loss) before extraordinary item | \$ (0.18) | \$ 3.25 | \$ (0.30) |
| Extraordinary item | \$ - | \$ (0.07) | \$ - |
| Net income (loss) | \$ (0.18) | \$ 3.18 | \$ (0.30) |
| Diluted: | | | |
| Income (loss) before extraordinary item | \$ (0.18) | \$ 2.95 | \$ (0.30) |
| Extraordinary item | \$ - | \$ (0.06) | \$ - |
| Net income (loss) | \$ (0.18) | \$ 2.89 | \$ (0.30) |
| ----- | | | |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2001 and 1999, approximately 14.4 million and 8.5 million of potential common shares were excluded from the computation of diluted net loss per common share because the effect in years with a net loss would be antidilutive.

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

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

| (Thousands) | 2001 | 2000 |
|---|--------------|-------------|
| | ---- | ---- |
| Unrealized gain on investments, net of taxes of \$2,939 | \$ 5,071 | \$ 13,143 |
| Net unrealized loss on cash flow hedges | (3,399) | - |
| Cumulative translation adjustments | (134,919) | (107,168) |
| | ----- | ----- |
| | \$ (133,247) | \$ (94,025) |
| | ===== | ===== |

Stock-based Compensation and Employee Stock Plans. The Company uses the intrinsic value method under APB Opinion No. 25 to account for stock options issued to its employees under its stock option plans and amortizes deferred compensation over the vesting period of the options. See Note 10.

Use of Estimates. The preparation of consolidated financial statements in

conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results are likely to differ from those estimates, and such differences may be material to the financial statements.

New Accounting Pronouncements. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization and impairment provisions of SFAS 142 are effective upon the adoption of SFAS 142. The Company is required to adopt SFAS 141 and SFAS 142 at the beginning of 2002. Presently these accounting standards would not have a material effect on the Company's consolidated financial statements as the Company does not have material amounts of intangibles or any goodwill.

In August 2001, the FASB issued Statement of Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which supersedes both Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets to be "held and used." In addition, the statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset or group of assets to be disposed of other than

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

by sale be classified as "held and used" until they are disposed of, and establishes more restrictive criteria to classify an asset or group of assets to be "held for sale." SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company will adopt SFAS 144 at the beginning of 2002. The Company does not believe the adoption of SFAS 144 will have a material impact on its operating results or financial position.

NOTE 3: SALE OF SUBSIDIARIES

The Company sold 90 percent of Legerity for approximately \$375 million in cash to Francisco Partners, L.P., effective July 31, 2000. Prior to the sale, Legerity was a wholly owned subsidiary of AMD, selling voice communications products. The Company's pretax gain on the sale of Legerity was \$337 million. The gain was computed based on the excess of the consideration received for Legerity's net assets as of July 31, 2000, less direct expenses related to the sale. The applicable tax rate on the gain was 37 percent, resulting in an after-tax gain of \$212 million.

On June 15, 1999, the Company sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. The actual cash received was net of

Vantis' cash and cash equivalents balance of approximately \$46 million as of the closing of the sale. The Company's pretax gain on the sale of Vantis was \$432 million. The gain was computed based upon 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, resulting in an after-tax gain of \$259 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: FINANCIAL INSTRUMENTS

Available-For-Sale Securities

Available-for-sale securities held by the Company as of December 30, 2001 and December 31, 2000 are as follows:

| (Thousands) | Cost | Gross unrealized gains | Gross unrealized losses | Fair market market |
|--|------------|------------------------|-------------------------|--------------------|
| 2001 | | | | |
| Cash equivalents: | | | | |
| Commercial paper | \$ 76,976 | \$ 545 | \$ - | \$ 77,521 |
| Certificates of deposit | 10,001 | 240 | - | 10,241 |
| Federal agency notes | 38,357 | 260 | - | 38,617 |
| Money market funds | 152,122 | 18 | - | 152,140 |
| Total cash equivalents | \$ 277,456 | \$ 1,063 | \$ - | \$ 278,519 |
| Short-term investments: | | | | |
| Money market auction rate preferred stocks | \$ 128,130 | \$ 158 | \$ (14) | \$ 128,274 |
| Municipal bonds | 1,331 | - | - | 1,331 |
| Floating rate notes | 155,729 | 5 | (290) | 155,444 |
| Federal agency notes | 153,343 | 114 | (832) | 152,625 |
| Tax exempt money market fund | 5,000 | 35 | - | 5,035 |
| Total short-term investments | \$ 443,533 | \$ 312 | \$ (1,136) | \$ 442,709 |
| Long-term investments: | | | | |
| Equity investments | \$ 11,571 | \$ 8,257 | \$ (486) | \$ 19,342 |
| Commercial paper | 10,000 | - | - | 10,000 |
| Federal agency notes | 3,323 | - | - | 3,323 |
| Total long-term investments | \$ 24,894 | \$ 8,257 | \$ (486) | \$ 32,665 |
| Grand Total: | \$ 745,883 | \$ 9,632 | \$ (1,622) | \$ 753,893 |
| 2000 | | | | |
| Cash equivalents: | | | | |
| Commercial paper | \$ 200,261 | \$ 1,762 | \$ (13) | \$ 202,010 |
| Money market funds | 78,300 | - | - | 78,300 |
| Total cash equivalents | \$ 278,561 | 1,762 | \$ (13) | \$ 280,310 |
| Short-term investments: | | | | |
| Money market auction rate preferred stocks | \$ 224,590 | \$ - | \$ - | \$ 224,590 |
| Certificates of deposit | 20,001 | - | (1) | 20,000 |
| Corporate notes | 9,366 | 523 | - | 9,889 |
| Federal agency notes | 44,106 | 654 | (2) | 44,758 |
| Commercial paper | 401,324 | 3,973 | (2,826) | 402,471 |
| Total short-term investments | \$ 699,387 | \$ 5,150 | \$ (2,829) | \$ 701,708 |
| Long-term investments: | | | | |
| Equity investments | \$ 10,161 | \$ 16,695 | \$ - | \$ 26,856 |
| Federal agency notes | 2,105 | - | (2) | 2,103 |
| Total long-term investments | \$ 12,266 | \$ 16,695 | \$ (2) | \$ 28,959 |
| Grand Total: | \$ 990,214 | \$ 23,607 | \$ (2,844) | \$ 1,010,977 |

The Company realized a loss on the sale of available-for-sale securities of \$1.6 million in 2001 and a gain of \$4.3 million in 1999. The Company did not sell any available-for-sale securities in 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Financial Instruments

The following table summarizes activity in accumulated other comprehensive income (loss) related to derivatives classified as cash flow hedges held by the Company during the period from January 1, 2001 through December 30, 2001:

| (Thousands) | Year Ended December 30, 2001 |
|---|---------------------------------|
| Cumulative effect of adopting SFAS 133 | \$ - |
| Reclassified into operations | - |
| Changes in fair value of derivatives, net | (3,399) |
| | ----- |
| | \$ (3,399) |
| | ===== |

As of December 30, 2001, the Company expects to reclassify the amount accumulated in other comprehensive income (loss) to operations within the next twelve months upon the recognition in operations of the hedged forecasted transactions.

Fair Value of Other Financial Instruments

The Company estimates the fair value of debt using a discounted cash flow analysis based on estimated interest rates for similar types of borrowing arrangements with similar remaining maturities. The carrying amounts and estimated fair values of the Company's debt are as follows:

| (Thousands) | 2001 | | 2000 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying amount ----- | Fair value ----- | Carrying amount ----- | Fair value ----- |
| Notes payable to banks | \$ 63,362 | \$ 63,362 | \$ - | \$ - |
| Long-term debt and capital leases: | | | | |
| Capital leases | 32,469 | 31,550 | 15,874 | 15,213 |
| Long-term debt (excluding capital leases) | 603,236 | 571,679 | 936,789 | 865,963 |
| Total long-term debt and capital leases | 635,705 | 603,229 | 952,663 | 881,176 |
| Less: current portion | 197,803 | 216,496 | 49,440 | 67,428 |
| Total long-term debt and capital leases, less current portion | \$ 437,902 | \$ 386,733 | \$ 903,223 | \$ 813,748 |

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

NOTE 5: CONCENTRATIONS OF CREDIT RISK

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

The Company places its cash equivalents and short-term investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure with any one financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

institution. The Company acquires investments in time deposits and certificates of deposit from banks having combined capital, surplus and undistributed profits of not less than \$200 million. Investments in commercial paper and money market auction rate preferred stocks of industrial firms and financial institutions are rated A1, P1 or better. Investments in tax-exempt securities, including municipal notes and bonds are rated AA, Aa or better, and investments in repurchase agreements must have securities of the type and quality listed above as collateral.

Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs in-depth credit evaluations of all new customers and requires letters of credit, bank guarantees and advance payments, if deemed necessary.

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

NOTE 6: INCOME TAXES

The provision (benefit) for income taxes consists of:

| (Thousands) | 2001 | 2000 | 1999 |
|---|--------------------|-------------------|------------------|
| Current: | | | |
| U.S. Federal | \$ - | \$251,849 | \$ (7,072) |
| U.S. State and Local | (6) | 3,599 | 363 |
| Foreign National and Local | 21,595 | 20,496 | 14,095 |
| Total | 21,589 | 275,944 | 7,386 |
| Deferred: | | | |
| U.S. Federal | (30,192) | 25,163 | 134,050 |
| U.S. State and Local | (7,321) | (43,789) | 26,178 |
| Foreign National and Local | 1,461 | (450) | (264) |
| Total | (36,052) | (19,076) | 159,964 |
| Provision (benefit) for income taxes | \$ (14,463) | \$ 256,868 | \$167,350 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tax benefits resulting from the exercise of nonqualified stock options and the disqualifying disposition of shares issued under the Company's stock-based compensation plans reduced taxes currently payable by \$158.3 million in 2000. Such benefits were credited to capital in excess of par value.

Deferred income taxes reflect the net tax effects of tax carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the balances for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 30, 2001 and December 31, 2000 are as follows:

| (Thousands) | 2001 ----- | 2000 ----- |
|---|---------------|---------------|
| Deferred tax assets: | | |
| Net operating loss carryovers | \$ 4,147 | \$ 3,934 |
| Deferred distributor income | 17,730 | 32,848 |
| Inventory valuation | 74,434 | 22,327 |
| Accrued expenses not currently deductible | 74,063 | 46,400 |
| Investments | 29,237 | 15,173 |
| Federal and state tax credit carryovers | 76,234 | 120,938 |
| Other | 62,189 | 67,073 |
| | ----- | ----- |
| Total deferred tax assets | 338,034 | 308,693 |
| Less: valuation allowance | (24,559) | - |
| | ----- | ----- |
| | 313,475 | 308,693 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Depreciation | (175,878) | (222,355) |
| Capitalized Interest | (30,967) | (40,790) |
| Unremitted foreign earnings | (27,400) | - |
| Other | (28,637) | (31,007) |
| | ----- | ----- |
| Total deferred tax liabilities | (262,882) | (294,152) |
| | ----- | ----- |
| Net deferred tax assets (liabilities) | \$ 50,593 | \$ 14,541 |
| | ===== | ===== |

In 2001, the valuation allowance for deferred tax assets increased by \$25 million due to the stock option deduction arising from activity under the Company's stock option plans, the benefits of which will increase capital in excess of par value when realized. Pretax income from foreign operations was approximately \$52 million in 2001, \$83 million in 2000 and \$62 million in 1999.

The federal and state tax credit and net operating loss carryovers expire beginning in the year 2003 through 2021.

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

| 2001 | | |
|---|------------|---------|
| (Thousands except percent) | Tax | Rate |
| Statutory federal income tax expense | \$(32,872) | (35.0)% |
| State taxes, net of federal benefit | (4,762) | (5.1) |
| Tax-exempt foreign sales corporation income | (2,394) | (2.5) |
| Residual U.S. tax on previously reinvested earnings | 21,663 | 23.1 |
| Restructuring charges at other than U.S. rates | 11,082 | 11.8 |

| | | |
|-------------|-------------|---------|
| Tax credits | (6,018) | (6.4) |
| Other | (1,162) | (1.3) |
| | ----- | ----- |
| | \$ (14,463) | (15.4)% |
| | ===== | ===== |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| ----- | | |
|---|-----------|--------|
| 2000 | | |
| (Thousands except percent) | Tax | Rate |
| ----- | | |
| Statutory federal income tax expense | \$438,165 | 35.0% |
| State taxes, net of federal benefit | 9,292 | 0.7 |
| Tax-exempt foreign sales corporation income | (1,756) | (0.2) |
| Foreign income at other than U.S. rates | (9,091) | (0.7) |
| Valuation allowance utilized | (177,008) | (14.1) |
| Tax credits | (5,000) | (0.4) |
| Other | 2,266 | 0.2 |
| | ----- | ----- |
| | \$256,868 | 20.5% |
| | ===== | ===== |

| ----- | | |
|--|------------|--------|
| 1999 | | |
| (Thousands except percent) | Tax | Rate |
| ----- | | |
| Statutory federal income tax expense | \$ 25,766 | 35.0% |
| State taxes, net of federal benefit | 17,252 | 23.4 |
| Foreign income at other than U.S. rates | (4,952) | (6.7) |
| Net operating losses not currently benefited | 126,684 | 172.1 |
| Other | 2,600 | 3.5 |
| | ----- | ----- |
| | \$ 167,350 | 227.3% |
| | ===== | ===== |

The Company has made no provision for U.S. income taxes on approximately \$387 million of cumulative undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings. If such earnings were distributed, the Company would accrue additional taxes of approximately \$117 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: DEBT

Significant elements of notes payable to banks are:

| (Thousands except percent) | 2001 | 2000 |
|---|------------|------------|
| Amounts available under notes payable to bank: | | |
| Three-year secured notes payable to bank | \$ 150,000 | \$ 200,000 |
| Lines of credit available to foreign subsidiaries | 4,251 | 24,419 |
| Total amounts available at year-end under notes payable to banks | \$ 154,251 | \$ 224,419 |
| Amounts outstanding at year-end under notes payable to banks | 63,362 | - |
| Weighted average interest rate on amounts outstanding at year-end | 5.23% | - |
| | ===== | ===== |

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

On July 13, 1999, the Company entered into a Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by a domestic financial institution. 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 amounts 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 must comply with certain financial covenants if the levels of domestic cash it holds declines to \$200 million, or the amount of borrowing under the Loan Agreement rises to 50 percent of available credit. The Company's obligations under the Loan Agreement are secured by a pledge of all of its accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, the Company had \$50 million outstanding under the Loan Agreement, which was repaid in January of 2002. The Loan Agreement restricts the Company from paying cash dividends on its common stock.

Information with respect to the Company's long-term debt, capital lease obligations and other at years ended 2001 and 2000 is:

| (Thousands) | 2001 | 2000 |
|---|------------|--------------|
| 6% Convertible Subordinated Notes with interest payable semiannually and principal due in April 2005 | \$ - | \$ 517,140 |
| 11% Senior Secured Notes with interest payable semiannually and principal due on August 1, 2003, secured by the Fab 25 property, facility and equipment | - | 43,066 |
| Term loans under the Dresden Loan Agreements with a weighted-average interest rate of 5.72% and principal due between February 2001 and December 2005, secured by the Dresden Fab 30 property, facility and equipment | 602,046 | 375,226 |
| Obligations under capital leases | 32,469 | 15,874 |
| Commercial mortgage with principal and 9.88% interest payable in monthly installments through April 2007 | 1,190 | 1,357 |
| | ----- | ----- |
| Other | 635,705 | 952,663 |
| | 305,576 | 344,880 |
| | ----- | ----- |
| | \$ 941,281 | \$ 1,297,543 |
| Less: current portion | 268,336 | 129,570 |
| | ----- | ----- |
| Long-term debt, capital lease obligations and other, less current portion | \$ 672,945 | \$ 1,167,973 |
| | ===== | ===== |

In May 1998, the Company sold \$517.5 million of Convertible Subordinated Notes due May 15, 2005 (Convertible Subordinated Notes) under its \$1 billion shelf registration declared effective by the Securities and Exchange Commission on April 20, 1998. Interest on the Convertible Subordinated Notes accrued at the rate of six percent per annum and was payable semiannually in arrears on May 15 and November 15 of each year, commencing November 15, 1998. On May 21, 2001, the Company called for redemption all of the then outstanding \$517.1 million of

these Convertible Subordinated Notes due 2005, which resulted in the conversion of \$509.6 million of such Notes into approximately 28 million shares of the Company's common stock, net of unamortized debt issuance cost of \$7.3 million. The remaining \$0.2 million of such Notes was paid in cash to investors.

On July 6, 2000, the Company announced a cash tender offer and consent solicitation for the outstanding \$400 million aggregate principal amount of the 11% Senior Secured Notes due 2003. On August 2, 2000, the Company repurchased \$356 million of these notes at a premium of \$36 million. The premium was recorded as an extraordinary loss of approximately \$23 million net of tax benefit of \$13 million. On August 1, 2001, the Company redeemed the remaining \$43 million of these notes for cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Obligations under the lease agreements are collateralized by the assets leased. The Company's leased assets totaled approximately \$77 million and \$53 million as of December 30, 2001 and December 31, 2000, respectively, and are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. Accumulated amortization of these leased assets was approximately \$45 million as of December 30, 2001 and \$39 million as of December 31, 2000.

Included in Other is \$173.5 million of deferred grants and subsidies related to the Dresden Fab 30 project. See Note 2. Also included in Other is a deferred gain of \$28.5 million as of December 30, 2001, as a result of the sale and leaseback of the Company's corporate marketing, general and administrative facility in 1998. The Company is amortizing the deferred gain ratably over the lease term, which is 20 years. See Note 12. In addition, Other includes \$103.5 million in customer cash deposits related to multi-year memory product manufacturing supply agreements, which guarantee customers' specific volume shipment.

The above debt agreements limit the Company and its subsidiaries' ability to engage in various transactions and require satisfaction of specified financial performance criteria. As of December 30, 2001, the Company was in compliance with all restrictive covenants of such debt agreements.

Under certain circumstances, cross-defaults result under the Loan Agreement and the Dresden Loan Agreements, which consist of a loan agreement and other related agreements between AMD Saxony and a consortium of banks led by Dresdner Bank AG (the Dresden Loan Agreements).

For each of the next five years and beyond, the Company's debt and capital lease obligations are:

| (Thousands) | Debt (Principal only) | Capital leases | Total |
|------------------------------------|--------------------------|-------------------|-------------------|
| 2002 | \$ 187,024 | \$ 13,589 | \$ 200,613 |
| 2003 | 197,423 | 11,564 | 208,987 |
| 2004 | 145,544 | 8,496 | 154,040 |
| 2005 | 72,905 | 2,426 | 75,331 |
| 2006 | 270 | - | 270 |
| Beyond 2006 | 70 | - | 70 |
| Total | \$ 603,236 | \$ 36,075 | \$ 639,311 |
| Less: amount representing interest | - | 3,606 | 3,606 |
| Total at present value | \$ 603,236 | \$ 32,469 | \$ 635,705 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: INTEREST EXPENSE & INTEREST AND OTHER INCOME, NET

Interest Expense

| (Thousands) | 2001 | 2000 | 1999 |
|----------------------------|-----------|-----------|-----------|
| Total interest charges | \$ 68,403 | \$ 86,488 | \$116,255 |
| Less: interest capitalized | (7,043) | (26,451) | (47,002) |
| Interest expense | \$ 61,360 | \$ 60,037 | \$ 69,253 |

In 2001, interest expense consisted primarily of interest incurred by AMD Saxony's secured term loan under the Dresden Loan Agreements and interest on the Company's Convertible Subordinated Notes issued in May 1998. In 2000 and 1999, interest expense consisted primarily of interest incurred on the Company's Senior Secured Notes issued in August 1996, interest on the Company's Convertible Subordinated Notes issued in May 1998, interest on the Company's \$250 million four-year secured term loan and interest on AMD Saxony's secured term loan, net of interest capitalized primarily related to the facilitization of Fab 25 and Dresden Fab 30.

Interest and Other Income, Net

| (Thousands) | 2001 | 2000 | 1999 |
|--------------------------|----------|----------|-----------|
| Interest income | \$42,988 | \$59,228 | \$ 26,461 |
| Other income (loss), net | (17,293) | 27,073 | 5,274 |
| | \$25,695 | \$86,301 | \$ 31,735 |

Other loss in 2001 consisted of charges for other than temporary declines in the value of our marketable debt and equity securities investments totaling approximately \$27 million. Other income in 2000 and 1999 consisted of gains from sales of investments and other assets.

NOTE 9: SEGMENT REPORTING

For purposes of disclosures required by Statement of Financial Accounting Standards No. 131 (SFAS 131), AMD operated in two reportable segments during 2001: the Core Products segment, which reflects the aggregation of the PC processor and memory products operating segments, and the Foundry Services segment. The aggregation of our operating segments into our reporting segments was made pursuant to the aggregation criteria set forth in SFAS 131. The Core Products segment includes microprocessors, Flash memory devices, Erasable Programmable Read-Only Memory (EPROM) devices, embedded processors, platform products and networking products. The Foundry Services segment includes fees for services provided to Legerity and Vantis. During 2000 and 1999, the Company also operated in the Voice Communications Segment. The Voice Communications segment included voice communications products of the Company's former subsidiary, Legerity, until July 31, 2000, the effective date of its sale. In addition, in 1999, the Company also operated in the Vantis segment. The Vantis segment included the programmable logic devices of the Company's former subsidiary, Vantis, until June 15, 1999, the date of its sale. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates performance and allocates resources based on these segments' operating income (loss).

The following table is a summary of operating income (loss) by segment for 2001, 2000 and 1999:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (Thousands) | 2001 | 2000 | 1999 |
|--|---------------------|---------------------|---------------------|
| Net sales: | | | |
| Core Products segment | | | |
| External customers | \$ 3,793,962 | \$ 4,361,398 | \$ 2,559,939 |
| Intersegment sales | - | - | 32,626 |
| | 3,793,962 | 4,361,398 | 2,592,565 |
| Foundry Services segment-external customers | 97,792 | 142,480 | 43,204 |
| Voice Communications segment-external customers | - | 140,309 | 167,760 |
| Vantis segment-external customers | - | - | 86,701 |
| Elimination of intersegment sales | - | - | (32,626) |
| Total net sales | \$ 3,891,754 | \$ 4,644,187 | \$ 2,857,604 |
| Segment operating income (loss): | | | |
| Core Products segment | \$ 71,530 | \$ 831,749 | \$ (342,007) |
| Foundry Services segment* | (33,582) | 22,000 | 1,509 |
| Voice Communications segment | - | 34,987 | 13,943 |
| Vantis segment | - | - | 5,639 |
| Total segment operating income (loss) | 37,948 | 888,736 | (320,916) |
| Gain on sale of Vantis | - | - | 432,059 |
| Gain on sale of Legerity | - | 336,899 | - |
| Interest and other income, net | 25,695 | 86,301 | 31,735 |
| Interest expense | (61,360) | (60,037) | (69,253) |
| Restructuring and other special charges | (89,305) | - | - |
| Additional inventory provision | (6,901) | - | - |
| Benefit (provision) for income taxes | 14,463 | (256,868) | (167,350) |
| Equity in net income of FASL (Core Products) | 18,879 | 11,039 | 4,789 |
| Extraordinary item - debt retirement, net of tax benefit | - | (23,044) | - |
| Net income (loss) | \$ (60,581) | \$ 983,026 | \$ (88,936) |
| Total assets: | | | |
| Core Products segment | | | |
| Assets excluding investment in FASL | \$ 5,283,631 | \$ 5,506,007 | \$ 4,066,346 |
| Investment in FASL | 363,611 | 261,728 | 273,608 |
| | 5,647,242 | 5,767,735 | 4,339,954 |
| Foundry Services segment* | - | - | - |
| Voice Communications segment | - | - | 37,744 |
| Total assets | \$ 5,647,242 | \$ 5,767,735 | \$ 4,377,698 |
| Expenditures for long-lived assets: | | | |
| Core Products segment | \$ 703,120 | \$ 803,065 | \$ 614,209 |
| Foundry Services segment* | - | - | - |
| Voice Communications segment | - | 2,409 | 1,729 |
| Vantis segment | - | - | 6,141 |
| Total expenditures for long-lived assets | \$ 703,120 | \$ 805,474 | \$ 622,079 |
| Depreciation and amortization expense: | | | |
| Core Products segment | \$ 622,867 | \$ 578,302 | \$ 512,203 |
| Foundry Services segment* | - | - | - |
| Voice Communications segment | - | 768 | 1,044 |
| Vantis segment | - | - | 2,273 |
| Total depreciation and amortization expense | \$ 622,867 | \$ 579,070 | \$ 515,520 |

*Operations of the Foundry Services segment are conducted using assets of the Core Products segment.

The Company's operations outside the United States include both manufacturing and sales. The Company's manufacturing subsidiaries are located in Germany, Malaysia, Thailand, Singapore and China. Its sales subsidiaries are in Europe, Asia Pacific and Brazil.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of operations by entities within geographic areas for the three years ended December 30, 2001:

| (Thousands) | 2001 | 2000 | 1999 |
|-------------------------------------|---------------------|---------------------|---------------------|
| Sales to external customers: | | | |
| United States | \$ 1,327,403 | \$ 1,875,408 | \$ 1,131,983 |
| Europe | 1,492,428 | 1,553,808 | 835,673 |
| Asia Pacific | 1,071,923 | 1,214,971 | 889,948 |
| | <u>\$ 3,891,754</u> | <u>\$ 4,644,187</u> | <u>\$ 2,857,604</u> |
| Long-lived assets: | | | |
| United States | \$ 1,079,882 | \$ 1,220,193 | \$ 1,469,412 |
| Germany | 1,335,861 | 1,064,308 | 812,773 |
| Other Europe | 2,825 | 3,188 | 3,847 |
| Asia Pacific | 320,570 | 348,778 | 237,204 |
| | <u>\$ 2,739,138</u> | <u>\$ 2,636,467</u> | <u>\$ 2,523,236</u> |

Sales to external customers are based on the customer's billing location. Long-lived assets are those assets used in each geographic area.

The Company markets and sells its products primarily to a broad base of customers comprised of distributors and OEMs of computation and communications equipment. No OEM customer accounted for more than ten percent of net sales in 2001. In 2000 and 1999, one of the Company's OEMs accounted for approximately 11 and 13 percent of net sales, respectively. No distributor accounted for ten percent or more of net sales in 2001, 2000 and 1999.

NOTE 10: STOCK-BASED INCENTIVE COMPENSATION PLANS

Stock Option Plans. The Company has several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase the Company's common stock. Generally, options vest and become exercisable over four years from the date of grant and expire five to ten years after the date of grant. ISOs granted under the plans have exercise prices of not less than 100 percent of the fair market value of the common stock on the date of grant. Exercise prices of NSOs range from \$0.01 to the fair market value of the common stock on the date of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of stock option activity and related information:

| (Shares in thousands) | 2001 | | 2000 | | 1999 | |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted-average exercise price | Number of shares | Weighted-average exercise price | Number of shares | Weighted-average exercise price |
| Options: | | | | | | |
| Outstanding at beginning of year | 43,852 | \$ 20.70 | 41,988 | \$ 8.37 | 40,550 | \$ 8.36 |
| Granted | 14,088 | 16.91 | 21,044 | 35.07 | 9,806 | 8.35 |
| Canceled | (1,444) | 25.31 | (3,247) | 18.84 | (4,710) | 10.45 |
| Exercised | (3,553) | 7.56 | (15,933) | 7.01 | (3,658) | 5.46 |

| | | | | | | |
|--|--------|-------|--------|-------|--------|------|
| Outstanding at end of year | 52,943 | 20.44 | 43,852 | 20.70 | 41,988 | 8.37 |
| Exercisable at end of year | 22,465 | 17.63 | 14,667 | 9.64 | 21,408 | 7.97 |
| Available for grant at beginning of year | 11,803 | | 6,114 | | 11,306 | |
| Available for grant at end of year | 21,146 | | 11,803 | | 6,114 | |

The following table summarizes information about options outstanding as of December 30, 2001:

| (Shares in thousands) | | Options outstanding | | Options exercisable | |
|--------------------------|------------------|---|---------------------------------|---------------------|---------------------------------|
| Range of exercise prices | Number of shares | Weighted-average remaining contractual life (years) | Weighted-average exercise price | Number of shares | Weighted-average exercise price |
| \$0.01-\$9.44 | 13,711 | 5.92 | \$ 7.66 | 10,318 | \$ 7.59 |
| \$9.47-\$17.06 | 14,047 | 8.46 | 12.13 | 3,823 | 11.97 |
| \$17.07-\$32.10 | 13,369 | 8.39 | 23.57 | 3,679 | 21.28 |
| \$32.66-\$45.91 | 11,816 | 8.35 | 41.63 | 4,645 | 41.73 |
| \$0.01-\$45.91 | 52,943 | 7.76 | 20.44 | 22,465 | 17.63 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Purchase Plan. The Company has an employee stock purchase plan (ESPP) that allows eligible and participating employees to purchase, through payroll deductions, shares of the Company's common stock at 85 percent of the fair market value at specified dates. As of December 30, 2001, 6,346,135 common shares remained available for issuance under the plan. A summary of stock purchased under the plan is shown below:

| (Thousands) | 2001 | 2000 | 1999 |
|--------------------------|-----------|-----------|-----------|
| Aggregate purchase price | \$ 16,816 | \$ 12,388 | \$ 13,294 |
| Shares purchased | 1,220 | 815 | 861 |

Stock Appreciation Rights. The Company may grant stock appreciation rights (SARs) to key employees under the 1992 stock incentive plan. The number of SARs exercised plus common stock issued under the stock option plans may not exceed the number of shares authorized under the stock incentive plan. The Company may grant SARs in tandem with outstanding stock options, in tandem with future stock option grants or independently of any stock options. Generally, the terms of SARs granted under the plan are similar to those of options granted under the stock incentive plans, including exercise prices, exercise dates and expiration dates. To date, the Company has granted only limited SARs, which become exercisable in the event of certain changes in control of AMD.

Restricted Stock Awards. In 1998, the Company adopted the 1998 stock incentive plan under which the Company was authorized to issue two million shares of common stock to employees who are not covered by Section 16 of the Securities

Exchange Act of 1934, as amended, subject to terms and conditions determined at the discretion of the Company's Board of Directors. To date, the Company has canceled agreements covering 40,791 shares without issuance and the Company has issued 370,524 shares pursuant to prior agreements. As of December 30, 2001, agreements covering 128,683 shares were outstanding. Activity under this plan is included in the accompanying tables summarizing activity under the Company's employee stock plans.

Shares Reserved for Issuance. The Company had a total of approximately 80,435,119 shares of common stock reserved as of December 30, 2001 for issuance under employee stock option plans and the ESPP, including restricted stock awards.

Stock-Based Compensation. The Company uses the intrinsic value method to account for stock-based awards to employees. As permitted under SFAS 123, the Company has elected to follow APB 25 and related interpretations in accounting for stock-based awards to employees and elects to make pro forma fair value disclosures as permitted by SFAS 123. The Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including expected stock price volatility. Because our stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock-based awards to employees. The fair value of our stock-based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

| | Options | | | ESPP | | |
|---------------------------------|---------|--------|--------|--------|--------|--------|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Expected life (years) | 3.02 | 4.27 | 3.45 | 0.25 | 0.25 | 0.25 |
| Expected stock price volatility | 83.43% | 72.10% | 68.72% | 85.03% | 87.95% | 67.10% |
| Risk-free interest rate | 3.57% | 6.55% | 5.48% | 2.58% | 5.95% | 4.77% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For pro forma purposes, the estimated fair value of our stock-based awards to employees is amortized over the vesting period (for options) and the three-month purchase period (for stock purchases under the ESPP). Our pro forma information follows:

| (Thousands except per share amounts) | 2001 | 2000 | 1999 |
|---|-------------|-----------|-------------|
| Net income (loss) - as reported | \$ (60,581) | \$983,026 | \$ (88,936) |
| Net income (loss) - pro forma | (178,918) | 830,495 | (122,497) |
| Basic net income (loss) per share - as reported | (0.18) | 3.18 | (0.30) |
| Diluted net income (loss) per share - as reported | (0.18) | 2.89 | (0.30) |
| Basic net income (loss) per share - pro forma | (0.54) | 2.68 | (0.42) |
| Diluted net income (loss) per share - pro forma | (0.54) | 2.37 | (0.42) |

The Company granted a total of 13,870,950 stock-based awards during 2001 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$16.93 and \$9.27, respectively. The Company granted a total of 157,476 stock-based awards during 2001 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$21.21 and \$0.11, respectively. The Company granted a total of 59,115 stock-based awards during 2001 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$1.08 and \$22.54, respectively. The Company granted a total of 20,702,856 stock-based awards during 2000 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$35.12 and \$21.00, respectively. The Company granted a total of 25,800 stock-based awards during 2000 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$26.92 and \$0.02, respectively. The Company granted a total of 315,510 stock-based awards during 2000 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$4.92 and \$31.25, respectively.

The weighted-average fair value of shares purchased under the Company's employee stock purchase plan during 2001, 2000 and 1999 were \$3.82, \$5.54, and \$2.39 per share, respectively.

NOTE 11: OTHER EMPLOYEE BENEFIT PLANS

Profit Sharing Program. The Company has a profit sharing program to which the Board of Directors authorizes quarterly contributions. Profit sharing contributions were approximately \$25 million in 2001 and \$103 million in 2000. There were no profit sharing contributions in 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Savings Plan. The Company has a retirement savings plan, commonly known as a 401(k) plan, that allows participating United States employees to contribute from one percent to 15 percent of their pretax salary subject to Internal Revenue Service limits. Before December 26, 1999, the Company made a matching contribution calculated at 50 cents on each dollar of the first three percent of participant contributions, to a maximum of 1.5 percent of eligible compensation. After December 26, 1999, the Company revised the contribution rate and contributes 50 cents on each dollar of the first six percent of participants' contributions, to a maximum of three percent of eligible compensation. The contributions to the 401(k) plan were approximately \$11 million in 2001, \$10 million in 2000 and \$5 million in 1999.

NOTE 12: COMMITMENTS

The Company leases certain of its facilities under agreements that expire at various dates through 2018. The Company also leases certain of its manufacturing and office equipment for terms ranging from one to five years. Rent expense was approximately \$62 million, \$48 million, and \$52 million in 2001, 2000 and 1999, respectively.

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

| (Thousands) | Operating leases | Purchase commitments |
|-------------|------------------|----------------------|
| 2002 | \$ 57,612 | \$ 15,036 |
| 2003 | 47,695 | 10,172 |
| 2004 | 43,680 | 9,895 |
| 2005 | 40,636 | 9,895 |
| 2006 | 35,370 | 2,614 |
| Beyond 2006 | 232,183 | 7,367 |
| | \$ 457,176 | \$ 54,979 |

The operating lease of the Company's corporate marketing, general and administrative facility in Sunnyvale expired in December 1998. At the end of the lease term, the Company was obligated to either purchase the facility or to arrange for its sale to a third party with a guarantee of residual value to the seller equal to the option purchase price. In December 1998, the Company arranged for the sale of the facility to a third party and leased it back under a new operating lease. The Company deferred the gain (\$37 million) on the sale and is amortizing it over a period of 20 years, the life of the lease. The lease expires in December 2018. At the beginning of the fourth lease year and every three years thereafter, the rent will be adjusted by 200 percent of the cumulative increase in the consumer price index over the prior three-year period up to a maximum of 6.9 percent. Certain other operating leases contain provisions for escalating lease payments subject to changes in the consumer price index.

AMD Saxony has constructed and installed equipment in Dresden Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are supporting the project. In March 1997, AMD Saxony entered into the Dresden Loan Agreements, which provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Dresden Loan Agreements require that the Company 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, the Company has invested \$334 million as of December 30, 2001 in the form of subordinated loans and equity investments in AMD Saxony (denominated in both deutsche marks and U.S. dollars) which are eliminated in our consolidated financial statements.

In addition to AMD's support, the consortium of banks referred to above has made available \$692 million in loans to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$602 million of such loans outstanding through December 30, 2001, which are included in the Company's consolidated balance sheets.

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:

- o guarantees equal to the lesser of 65 percent of AMD Saxony bank debt or \$692 million;
- o capital investment grants and allowances totaling \$286 million; and
- o interest subsidies totaling \$142 million.

Of these amounts, AMD Saxony has received \$284 million in capital investment grants and allowances and \$64 million in interest subsidies through December 30, 2001, which are included in the Company's consolidated financial statements. The grants and subsidies are subject to conditions, including meeting specified levels of employment by 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 December 30, 2001, we were in compliance with all of the conditions of the grants and subsidies.

In February 2001, the Dresden Loan Agreements were amended to reflect new capacity and increased capital spending plans for Dresden Fab 30. Under the February 2001 amendments, the Company agreed to extend its guaranty of AMD Saxony's obligations and to make available to AMD Saxony revolving loans of up to \$500 million. The Company also expanded its obligation to reimburse AMD Saxony for the cost of producing wafers for the Company and agreed to cancel the cost overrun facility made available by the banks. Under these amendments, the Company was released from financial covenants limiting capital expenditures and requiring AMD Saxony to achieve capacity and production cost targets by the end of 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Dresden Loan Agreements also require that the Company:

- o provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed, which will be repaid to AMD as AMD Saxony receives the grants or subsidies from the State of Saxony;
- o fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates; and
- o guarantee up to 35 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$100 million or more than \$277 million, until the bank loans are repaid in full.

AMD Saxony would be in default under the Dresden Loan Agreements if we, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding), the parent company of AMD Saxony and a wholly owned subsidiary of AMD, fail to comply with certain obligations thereunder or upon the occurrence of certain events including:

- o material variances from the approved plans and specifications;
- o our failure to fund equity contributions or shareholder loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- o the sale of shares in AMD Saxony or AMD Holding;
- o the failure to pay material obligations;

- o 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
- o the occurrence of default under the Loan Agreement.

Generally, any default with respect to borrowings made or guaranteed by AMD that results in recourse to us of more than \$2.5 million and is not cured by us, would result in a cross-default under the Dresden Loan Agreements and the Loan Agreement. As of December 30, 2001, we were in compliance with all conditions of the Dresden Loan Agreements.

In the event we are unable to meet our obligations to AMD Saxony as required under the Dresden Loan Agreements, we will be in default under the Dresden Loan Agreements and the Loan Agreement, which would permit acceleration of certain indebtedness, which would have a material adverse effect on us. We cannot assure that we will be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on us.

Because the amounts 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. At December 30, 2001, the exchange rate was approximately 2.17 deutsche marks to one U.S. dollar (which the Company used to translate the amounts denominated in deutsche marks).

NOTE 13: INVESTMENT IN JOINT VENTURE

In 1993, the Company formed a joint venture (FASL) with Fujitsu Limited 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, which are sold to the Company and Fujitsu. The Company's share of FASL is 49.992 percent and the investment is being accounted for under the equity method. The Company's share of FASL net income during 2001 was \$18.9 million, net of income taxes of approximately \$13.5 million. As of December 30, 2001, the cumulative adjustment related to the translation of the FASL financial statements into U.S. dollars resulted in a decrease of approximately \$53.4 million to the investment in FASL. The following tables present the significant FASL related party transactions and balances:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (Thousands) | 2001 | 2000 | 1999 |
|----------------|-----------|-----------|-----------|
| Royalty income | \$ 44,342 | \$ 33,273 | \$ 23,214 |
| Purchases | 509,642 | 381,657 | 264,344 |

| (Thousands) | December 30, 2001 | December 31, 2000 |
|--------------------|-------------------|-------------------|
| Royalty receivable | \$ 6,962 | \$ 9,561 |
| Accounts payable | 37,957 | 77,503 |

Pursuant to a cross-equity provision between the Company and Fujitsu, the Company purchased 0.5 million shares of Fujitsu Limited common stock as of December 30, 2001. Under the same provision, Fujitsu Limited purchased nine million shares of the Company's common stock as of December 30, 2001.

FASL is continuing the facilitization of its second and third Flash memory device wafer fabrication facilities, FASL JV2 and FASL JV3, in Aizu-Wakamatsu, Japan. Capital expenditures for FASL JV2 and FASL JV3 construction and facilitization to date have been funded by cash generated from FASL operations and borrowings by FASL.

FASL capital expenditures in 2002 are expected 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 JV2 or FASL JV3, the Company will be required to contribute cash or guarantee third-party loans in proportion to its 49.992 percent interest in FASL. As of December 30, 2001, the Company had \$148 million in loan guarantees outstanding with respect to these third-party loans. At December 30, 2001, the exchange rate was approximately 128.02 yen to one U.S. dollar, which the Company used to translate the amounts denominated in yen.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is condensed financial data of FASL:

| (Thousands) | 2001 | 2000 | 1999 |
|------------------|------------|------------|------------|
| Net sales | \$ 978,059 | \$ 733,574 | \$ 501,797 |
| Gross profit | 165,115 | 53,174 | 20,415 |
| Operating income | 160,298 | 49,645 | 17,724 |
| Net income | 34,924 | 28,179 | 9,977 |

| (Thousands) | December 30, 2001 | December 31, 2000 |
|-------------------------|----------------------|----------------------|
| Current assets | \$ 146,549 | \$ 234,139 |
| Non-current assets | 1,056,061 | 786,802 |
| Current liabilities | 463,555 | 482,629 |
| Non-current liabilities | 1,058 | 1,271 |

The Company's share of the above FASL net income differs from the equity in net income of joint venture reported on the consolidated statements of operations. The difference is due to adjustments resulting from the intercompany profit eliminations and differences in U.S. and Japanese tax treatment, which are reflected on the Company's consolidated statements of operations. The Company has never received cash dividends from its investment in FASL.

In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication

facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, the Company agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a cosigner with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, the Company has not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, the Company was informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, the Company believes it is not at this time, and was not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that the Company pay the entire \$125 million under the Guarantee. Although the Company disagrees with Fujitsu as to the amount, if any, of its obligations under the Guarantee, Fujitsu has indicated its belief that the Company is obligated to pay the full \$125 million. The Company cannot predict the outcome of this matter. Accordingly, the Company has not recorded any liability in its consolidated financial statements associated with the Guarantee.

NOTE 14: RESTRUCTURING AND OTHER SPECIAL CHARGES

On September 25, 2001, due to the continued slowdown in the semiconductor industry, and a resulting decline in revenues, the Company announced a restructuring plan to accelerate key components of its strategy to reduce costs and enhance the financial performance of its core products. In connection with the plan, the Company will close Fabs 14 and 15 in Austin, Texas. These facilities support certain of the Company's older products and its Foundry Service operations, which will be discontinued as part of the plan. The Company will also reorganize other manufacturing facilities and reduce activities primarily in Penang, Malaysia along with associated administrative support.

The restructuring plan will result in the reduction of approximately 2,300 direct manufacturing and related administrative support positions, or approximately 15 percent of the Company's worldwide workforce, by the end of the second quarter of 2002. Approximately 1,000 of these positions are associated with closing Fabs 14 and 15 in Austin. The balance of the reductions will result from reorganizing activities primarily in Penang, Malaysia.

Pursuant to the September 25, 2001 plan, the Company recorded restructuring costs and other special charges of \$89.3 million, consisting of \$34.1 million of anticipated severance and fringe benefit costs, \$16.2 million of anticipated exit costs to close facilities in Austin and Penang and \$39.0 million of non-cash asset

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

impairment charges. The asset impairment charges relate primarily to buildings and production equipment and have been incurred as a result of the Company's decision to implement the plan.

The following table summarizes activity under the plan through December 30, 2001:

| (Thousands) | Severance and employee benefits | Facility and equipment impairment | Facility and equipment decommission costs | Other facilities exit costs | Total |
|----------------|---------------------------------|-----------------------------------|---|-----------------------------|-----------|
| 2001 provision | \$34,105 | \$ 39,000 | \$ 15,500 | \$ 700 | \$ 89,305 |

| | | | | | |
|-------------------------------|----------|----------|-----------|--------|-----------|
| Cash charges | (7,483) | - | - | (54) | (7,537) |
| Non-cash charges | - | (39,000) | - | - | (39,000) |
| Accruals at December 30, 2001 | \$26,622 | \$ - | \$ 15,500 | \$ 646 | \$ 42,768 |

The Company expects to substantially complete execution of its restructuring plan by the end of the second quarter of 2002. As of December 30, 2001, 786 employees were terminated resulting in cash payments of approximately \$7.5 million in severance and employee benefit costs.

During 1999, the Company initiated a review of its cost structure. Based upon this review, the Company recorded restructuring and other special charges of \$38 million in 1999 to better align its cost structure with the expected revenue growth rates.

The restructuring and other special charges for the year ended December 26, 1999, and the related activity during 1999, 2000 and 2001, are reflected in the table below:

| (Thousands) | Severance and employee benefits | Facilities | Equipment | Equipment disposal costs | Discontinued system projects | Total |
|-------------------------------|---------------------------------|------------|-----------|--------------------------|------------------------------|-----------|
| 1999 provision | \$ 3,024 | \$ 968 | \$ 23,769 | \$ 4,380 | \$ 6,089 | \$ 38,230 |
| Cash charges | (3,024) | (56) | - | (1,937) | - | (5,017) |
| Non-cash charges | - | - | (23,769) | - | (6,089) | (29,858) |
| Accruals at December 26, 1999 | - | 912 | - | 2,443 | - | 3,355 |
| Cash charges | - | (429) | - | (2,443) | - | (2,872) |
| Accruals at December 31, 2000 | - | 483 | - | - | - | 483 |
| Cash charges | - | (443) | - | - | - | (443) |
| Accruals at December 30, 2001 | \$ - | \$ 40 | \$ - | \$ - | \$ - | \$ 40 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: SHARE REPURCHASE PROGRAM

On January 29, 2001, the Company announced that the Board of Directors had authorized a program to repurchase up to \$300 million worth of the Company's common stock over a period of time to be determined by management. Any such repurchases will be made, from time to time, in the open market or in privately negotiated transactions in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements and other factors. This program does not obligate the Company to acquire any particular amount of its common stock, and the program may be suspended at any time at the Company's discretion. As of December 30, 2001, AMD acquired approximately 6.3 million shares of its common stock at an aggregate cost of \$77 million under the program. Shares repurchased under this program will be used in connection with the Company's stock option plans.

NOTE 16: CONTINGENCIES

I. Environmental Matters

Clean-Up Orders. Since 1981, the Company has discovered, investigated and begun remediation of three sites where releases from underground chemical tanks at our facilities in Santa Clara County, California, adversely affected the groundwater. The chemicals released into the groundwater were commonly in use in the semiconductor industry in the wafer fabrication process prior to 1979. At

least one of the released chemicals (which the Company no longer uses) has been identified as a probable carcinogen.

In 1991, the Company received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region, relating to the three sites. One of the orders named us as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. In January 1999, the Company entered into a settlement agreement with Philips whereby Philips assumed costs allocated to the Company under this order, although the Company is responsible for these costs in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the event that Philips does not fulfill its obligations under the settlement agreement. Another of the orders named AMD as well as National Semiconductor Corporation. In December 2001, AMD entered into a settlement agreement with National pursuant to which National will take the lead for a period of time on certain groundwater remediation required under that order, but AMD remains a responsible party for all purposes under the order and retains specific responsibilities.

The three sites in Santa Clara County are on the National Priorities List (Superfund). If the Company fails to satisfy federal compliance requirements, or inadequately performs the compliance measures, the government (1) can bring an action to enforce compliance or (2) can undertake the desired response actions itself and later bring an action to recover its costs and penalties, which is up to three times the costs of clean-up activities, if appropriate. The statute of limitations has been tolled on the claims of landowners adjacent to the Santa Clara County Superfund sites for causes of action such as negligence, nuisance and trespass.

The Company has computed and recorded the estimated environmental liability in accordance with applicable accounting rules and has not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The amount of environmental charges to earnings has not been material during any of the last three fiscal years. The Company believes that the potential liability, if any, in excess of amounts already accrued with respect to the foregoing environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

The Company received a notice dated October 14, 1998 from the Environmental Protection Agency (EPA) indicating that the EPA has determined AMD to be a potentially responsible party that arranged for disposal of hazardous substances at a site located in Santa Barbara County, California. The Company is currently in settlement discussions with the EPA and believes that any settlement will not have a material adverse effect on the Company's financial condition or results of operations.

II. Other Matters

The Company is a defendant or plaintiff in various other actions, which arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition or results of operations.

NOTE 17: SUBSEQUENT EVENTS (UNAUDITED)

Issuance of Senior Convertible Debt

On January 29, 2002, the Company announced the closing of a private offering of \$500 million aggregate principal amount of its 4 3/4% Convertible Senior Debentures (the Debentures) due 2022 issued pursuant to Rule 144A and Regulation S. The Company intends to use the net proceeds generated from the offering for

capital expenditures, working capital and general corporate purposes.

The Debentures bear interest at a rate of 4 3/4% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4 3/4% and will not exceed 6 3/4%. The Debentures are initially convertible into the Company's common stock at a conversion price of \$23.38 per share. At this conversion price, each \$1,000 principal amount of the Debentures will be convertible into approximately 43 shares of the Company's common stock.

The Debentures will be redeemable at specified prices declining to 100% of the principal amount plus accrued and unpaid interest at the Company's option beginning on February 5, 2005, provided that the Company may not redeem the Debentures prior to February 1, 2006 unless the last reported sale price of the Company's common stock is at least 130% of the then effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date of the redemption notice.

Holder of the Debentures will have the ability to require the Company to repurchase the Debentures, in whole or in part, on February 1, 2009, February 1, 2012 and February 1, 2017. The holders of the Debentures will also have the ability to require the company to repurchase the Debentures in the event that the Company undergoes specified fundamental changes, including a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

change of control. In each such case, the redemption or repurchase price would be 100% of the principal amount of the Debentures plus accrued and unpaid interest.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Advanced Micro Devices, Inc. as of December 30, 2001 and December 31, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. as of December 30, 2001 and December 31, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2001, in conformity with accounting

principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Jose, CA
January 8, 2002

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SUPPLEMENTARY FINANCIAL DATA

| 2001 and 2000 by Quarter (Unaudited) | | 2001 | | | | 2000 | | | |
|--|--|-------------|--------------|------------|-------------|-------------|-------------|-------------|-------------|
| (Thousands except per share and market price amounts) | | Dec. 30 | Sept. 30 | July 1 | Apr. 1 | Dec. 31 | Oct. 1 | July 2 | Apr. 2 |
| Net Sales | | \$951,873 | \$ 765,870 | \$ 985,264 | \$1,188,747 | \$1,175,172 | \$1,206,549 | \$1,170,437 | \$1,092,029 |
| Expenses: | | | | | | | | | |
| Cost of sales | | 644,662 | 594,056 | 636,199 | 714,830 | 657,303 | 639,010 | 612,567 | 605,757 |
| Research and development | | 160,871 | 161,185 | 171,114 | 157,760 | 162,087 | 162,764 | 155,651 | 161,297 |
| Marketing, general and administrative | | 163,683 | 150,918 | 156,291 | 149,138 | 160,756 | 141,931 | 152,022 | 144,306 |
| Restructuring and other special charges | | - | 89,305 | - | - | - | - | - | - |
| | | 969,216 | 995,464 | 963,604 | 1,021,728 | 980,146 | 943,705 | 920,240 | 911,360 |
| Operating income (loss) | | (17,343) | (229,594) | 21,660 | 167,019 | 195,026 | 262,844 | 250,197 | 180,669 |
| Gain on sale of Vantis | | - | - | - | - | - | - | - | - |
| Gain on sale of Legerity | | - | - | - | - | - | 336,899 | - | - |
| Interest and other income, net | | 5,784 | (11,220) | 12,308 | 18,823 | 25,449 | 19,789 | 19,935 | 21,128 |
| Interest expense | | (9,570) | (9,946) | (20,199) | (21,645) | (19,932) | (17,382) | (11,244) | (11,479) |
| Income (loss) before income taxes, equity in net income (loss) of joint venture and extraordinary item | | (21,129) | (250,760) | 13,769 | 164,197 | 200,543 | 602,150 | 258,888 | 190,318 |
| Provision (benefit) for income taxes | | (5,705) | (65,018) | 3,717 | 52,543 | 30,081 | 175,009 | 51,778 | - |
| Income (loss) before equity in net income (loss) of joint venture and extraordinary item | | (15,424) | (185,742) | 10,052 | 111,654 | 170,462 | 427,141 | 207,110 | 190,318 |
| Equity in net income (loss) of joint venture | | (417) | (1,187) | 7,300 | 13,183 | 7,570 | 4,406 | 32 | (969) |
| Income (loss) before extraordinary item | | (15,841) | (186,929) | 17,352 | 124,837 | 178,032 | 431,547 | 207,142 | 189,349 |
| Extraordinary item - debt retirement, net of tax benefit | | - | - | - | - | (64) | (22,980) | - | - |
| Net income (loss) | | \$ (15,841) | \$ (186,929) | \$ 17,352 | \$124,837 | \$ 177,968 | \$408,567 | \$207,142 | \$189,349 |
| Net income (loss) per share | | | | | | | | | |
| Basic - income (loss) before extraordinary item | | \$ (0.05) | \$ (0.54) | \$ 0.05 | \$ 0.40 | \$ 0.57 | \$ 1.38 | \$ 0.67 | \$ 0.63 |
| Diluted - income (loss) before extraordinary item | | \$ (0.05) | \$ (0.54) | \$ 0.05 | \$ 0.37 | \$ 0.53 | \$ 1.24 | \$ 0.60 | \$ 0.57 |
| Basic - income (loss) after extraordinary item | | \$ (0.05) | \$ (0.54) | \$ 0.05 | \$ 0.40 | \$ 0.57 | \$ 1.31 | \$ 0.67 | \$ 0.63 |
| Diluted - income (loss) after extraordinary item | | \$ (0.05) | \$ (0.54) | \$ 0.05 | \$ 0.37 | \$ 0.53 | \$ 1.18 | \$ 0.60 | \$ 0.57 |
| Shares used in per share calculation | | | | | | | | | |
| Basic | | 340,119 | 345,044 | 330,120 | 314,347 | 313,501 | 311,943 | 309,625 | 302,257 |
| Diluted | | 340,119 | 345,044 | 340,533 | 351,785 | 349,782 | 352,893 | 352,946 | 344,381 |
| Common stock market price range | | | | | | | | | |
| High | | \$ 18.62 | \$ 30.20 | \$ 34.65 | \$ 30.15 | \$ 26.00 | \$ 47.50 | \$ 47.72 | \$ 30.00 |
| Low | | \$ 7.69 | \$ 7.80 | \$ 18.73 | \$ 14.13 | \$ 13.56 | \$ 27.00 | \$ 25.50 | \$ 13.91 |

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FINANCIAL SUMMARY

Five Years Ended December 30, 2001

| (Thousands except per share amounts) | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|--------------|-------------|--------------|--------------|-------------|
| Net sales | \$ 3,891,754 | \$4,644,187 | \$ 2,857,604 | \$2,542,141 | \$2,356,375 |
| Expenses: | | | | | |
| Cost of sales | 2,589,747 | 2,514,637 | 1,964,434 | 1,718,703 | 1,578,438 |
| Research and development | 650,930 | 641,799 | 635,786 | 567,402 | 467,877 |
| Marketing, general and administrative | 620,030 | 599,015 | 540,070 | 419,678 | 400,713 |
| Restructuring and other special charges | 89,305 | - | 38,230 | - | - |
| | 3,950,012 | 3,755,451 | 3,178,520 | 2,705,783 | 2,447,028 |
| Operating income (loss) | (58,258) | 888,736 | (320,916) | (163,642) | (90,653) |
| Gain on sale of Vantis | - | - | 432,059 | - | - |
| Gain on sale of Legerity | - | 336,899 | - | - | - |
| Litigation settlement | - | - | - | (11,500) | - |
| Interest and other income, net | 25,695 | 86,301 | 31,735 | 34,207 | 35,097 |
| Interest expense | (61,360) | (60,037) | (69,253) | (66,494) | (45,276) |
| Income (loss) before income taxes and equity in net income of joint venture and extraordinary item | (93,923) | 1,251,899 | 73,625 | (207,429) | (100,832) |
| Provision (benefit) for income taxes | (14,463) | 256,868 | 167,350 | (91,878) | (55,155) |
| Income (loss) before equity in net income of joint venture and extraordinary item | (79,460) | 995,031 | (93,725) | (115,551) | (45,677) |
| Equity in net income of joint venture | 18,879 | 11,039 | 4,789 | 11,591 | 24,587 |
| Income (loss) before extraordinary item | (60,581) | 1,006,070 | (88,936) | (103,960) | (21,090) |
| Extraordinary item - debt retirement, net of tax benefit | - | (23,044) | - | - | - |
| Net income (loss) | \$ (60,581) | \$ 983,026 | \$ (88,936) | \$ (103,960) | \$ (21,090) |
| Net income (loss) per share | | | | | |
| Basic - income (loss) before extraordinary item | \$ (0.18) | \$ 3.25 | \$ (0.30) | \$ (0.36) | \$ (0.07) |
| Diluted - income (loss) before extraordinary item | \$ (0.18) | \$ 2.95 | \$ (0.30) | \$ (0.36) | \$ (0.07) |
| Basic - income (loss) after extraordinary item | \$ (0.18) | \$ 3.18 | \$ (0.30) | \$ (0.36) | \$ (0.07) |
| Diluted - income (loss) after extraordinary item | \$ (0.18) | \$ 2.89 | \$ (0.30) | \$ (0.36) | \$ (0.07) |
| Shares used in per share calculation: | | | | | |
| Basic | 332,407 | 309,331 | 294,577 | 287,796 | 281,319 |
| Diluted | 332,407 | 350,000 | 294,577 | 287,796 | 281,319 |
| Long-term debt, capital lease obligations and other, less current portion | \$ 672,945 | \$1,167,973 | \$ 1,427,282 | \$1,372,416 | \$ 662,689 |
| Total assets | \$5,647,242 | \$5,767,735 | \$ 4,377,698 | \$4,252,968 | \$3,515,271 |

The Company's common stock (symbol "AMD") is listed on the New York Stock Exchange. The Company has never paid cash dividends on common stock and may be restricted from doing so. Refer to the notes to consolidated financial statements. The number of stockholders of record at February 25, 2002 was 7,815.

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ADVANCED MICRO DEVICES, INC.

LIST OF SUBSIDIARIES

Name of Subsidiary

Domestic Subsidiaries

State or Jurisdiction in Which
Incorporated or Organized

| | |
|---|------------|
| Advanced Micro Ltd. | California |
| AMD Corporation | California |
| AMD Far East Ltd. | Delaware |
| AMD International Sales and Service, Ltd. | Delaware |
| AMD Texas Properties, LLC | Delaware |
| AMD Latin America Ltd. | Delaware |
| AMD Reinsurance Co. Inc. | Hawaii |

Foreign Subsidiaries

| | |
|---|----------------|
| Advanced Micro Devices S.A.N.V. | Belgium |
| AMD South America Limitada (1) | Brazil |
| Advanced Micro Devices (Canada) Limited | Canada |
| Advanced Micro Devices (Suzhou) Limited (2) | China |
| AMD International Trading (Shanghai) Co. Ltd. | China |
| Advanced Micro Devices S.A. | France |
| Advanced Micro Devices GmbH | Germany |
| AMD Saxony Holding GmbH | Germany |
| AMD Saxony Manufacturing GmbH (3) | Germany |
| AMD Foreign Sales Corporation | Guam |
| Advanced Micro Devices S.p.A. | Italy |
| AMD Japan Ltd. | Japan |
| Advanced Micro Devices Sdn. Bhd. | Malaysia |
| Advanced Micro Devices Export Sdn. Bhd. (4) | Malaysia |
| AMD (Netherlands) B.V. (5) | Netherlands |
| Advanced Micro Devices (Singapore) Pte. Ltd. | Singapore |
| AMD Holdings (Singapore) Pte. Ltd. (6) | Singapore |
| Advanced Micro Devices AB | Sweden |
| Advanced Micro Devices S.A. (7) | Switzerland |
| AMD (Thailand) Limited (6) | Thailand |
| Advanced Micro Devices (U.K.) Limited | United Kingdom |

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- (1) Subsidiary of AMD International Sales and Service, Ltd. and AMD Far East Ltd.
 - (2) Subsidiary of AMD Holdings (Singapore) Pte. Ltd.
 - (3) Subsidiary of AMD Saxony Holding GmbH
 - (4) Subsidiary of Advanced Micro Devices Sdn. Bhd.
 - (5) Subsidiary of Advanced Micro Devices Export Sdn. Bhd.
 - (6) Subsidiary of Advanced Micro Devices (Singapore) Pte. Ltd.
 - (7) Subsidiary of AMD International Sales and Service, Ltd.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints W. J. Sanders III and Robert J. Rivet, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Advanced Micro Devices, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2001, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

| Signature ----- | Title ----- | Date ---- |
|---|---|-------------------|
| /s/ W. J. Sanders III ----- W. J. Sanders III | Chairman of the Board and Chief Executive Officer | February 28, 2002 |
| /s/ Hector de J. Ruiz ----- Hector de J. Ruiz | Director, President and Chief Operating Officer | March 6, 2002 |
| /s/ Robert J. Rivet ----- Robert J. Rivet | Senior Vice President, Chief Financial Officer (Principal Financial Officer) | March 6, 2002 |
| /s/ Friedrich Baur ----- Friedrich Baur | Director | March 3, 2002 |
| /s/ Charles M. Blalack ----- Charles M. Blalack | Director | February 28, 2002 |
| /s/ R. Gene Brown ----- R. Gene Brown | Director | March 4, 2002 |
| /s/ Robert Palmer ----- Robert Palmer | Director | March 1, 2002 |
| /s/ Joe L. Roby ----- Joe L. Roby | Director | March 5, 2002 |
| /s/ Leonard Silverman ----- Leonard Silverman | Director | February 28, 2002 |