

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1996

OR

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

For the transition period from _____ to _____

Commission File Number 1-7882

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware 94-1692300

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

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

(Address of principal executive offices) (Zip Code)

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

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

Yes X No

The number of shares of \$0.01 par value common stock outstanding as of August 1, 1996: 135,202,701.

ADVANCED MICRO DEVICES, INC.

INDEX

Item 1.	Financial Statements	
	Condensed Consolidated Statements of Operations-- Quarters Ended June 30, 1996 and July 2, 1995, and Six Months Ended June 30, 1996 and July 2, 1995	3
	Condensed Consolidated Balance Sheets-- June 30, 1996 and December 31, 1995	4
	Condensed Consolidated Statements of Cash Flows-- Six Months Ended June 30, 1996 and July 2, 1995	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	9

Part II. Other Information

Item 1.	Legal Proceedings	29
Item 4.	Submission of Matters to a Vote of Security Holders	30
Item 6.	Exhibits and Reports on Form 8-K	31
	Signature -----	32

I. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(Thousands except per share amounts)

	Quarter Ended		Six Months Ended	
	June 30, 1996	July 2, 1995 (Restated)*	June 30, 1996	July 2, 1995 (Restated)*
Net sales	\$ 455,077	\$ 638,867	\$ 999,289	\$ 1,266,248
Expenses:				
Cost of sales	379,779	315,905	748,514	621,590
Research and development	92,768	105,695	187,548	202,569
Marketing, general and administrative	83,063	106,602	186,074	209,336
	-----	-----	-----	-----
	555,610	528,202	1,122,136	1,033,495
	-----	-----	-----	-----
Operating income (loss)	(100,533)	110,665	(122,847)	232,753
Interest income and other, net	23,039	6,975	51,098	14,033
Interest expense	(1,812)	(501)	(3,793)	(1,079)
	-----	-----	-----	-----
Income (loss) before income taxes and equity in joint venture	(79,306)	117,139	(75,542)	245,707
Provision (benefit) for income taxes	(31,723)	39,016	(31,723)	81,840
	-----	-----	-----	-----
Income (loss) before equity in joint venture	(47,583)	78,123	(43,819)	163,867
Equity in net income of joint venture	12,911	2,529	34,474	1,115
	-----	-----	-----	-----
Net income (loss)	(34,672)	80,652	(9,345)	164,982
Preferred stock dividends	-	-	-	10
	-----	-----	-----	-----
Net income (loss) applicable to common stockholders	\$ (34,672)	\$ 80,652	\$ (9,345)	\$ 164,972
	-----	-----	-----	-----
Net income (loss) per common share	\$ (.26)	\$.59	\$ (.07)	\$ 1.24
	-----	-----	-----	-----
Shares used in per share calculation	135,266	136,950	134,487	132,722
	-----	-----	-----	-----

* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes

ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands)

	June 30, 1996 (Unaudited)	December 31, 1995 (Audited) (Restated)*
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,806	\$ 126,316
Short-term investments	203,852	383,349
	-----	-----
Total cash, cash equivalents, and short-term investments	281,658	509,665
Accounts receivable, net	209,691	284,238
Inventories:		
Raw materials	31,924	29,494
Work-in-process	99,683	68,827
Finished goods	44,230	57,665
	-----	-----
Total inventories	175,837	155,986
Deferred income taxes	141,089	147,489
Prepaid expenses and other current assets	64,236	40,564
	-----	-----
Total current assets	872,511	1,137,942
Property, plant, and equipment, at cost	3,117,829	2,946,901
Accumulated depreciation and amortization	(1,436,709)	(1,305,267)
	-----	-----

Property, plant, and equipment, net	1,681,120	1,641,634
Investment in joint venture	187,881	176,821
Other assets	103,513	122,070
	-----	-----
	\$ 2,845,025	\$ 3,078,467
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities:		
Notes payable to banks	\$ 11,878	\$ 26,770
Accounts payable	177,240	241,916
Accrued compensation and benefits	57,178	106,347
Accrued liabilities	96,916	103,404
Income tax payable	3,000	56,297
Deferred income on shipments to distributors	93,990	100,057
Current portion of long-term debt and capital lease obligations	27,739	41,642
	-----	-----
Total current liabilities	467,941	676,433
Deferred income taxes	103,807	84,607
Long-term debt and capital lease obligations, less current portion	201,922	214,965
Stockholders' equity:		
Capital stock:		
Common stock, par value	1,404	1,050
Capital in excess of par value	936,475	908,989
Retained earnings	1,133,476	1,192,423
	-----	-----
Total stockholders' equity	2,071,355	2,102,462
	-----	-----
	\$ 2,845,025	\$ 3,078,467
	=====	=====

* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes

4

ADVANCED MICRO DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Thousands)

Six Months Ended

	June 30, 1996	July 2, 1995 (Restated)*
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (9,345)	\$ 164,982
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	163,805	114,096
Net (gain) loss on sale of property, plant, and equipment	678	(9)
Write-down of property, plant, and equipment	986	380
Net gain realized on sale of available-for-sale securities	(41,028)	-
Compensation recognized under employee stock plans	1,403	1,467
Undistributed income of joint venture	(34,474)	(1,115)
Changes in operating assets and liabilities:		
Net (increase) decrease in receivables, inventories, prepaid expenses, and other assets	8,134	(63,677)
Payment of litigation settlement	-	(20,000)
Net (increase) decrease in deferred income taxes	25,600	(10,595)
Increase (decrease) in income tax payable	(58,473)	68,078
Net increase (decrease) in payables and accrued liabilities	(107,325)	82,452
	-----	-----
Net cash provided by (used in) operating activities	(50,039)	336,059
	-----	-----
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(205,647)	(325,695)
Proceeds from sale of property, plant, and equipment	1,248	1,400
Purchase of available-for-sale securities	(351,631)	(466,120)
Proceeds from sale of available-for-sale securities	574,799	384,547
Purchase of held-to-maturity debt securities	-	(358,019)
Proceeds from maturities of held-to-maturity debt securities	-	326,644
Investment in joint venture	-	(18,019)
	-----	-----

Net cash provided by (used in) investing activities	18,769	(455,262)
	-----	-----
Cash flows from financing activities:		
Proceeds from borrowings	26,231	208,855
Payments on capital lease obligations and other debt	(68,411)	(84,660)
Proceeds from issuance of stock	24,940	88,581
Redemption of preferred stock and stockholder rights	-	(2,501)
Payments of preferred stock dividends	-	(10)
	-----	-----
Net cash provided by (used in) financing activities	(17,240)	210,265
	-----	-----
Net increase (decrease) in cash and cash equivalents	(48,510)	91,062
Cash and cash equivalents at beginning of period	126,316	85,966
	-----	-----
Cash and cash equivalents at end of period	\$ 77,806	\$ 177,028
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the first six months for:		
Interest (net of amounts capitalized)	\$ -	\$ 2,541
	=====	=====
Income taxes	\$ 2,128	\$ 24,010
	=====	=====
Non-cash financing activities:		
Equipment capital leases	\$ 342	\$ 16,508
	=====	=====
Conversion of preferred stock to common stock	\$ -	\$ 270,328
	=====	=====

* Restated from previously released financial information to reflect the January 1996 merger with NexGen, Inc., which has been accounted for under the pooling-of-interests method.

See accompanying notes

5

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

The Company uses a 52 to 53 week fiscal year ending on the last Sunday in December. The quarters ended June 30, 1996 and July 2, 1995 included 13 weeks. The six months ended June 30, 1996 and July 2, 1995 included 26 and 27 weeks, respectively.

Certain prior year amounts on the Condensed Consolidated Financial Statements have been reclassified to conform to the 1996 presentation.

- The following is a summary of available-for-sale securities included in cash and cash equivalents and short-term investments as of June 30, 1996 (in thousands):

Cash equivalents	
Treasury notes	\$ 2,017
Federal agency notes	28,197
Security repurchase agreements	13,200
Commercial paper	5,000
Other debt securities	368

Total cash equivalents	\$ 48,782
	=====
Short-term investments	
Certificates of deposit	\$ 25,597
Municipal notes and bonds	30,109
Corporate notes	37,915

Treasury notes	62,790
Commercial paper	31,941
Money market auction preferred stocks	15,500

Total short-term investments	\$ 203,852
	=====

As of June 30, 1996, the Company held \$11.8 million of available-for-sale equity securities with a fair value of \$17.8 million which are included in other assets. The net unrealized gain on these equity securities is included in retained earnings. During the second quarter and first six months of 1996, the Company sold a portion of its available-for-sale equity securities and realized pre-tax gains of \$16.3 million and \$41.0 million, respectively.

6

3. The primary net income per common share computation is based on the weighted average number of common shares outstanding plus dilutive common share equivalents. The primary net loss per common share computation excludes common share equivalents as their effect on the net loss per share would be anti-dilutive. In the first quarter of 1995, the Company called for redemption of all outstanding shares of its Convertible Preferred Stock. As a result, all of its outstanding preferred stock was either redeemed or converted to the Company's common stock. Shares used in the per share computations are as follows:

	Quarter Ended		Six Months Ended	
	June 30, 1996	July 2, 1995	June 30, 1996	July 2, 1995
	-----		-----	
	(Thousands)		(Thousands)	
Common shares				
outstanding	135,027	128,020	134,259	124,306
Employee stock plans	239	6,759	228	6,453
Warrants	-	2,171	-	1,963
	-----	-----	-----	-----
	135,266	136,950	134,487	132,722
	=====	=====	=====	=====

4. On January 17, 1996, the Company acquired NexGen, Inc. (NexGen) in a transaction accounted for as a pooling-of-interests. All financial data and footnote information of the Company, including the Company's previously issued financial statements for the periods presented in this Form 10-Q, have been restated to include the historical financial information of NexGen in accordance with generally accepted accounting principles.

Separate results of the combining entities for the quarter and six months ended July 2, 1995 are as follows:

7

Quarter Ended	Six Months Ended
July 2, 1995	July 2, 1995
-----	-----
(Thousands)	(Thousands)

Net sales:		
AMD	\$ 626,214	\$ 1,246,310
NexGen	12,653	19,938
	-----	-----
	\$ 638,867	\$ 1,266,248
	=====	=====

Net income (loss):		
AMD	\$ 97,029	\$ 199,381
NexGen	(16,377)	(34,399)
	-----	-----
	\$ 80,652	\$ 164,982
	=====	=====

8

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF

 OPERATIONS AND FINANCIAL CONDITION

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

The statements in this Management's Discussion and Analysis of Results of Operations and Financial Condition that are forward looking are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially. The forward looking statements include estimates of 1996 gross margin, operating results, capital expenditures and adequacy of resources to fund operations and capital investments; the planned sale of the Senior Secured Notes (as defined below); the description of the New Credit Agreement (as defined below); future business prospects for microprocessors, Flash memory device products and other product lines; the development, validation, certification, introduction, market acceptance and pricing of the K86(TM) products; the impact of the Company's acquisition of NexGen, Inc. (NexGen); the Company's commitment to research and development; the planned build-out of Fab 25; external financing plans and financial instruments; and the proposed Dresden and FASL II manufacturing facilities. FASL II is the second Flash memory device wafer fabrication facility to be built by the Company's manufacturing joint venture with Fujitsu Limited, Fujitsu AMD Semiconductor Limited ("FASL"). See "Financial Condition" and "Risk Factors" below, as well as such other risks and uncertainties as are detailed in the Company's Securities and Exchange Commission reports and filings for a discussion of the factors that could cause the actual results to differ materially from the forward looking statements.

The following discussion should be read in conjunction with the attached Condensed Consolidated Financial Statements and Notes thereto, and with the Company's Supplemental Consolidated Financial Statements and Notes thereto at December 31, 1995 and December 25, 1994, and for each of the three years in the period ended December 31, 1995. On January 17, 1996, the Company acquired NexGen in a transaction accounted for as a pooling-of-interests. All financial data and footnote information of the Company, including the Company's previously issued financial statements for the periods discussed herein, have been restated to give retroactive effect to the merger with NexGen.

Am486 and Nx586 are registered trademarks of AMD.
 K86, K86 RISC SUPERSCALAR, AMD-K5, AMD-K6, SLAC, and Nx686 are trademarks of AMD.
 Windows and WindowsNT are registered trademarks of Microsoft Corporation.

9

RESULTS OF OPERATIONS

Net sales were \$455.1 million for the second quarter of 1996 as compared to \$638.9 million for the same period in 1995 and \$544.2 million for the first quarter of 1996. For the six month period ended June 30, 1996, net sales decreased to \$999.3 million from \$1,266.2 million for the comparable period

in 1995. Net sales decreased in the second quarter of 1996 and for the six month period ended June 30, 1996 as compared to the corresponding periods in 1995 primarily due to a decline in Am486(R) microprocessor sales, as both unit volume and average selling prices decreased significantly. Net sales in the second quarter of 1996 decreased from the immediately prior quarter primarily due to a decline in Flash memory device sales, as both unit volume and average selling prices declined, and secondarily due to a continued decline in Am486 microprocessor sales caused by a continued decline in average selling prices.

Communications and Components Group ("CCG") net sales were \$290.1 million for the second quarter of 1996 as compared to \$279.4 million for the same period in 1995 and \$348.3 million for the first quarter of 1996. For the six month period ended June 30, 1996, CCG net sales increased to \$638.5 million from \$535.1 million for the comparable period in 1995. CCG net sales increased in the second quarter of 1996 as compared to the same period in 1995 due to higher unit shipments of communications products. CCG net sales in the second quarter of 1996 decreased from the immediately prior quarter primarily due to sales declines in Flash memory devices, which constitute a significant portion of CCG net sales, and secondarily due to a decline in unit shipments of other CCG products, slightly offset by increases in sales of SLIC and SLAC(TM) devices. CCG net sales increased in the six month period ended June 30, 1996 as compared to the corresponding period in 1995 due to increased unit shipments of Flash memory devices and communications products. The market for the Company's Flash memory devices in 1996 has been characterized by increasing competition from all major manufacturers, falling prices, and weak unit demand. There can be no assurance that these trends will not continue or accelerate.

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

10

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

Gross margins were 17 percent for the second quarter of 1996 as compared to 51 percent for the same period in 1995 and 32 percent for the first quarter of 1996. For the six month period ended June 30, 1996, gross margins decreased to 25 percent from 51 percent for the comparable period in 1995. The decline in gross margins was in each case due to lower sales, underutilization of the Company's high fixed cost production facilities, particularly at its newest manufacturing facility, located in Austin, Texas ("Fab 25"), and provisions against higher than expected Flash memory device inventory levels. These factors may contribute to further declines in gross margins during the remainder of 1996.

Research and development expenses were \$92.8 million for the second quarter of 1996 as compared to \$105.7 million for the same period in 1995 and \$94.8 million for the first quarter of 1996. For the six month period ended June 30, 1996, research and development expenses decreased to \$187.5 million from \$202.6 million for the comparable period in 1995. The decline in research and development expenses was in each case due to a recategorization of Fab 25 expenses from research and development to cost of sales as Fab 25 commenced production in the third quarter of 1995.

Marketing, general and administrative expenses were \$83.1 million for the second quarter of 1996 as compared to \$106.6 million for the same period in 1995 and \$103.0 million for the first quarter of 1996. For the six month period ended June 30, 1996, marketing, general and administrative expenses decreased to \$186.1 million from \$209.3 million for the comparable period in 1995. Marketing, general and administrative expenses in the second quarter of 1996 decreased from the immediately prior quarter primarily due to non-recurring costs associated with the

11

NexGen merger in the first quarter of 1996. The decline in marketing, general and administrative expenses was in each other case due to the cessation of promotional expenses associated with NexGen's products, which the Company no longer offers.

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

Interest income and other, net was \$23.0 million for the second quarter of 1996 as compared to \$7.0 million for the same period in 1995 and \$28.1 million for the first quarter of 1996. For the six month period ended June 30, 1996, interest income and other, net increased to \$51.1 million from \$14.0 million for the comparable period in 1995. The Company's quarter and six-month results for the periods ended June 30, 1996 include pre-tax gains of \$16.3 million and \$41.0 million, respectively, resulting from the sales of equity investments.

Interest expense was \$1.8 million for the second quarter of 1996 as compared to \$0.5 million for the same period in 1995 and \$2.0 million for the first quarter of 1996. For the six month period ended June 30, 1996, interest expense increased to \$3.8 million from \$1.1 million for the comparable period in 1995. Interest expense increased in all periods of 1996 from 1995 due to lower capitalized interest mainly related to the completion of the first phase of construction of Fab 25.

During the second quarter of 1996, the Company recorded a tax credit of \$31.7 million. This results in an effective tax rate (benefit) of approximately 40 percent for the quarter and year-to-date reflecting the benefit of operating loss carrybacks to prior years. The income tax rate was 33 percent in both the second quarter and the first six months of 1995.

The Company incurred net losses of \$34.7 million, or \$0.26 per share, for the second quarter of 1996 as compared to net income of \$80.7 million, or \$0.59 per share fully diluted, for the same period in 1995 and net income of \$25.3 million, or \$0.18 per share fully diluted, for the first quarter

of 1996. For the six month period ended June 30, 1996, net losses were \$9.3 million, or \$0.07 per share, as compared to net income of \$165.0 million, or \$1.21 per share fully diluted, for the comparable period in 1995.

International sales were 53 percent of net sales in the second quarter of 1996 as compared to 58 percent for the same period in 1995 and 52 percent for the first quarter of 1996. For the six month period ended June 30, 1996, international sales

12

decreased to 52 percent of net sales from 57 percent for the comparable period in 1995. Approximately 17 percent of the Company's net sales were denominated in foreign currencies in the first six months of 1996. The Company does not have sales denominated in local currencies in those countries which have highly inflationary economies. (A highly inflationary economy is defined in accordance with the Statement of Financial Accounting Standards No. 52 as one in which the cumulative inflation over a three-year consecutive period approximates 100 percent or more.) The impact on the Company's operating results from changes in foreign currency rates individually and in the aggregate has not been material.

The Company enters into foreign exchange forward contracts to buy and sell currencies as economic hedges of the Company's foreign net monetary asset position including the Company's liabilities for products purchased from FASL. In 1995 and 1996, these hedging transactions were denominated in lira, yen, French franc, Deutsche mark, and pound sterling. The maturities of these contracts are generally short-term in nature. The Company believes its foreign exchange contracts do not subject the Company to material risk from exchange rate movements because gains and losses on these contracts are designed to offset losses and gains on the net monetary asset position being hedged. Net foreign currency gains and losses have not been material. As of June 30, 1996, the Company had approximately \$36.5 million (notional amount) of foreign exchange forward contracts as compared to \$72.8 million at March 31, 1996.

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

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

13

FINANCIAL CONDITION

The Company's working capital balance decreased to \$404.6 million at June 30, 1996 from \$480.2 million at March 31, 1996 and from \$461.5 million at December 31, 1995 primarily due to continued capital spending, particularly on Feb 25. The Company's operations required the use of \$50.0 million in cash for the six months ended June 30, 1996. The Company's cash, cash equivalents and short-term investments balance was approximately \$281.7 million at June 30, 1996 compared to \$409.3 million at March 31, 1996 and \$509.7 million at December 31, 1995.

The Company's capital investments and its recent operating performance have resulted in significant negative cash flow and the Company anticipates negative cash flow through the remainder of 1996. The Company is continuing

to make substantial capital investments in its process technology and manufacturing capacity based, in part, upon Company and industry projections regarding future growth in the market for integrated circuits. The Company plans to continue to make significant capital investments through the remainder of 1996, including an estimated \$215.0 million for Fab 25 and \$75.0 million related to the proposed Dresden submicron integrated circuit manufacturing facility, as described below. During the six months ended June 30, 1996, the Company made capital investments of approximately \$108.0 million in Fab 25.

The Company is currently planning to construct an 875,000 square foot submicron integrated circuit manufacturing and design facility in Dresden, in the State of Saxony, Germany (the "Dresden Facility") over the next five years at a presently estimated cost in Deutsche marks equivalent to approximately \$1.5 billion (under current exchange rates). It is presently intended that the Dresden Facility will be dedicated to the production of microprocessors and other advanced logic products. The governments of the Federal Republic of Germany and the State of Saxony have agreed to provide financing assistance for the Dresden Facility through grants and allowances in Deutsche marks in an aggregate amount equivalent to approximately \$350.0 million at current exchange rates, interest subsidies in Deutsche marks in an aggregate amount equivalent to approximately \$200.0 million at current exchange rates, and loan guarantees. Between 1996 and 1999, AMD currently intends to invest in the Dresden Facility, through a wholly owned subsidiary or through a wholly owned intermediate holding company, as appropriate (the "German Subsidiary"), an aggregate amount in Deutsche marks which is equivalent to approximately \$350.0 million at current exchange rates; of this amount, the Deutsche mark equivalent of \$150.0 million would be invested in the form of equity and approximately \$200.0 million would be invested in the form of equity or subordinated loans. The German Subsidiary will construct, own and operate the Dresden Facility, but the Company, as sole shareholder of the German Subsidiary, will control it. The German Subsidiary has signed an agreement to acquire the land necessary to commence construction of the Dresden Facility for a purchase price in Deutsche marks in an amount equivalent to approximately \$10.0 million at current exchange rates. The parcel consists of approximately 120 acres.

14

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

The Company is currently negotiating substantially all of the agreements relating to the construction, operation and financing of the Dresden Facility. It is presently expected that such agreements will be finalized during the fourth quarter of 1996. The negotiations presently contemplate that, in addition to the obligations discussed above, the Company (directly or indirectly) may be required to agree to (1) return all federal and state government grants, allowances and interest subsidies, or replace all such subsidies that are not made available, if the Company or the German Subsidiary fails to meet certain material obligations to the Federal Republic of Germany or the State of Saxony; (2) purchase the output of the Dresden Facility at transfer prices to be set pursuant to specific

formulas, except where the Dresden Facility is operating at less than 75% capacity because of a lack of market demand for the products being fabricated there (the Company's product purchase obligation can be terminated once the syndicated loan has been repaid or under circumstances relating to a change of control of the German Subsidiary or the destruction or abandonment of the Dresden Facility); (3) cause the German Subsidiary to undertake bona fide research and development activities at the design center of the Dresden Facility; (4) grant a non-exclusive license to the German Subsidiary to use, at the Dresden Facility and in products manufactured at the Dresden Facility, intellectual property developed at the Dresden design center; and (5) make equity contributions or subordinated loans to the German Subsidiary to fund cost overruns, exceeding certain amounts, in constructing the Dresden Facility.

In the event AMD agrees to purchase products from the German Subsidiary, the Indenture ("Indenture") under which Senior Secured Notes of the Company will be issued as described below provides that such purchases must occur at prices that

15

would provide the Company with a minimum contribution margin as defined in the Indenture.

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

The Company's total cash investment in FASL was \$160.4 million at the end of the second quarter of 1996 and at the end of 1995. No additional cash investment is currently planned for the remainder of 1996. In March of 1996, FASL began construction of FASL II at a site contiguous to the existing FASL facility in Aizu-Wakamatsu, Japan. The facility is expected to cost approximately \$1.1 billion when fully equipped. Capital expenditures for FASL II construction are expected to be funded by the cash anticipated to be generated from FASL operations and, if necessary, bank borrowings by FASL. However, in the event that FASL is unable to secure the necessary funds for FASL II, AMD may be required to contribute cash or guarantee third-party loans in proportion to its percentage interest in FASL. The planned FASL II costs are denominated in yen and, therefore, are subject to change due to foreign exchange rate fluctuations.

The Company is currently offering for sale \$400.0 million of Senior Secured Notes (the "Offering") due August 1, 2003 under its shelf registration statement declared effective by the Securities and Exchange Commission on May 17, 1994. The Offering is being underwritten by Donaldson, Lufkin & Jenrette Securities Corporation and BA Securities, Inc. It is presently anticipated that the closing of the Offering will occur during the week of August 12, 1996. Upon the sale of the Senior Secured Notes, the Company will have fully utilized its existing shelf registration statement. Interest on the Senior Secured Notes will accrue at the rate of 11 percent per annum and will be payable semi-annually in arrears on February 1 and August 1 of each year, commencing February 1, 1997. Except as described under "Asset Sales, Collateral Asset Sales and Events of Loss" and "Change of Control" in the Indenture under which the Senior Secured Notes will be issued, the Company will not be required to make mandatory redemption or sinking fund payments with respect to the Senior Secured Notes. The Senior Secured Notes will not be redeemable at the Company's option prior to August 1, 2001. Thereafter, the Senior Secured Notes will be subject to redemption at the option of the Company, in whole or in part, at a premium.

On July 19, 1996, the Company entered into an agreement, which was amended on August 7, 1996, with three commercial banks which provides for a new \$400.0 million term loan and revolving credit facility which will become available concurrently with the sale of the Senior Secured Notes (as amended, the "New Credit Agreement"). Prior to January 1, 1997 the Indenture will limit the aggregate borrowings which can be made under the New Credit Agreement to \$250.0 million. The New Credit Agreement will replace the Company's existing unsecured, and currently unused, \$250.0

million line of credit and its unsecured \$150.0 million four-year term loan. The Company will use a portion of the proceeds of the Offering to repay the existing \$150.0 million term loan. The New Credit Agreement provides for a \$150.0 million three-year secured revolving line of credit (which can be extended for one additional year, subject to

16

approval of the lending banks) and a \$250.0 million four-year secured term loan which is available to the Company for a period of six months after the effective date of the New Credit Agreement (July 19, 1996) and which the Company expects to utilize fully. Borrowings under the New Credit Agreement are subject to the issuance of the Senior Secured Notes among other conditions. The Senior Secured Notes and borrowings under the New Credit Agreement will be secured by one or more deeds of trust and security agreements representing a first priority security interest, subject to the terms of an intercreditor and collateral agency agreement between the bank lenders under the New Credit Agreement and the Indenture Trustee under the Indenture pursuant to which the Senior Secured Notes will be issued, in substantially all of the Company's real property, plant and equipment at Fab 25 and ancillary buildings.

Assuming consummation of the Offering, the net proceeds to the Company from the Offering, after deducting underwriting discounts and commissions and estimated expenses of the Offering, are expected to be approximately \$389.0 million. The Company intends to use \$150.0 million of the net proceeds to repay its existing four-year term bank loan which matures on January 5, 1999. The Company expects to use the balance of the net proceeds of approximately \$238.5 million for general corporate purposes.

As of June 30, 1996, the Company's available financial resources were (i) \$281.7 million of cash, cash equivalents, and short-term investments, (ii) unsecured committed bank lines of credit of \$250.0 million, and (iii) short-term, unsecured uncommitted bank credit in the amount of \$80.0 million.

Assuming consummation of the Offering and following the intended use of \$150.0 million of the net proceeds to repay the Company's existing \$150.0 million four-year term loan, the Company's available financial resources, as of June 30, 1996, would consist on a pro forma basis of (i) \$520.2 million of cash, cash equivalents and short-term investments, (ii) the undrawn \$150.0 million three-year secured and revolving line of credit discussed above, (iii) the undrawn \$250.0 million secured term loan discussed above, and (iv) short-term, unsecured uncommitted bank credit in the amount of \$80.0 million.

The Company's current capital plan and requirements are based on the availability of financial resources and various product-mix, selling-price, and unit-demand assumptions and are, therefore, subject to revision.

The Company's present business plan envisions substantial outlays requiring external capital financing which the Company intends to obtain from the proceeds of the sale of the Senior Secured Notes and borrowings under the New Credit Agreement. If the

17

sale of the Senior Secured Notes is not consummated, the credit facilities provided for in the New Credit Agreement will not become available to the Company. There can be no assurance that the sale of the Senior Secured Notes will be consummated. Failure to obtain the requisite external capital financing could have a material adverse effect on the Company.

The Company believes that current cash balances, together with cash flows, including anticipated external financing provided by the Offering and the New Credit Agreement, will be sufficient to fund operations and capital investments currently planned for the remainder of 1996.

RISK FACTORS -----

The Company's business, results of operations and financial condition are

subject to the following risk factors:

Microprocessor Products

Intel Dominance. Intel Corporation ("Intel") has long held a dominant position in the market for microprocessors used in personal computers ("PCs"). Intel's dominant market position has to date allowed it to set x86 microprocessor standards and thus dictate the type of product the market requires of Intel's competitors. In addition, Intel's financial strength has enabled it to reduce prices on its microprocessor products within a short period of time following their introduction, which reduces the margins and profitability of its competitors. AMD believes that the process technologies used in the fabrication of the Company's microprocessors are currently somewhat behind those of Intel. The Company expects Intel to continue to invest heavily in research and development and new manufacturing facilities and to maintain its dominant position through advertising campaigns designed to engender brand loyalty to Intel among PC purchasers. In addition to its dominant microprocessor market share, Intel also dominates the PC platform in other manners. For example, Intel has obtained a dominant market share in sales of 64-bit or Pentium-class core logic chip sets, has emerged as the world's largest motherboard manufacturer, has become a significant manufacturer of personal computers, incorporating Intel microprocessors, chip sets, motherboards and other Intel-designed components for resale by third-party original equipment manufacturers ("OEMs") under such OEMs' names, and has purchased an equity interest in Phoenix Technologies Ltd., a company which has a significant share of the market for BIOS software (basic input/output system software encoded in read-only memory which controls access to devices connected to a PC, such as the monitor and the serial communications port). The Company does not have the financial resources to compete with Intel on such a large scale. As long as Intel remains in this dominant position, its product introduction

18

schedule, product pricing strategy and customer brand loyalty may continue to have a material adverse effect on the Company, as they have had in the past.

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

Dependence on New AMD Microprocessor Products. Am486 microprocessor products contributed a significant portion of AMD's revenues, profits and

margins in 1994 and 1995. AMD expects Am486 microprocessor revenues, profits and margins in 1996 to be significantly below those of 1995. As the product life cycle of fourth-generation x86 products declines, AMD's ability to maintain or expand its current levels of revenues from microprocessor products, and its ability to benefit fully from the substantial financial commitments it has made to process technologies and integrated circuit manufacturing facilities dedicated to the production of microprocessors, will depend upon its success in developing and marketing in a timely manner its next generations of microprocessor products, the K86 RISC Superscalar(TM) products. The Company recently began shipping its first K86 products including the 100 MHz AMD-K5 products which are designed to be competitive with the Pentium, Intel's fifth generation microprocessor. The Company anticipates

19

that the AMD-K5 microprocessor, which was introduced relatively late in the life cycle of fifth generation microprocessor products, will be a transitional product, unlikely to result in the levels of revenue for the Company realized from the Am486 microprocessor. The Company's AMD-K5 products have not, to date, achieved substantial market acceptance, which has had and continues to have a material adverse effect on the Company. The Company acquired NexGen, Inc. ("NexGen") in January 1996, in part, to accelerate the introduction of its microprocessor products, particularly its sixth generation products. The Company is modifying NexGen's sixth-generation design using AMD's design, verification and manufacturing technologies. With these changes, AMD intends to develop and produce the AMD-K6 microprocessor. AMD does not expect any sales of the AMD-K6 products in 1996. The Company intends to begin volume shipments of the AMD-K6 products in the first half of 1997, although no assurance can be given that such shipments will occur. The Company's production and sales plans for K86 microprocessors, including the AMD-K6 microprocessor, are subject to numerous risks and uncertainties, including the timing of the introduction of future AMD-K5 products and of AMD-K6 products, the possibility that volume shipments of the AMD-K6 may be delayed due to the time required to verify operating systems and application software compatibility, the development of market acceptance for the AMD-K5 and AMD-K6 products particularly with leading OEMs of PCs, the effects of marketing and pricing strategies adopted by Intel, the possible adverse effects of existing and future customer inventory levels, the pace at which the Company is able to ramp production of fifth and sixth generation microprocessors in Feb 25, the possibility that products newly introduced by the Company may be found to be defective, possible adverse conditions in the personal computer market and unexpected interruptions in the Company's manufacturing operations. A failure of the Company's K86 products, particularly the AMD-K6, to be timely introduced or to achieve market acceptance, would have a material adverse effect on the Company.

Dependence on Market Acceptance of x86 Standard and Dominance of Windows. Customer acceptance of AMD's K86 products will depend upon the continued demand for x86-based personal computers, including the continued development of application software programs for such computers. There can be no assurance of the continued acceptance of the x86 standard or that software developers will continue to develop software compatible with this standard. AMD's K86 products will face competition not only from x86 products manufactured by Intel and others but also from products based upon an increasing number of different architectures which have been developed or are under development by Hewlett-Packard, IBM, Motorola, Silicon Graphics, Sun Microsystems, Digital Equipment Corporation and other manufacturers of integrated circuits. Several of these manufacturers, such as Motorola, Digital Equipment Corporation, Silicon Graphics and Sun Microsystems, produce microprocessors which are designed to be compatible with such operating systems as WindowsNT(R) and UNIX but not with Windows(R). Currently, as a result of the dominance of the Windows operating system, which operates with x86 based PCs, AMD is able to market its microprocessors without significant competition from these manufacturers. AMD would lose much of this advantage if the Microsoft Windows operating system should be displaced as the dominant operating system software by one or more other systems, such as WindowsNT or UNIX. A reduction

20

in the market acceptance of either the x86 standard or the Windows operating system could have a material adverse effect on the Company.

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

Acquisition of NexGen. AMD believes that its acquisition of NexGen is important to the development and introduction of its K86 products, particularly the AMD-K6 microprocessor. Achieving the anticipated benefits of the acquisition will depend in part upon whether the integration of the two companies' businesses is accomplished in an efficient and effective manner, and there can be no assurance that this will occur. The inability of management to integrate the operations of the two companies successfully could have a material adverse effect on the Company. In addition, as commonly occurs with mergers of technology companies, aggressive competitors may undertake formal initiatives during the integration phase to attract customers and to recruit key employees through various incentives. AMD has acquired and is currently developing new technologies to manufacture its sixth generation microprocessor which will utilize NexGen's sixth generation design as modified by AMD. A costly reconfiguration of its facilities may be required to implement these new technologies. There can be no assurance that AMD will be successful in implementing these new technologies even with a reconfiguration of its facilities. If the new technologies cannot be successfully implemented or if AMD encounters other difficulties in manufacturing its sixth generation microprocessors, such an event would have a material adverse effect on the Company.

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

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

21

produced by AMD, the profit margin achievable with respect to such products, or both.

Manufacturing

Underutilized Capacity. The Company's manufacturing facilities are currently underutilized as a result of reduced demand for certain of the Company's products and may remain so until the Company has developed new products and such products have achieved market acceptance. The Company's operations related to microprocessors are particularly affected by this situation. The underutilization of the Company's manufacturing facilities is having, and could continue to have, a material adverse effect on the Company. The Company plans to increase its manufacturing capacity by making significant capital investments in Fab 25 and in its German Subsidiary which will construct an integrated circuit manufacturing facility, which is presently intended to be dedicated to the production of microprocessors and other advanced logic products. In addition, FASL plans to construct a second Flash memory device manufacturing facility. There can be no assurance that the industry projections regarding future growth in the markets for integrated circuits upon which the Company is basing its

strategy of increasing its manufacturing capacity will prove to be accurate. If demand for the Company's products does not increase, the underutilization of the Company's manufacturing facilities will likely increase and have a material adverse effect on the Company.

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

Commitments to Facilities Dedicated to Specific Products. The Company has made and plans to continue to make substantial capital investments in integrated circuit manufacturing facilities dedicated to the production of specific product lines. AMD has invested over \$860.0 million in the Fab 25 integrated circuit manufacturing facility and ancillary buildings as of June 30, 1996, and currently expects to have invested over \$1.2 billion by the end of 1997 and over \$1.6 billion by the end of 1999, although the Company is not obligated to make such further investments. Fab 25 is currently dedicated to the production of Microsoft Windows compatible microprocessors. Other facilities of the Company are also dedicated to the production

22

of specific product lines. In addition, the Company's German Subsidiary currently plans to construct a semiconductor manufacturing facility, at an estimated cost of \$1.5 billion over 5 years, which will be dedicated to the production of microprocessors. Significant time and expense would be incurred were the Company to alter any of its facilities so that they could be used to produce other integrated circuit products. Any such alteration, resulting from a need to respond to changes in the markets for the Company's products or otherwise, could have a material adverse effect on the Company.

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

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

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

International Manufacturing. Nearly all product assembly and final testing of AMD's products are performed at its manufacturing facilities in Penang, Malaysia; Singapore; and Bangkok, Thailand; or by subcontractors in Asia.

Foreign manufacturing entails political and economic risks, including political instability, expropriation, currency controls and fluctuations, changes in freight and interest rates, and loss or modification of exemptions for taxes and tariffs. For example, if AMD were unable to assemble and test its products abroad, or if air transportation between the United States and AMD's overseas facilities were disrupted, there could be a material adverse effect on the Company.

23

Other Risk Factors

Debt Restrictions. The New Credit Agreement contains, and the indenture to be entered into in connection with the sale of the Senior Secured Notes (the "Indenture") will contain, significant covenants that will limit the Company's and its subsidiaries' ability to engage in various transactions and, in certain cases, require satisfaction of specified financial performance criteria. In addition, the occurrence of certain events (including, without limitation, failure to comply with the foregoing covenants, material inaccuracies of representations and warranties, certain defaults under or acceleration of other indebtedness and events of bankruptcy or insolvency) would, in certain cases after notice and grace periods, constitute events of default permitting acceleration of the indebtedness under the New Credit Agreement and the Indenture. The limitations imposed by the New Credit Agreement and the Indenture will be substantial, and failure to comply with such limitations could have a material adverse effect on the Company.

Importance of Flash Memory Device Business; Recent Pricing Weakness. The market for Flash memory devices has recently experienced rapid growth and is likely to become increasingly competitive as additional manufacturers introduce competitive products and production capacity in the industry increases. The Company's primary competition with respect to Flash memory devices is Intel. A substantial portion of the Company's revenues are derived from sales of Flash memory devices, and the Company expects that this will continue to be the case. In the first quarter of 1996, the Company experienced declines in the selling prices of Flash memory devices, and in the second quarter, both demand for the products and their selling prices declined. There can be no assurance that the Company will be able to maintain its market share in Flash memory devices or that price declines may not accelerate as the market develops and as new competitors emerge. A decline in the Company's Flash memory device business could have a material adverse effect on the Company.

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

Technological Change and Industry Standards. The market for AMD's products is generally characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and

24

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

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

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

In each particular market in which it participates, the Company faces competition from different groups of companies. AMD, Fujitsu and Intel are the world's largest producers of Flash memory devices. Sharp and Atmel Corporation are also participants in the market. With respect to CCG's other product lines, the Company's primary competitors are: SGS Thomson and Texas Instruments with respect to EPROMs; Siemens, NEC, LM Erickson, Alcatel and other large producers of voice communications equipment with respect to line cards; National Semiconductor,

25

3Com and Intel with respect to networking products; and Motorola, Intel, Texas Instruments and SGS Thomson with respect to embedded processors. In PLD's market, the Company's principal competitors are Altera, Lattice Semiconductor and other smaller companies focused on programmable logic device development and production. With respect to microprocessors, Intel holds a dominant position which has to date allowed it to set x86 microprocessor standards and thus dictate the type of product the market requires of Intel's competitors. See "--Microprocessor Products--Intel Dominance." The Company's principal competitors with respect to the network and I/O products include: National Semiconductor, Intel, 3Com, Digital Equipment Corporation, Fujitsu and Seeq with respect to Ethernet local area network products; and Western Digital and Hyundai with respect to SCSI disk host controllers.

Fluctuations in Operating Results. AMD's operating results are subject to substantial quarterly and other fluctuations due to a variety of factors, including the effects of competition with Intel in the microprocessor industry, competitive pricing pressures, anticipated decreases in unit average selling prices of AMD's products, fluctuations in manufacturing yields, availability and cost of products from AMD's suppliers, the gain or loss of significant customers, new product introductions by AMD or its

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

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

26

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

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

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

From time to time, AMD has been notified that it may be infringing intellectual property rights of others. If any such claims are asserted against AMD, AMD may seek to obtain a license under the third party's intellectual property rights. AMD could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time consuming and could materially adversely affect the Company. For example, for many years the Company was involved in intellectual property litigation with Intel which was settled in 1995. The litigation required substantial resources of the Company. No assurance can be given that all necessary licenses can be obtained on satisfactory terms, or that litigation may always be avoided or successfully concluded.

Environmental Regulations. The failure to comply with present or future

governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in the manufacturing process could result in fines being imposed on AMD, suspension of production, alteration of AMD's manufacturing processes or cessation of operations. Such regulations could require AMD to acquire expensive remediation equipment or to incur other expenses

27

to comply with environmental regulations. Any failure by AMD to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject AMD to future liabilities and could have a material adverse effect on the Company.

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

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

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

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

28

II. OTHER INFORMATION

Item 1. Legal Proceedings

Advanced Micro Devices, Inc. v. Altera Corporation (Case No. C94-20567-RMW, U.S. District Ct., San Jose, California). This litigation, which began in 1994, involves multiple claims and counterclaims for patent infringement relating to the Company's and Altera Corporation's programmable logic devices. On June 21, 1996, the jury returned a verdict favorable to Altera. The Company has filed a motion seeking to set aside the verdict. If the motion is denied, the parties have stipulated that the court, not a jury, will decide which of the AMD patents-in-suit fall within the scope of the license that the jury found. Based upon information presently known to management the Company does not believe that the ultimate resolution of this lawsuit will have a material adverse effect upon the financial condition or results of operations of the Company.

29

Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of stockholders was held on April 25, 1996. The following are the results of the voting on the proposals submitted to stockholders at the annual meeting.

Proposal No. 1 - Election of Directors. The following

individuals were elected as directors:

NAME	FOR	WITHHELD
W. J. Sanders III	106,104,973	3,739,496
Friedrich Baur	106,195,691	3,648,778
Charles M. Blalack	106,421,611	3,422,858
R. Gene Brown	106,467,916	3,376,553
S. Atiq Raza	105,997,932	3,846,537
Richard Previte	106,159,355	3,685,114
Joe L. Roby	105,704,564	4,139,905
Leonard Silverman	106,439,767	3,404,702

Proposal No. 2 - The proposal to ratify the appointment of Ernst & Young LLP, as the Company's independent auditors for the current fiscal year was approved.

For: 109,136,095 Against: 384,768 Abstain: 323,606

Proposal No. 3 - The proposal to approve the 1996 Stock Incentive Plan was approved.

For: 99,184,839 Against: 8,532,428 Abstain: 2,127,202

Proposal No. 4 - The proposal to approve the 1996 Executive Incentive Plan was approved.

For: 104,105,617 Against: 3,623,044 Abstain: 2,115,808

Other - A proposal by the New York City Employees' Retirement System ("NYCERS") requesting that the Board of Directors establish a nominating committee consisting solely of independent directors (as defined in the proposal) was not properly brought before the annual meeting for a vote because a representative of NYCERS failed to attend the meeting and offer the proposal for consideration and approval. If the proposal had been properly presented, it would have been defeated based upon the shares of AMD's common stock present in person or represented by proxy and entitled to vote at the annual meeting.

30

Item 6. Exhibits and Reports on Form 8-K

- (a). Exhibits
- | | |
|----------|--|
| 10.11 | Advanced Micro Devices, Inc. 1996 Stock Incentive Plan, filed as Exhibit 99 to the Corporation's Form S-8 Registration Statement (No. 333-04797) filed on May 30, 1996, is hereby incorporated by reference. |
| 10.14(b) | 1996 Executive Incentive Plan |
| 10.37 | 1995 Stock Plan of NexGen, Inc. (assumed by Advanced Micro Devices, Inc.) as amended. |
| 27.1 | Financial Data Schedule |

(b). Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter for which this report is filed:

1. Current Report on Form 8-K dated April 1, 1996 reporting under Item 5 - Other Events - lower than expected first quarter earnings.
2. Current Report on Form 8-K dated April 9, 1996 reporting under Item 5 - Other Events - first quarter earnings.

3. Current Report on Form 8-K dated June 19, 1996 reporting under Item 5 - Other Events - Supplemental Consolidated Financial Statements.
4. Current Report on Form 8-K dated June 20, 1996 reporting under Item 5 - Other Events - lower than expected second quarter earnings.

31

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

ADVANCED MICRO DEVICES, INC.

Date: August 7, 1996

By: /s/ Geoffrey Ribar

Geoffrey Ribar
Vice President and
Corporate Controller

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

32

EXHIBIT INDEX

Exhibits

- | | |
|----------|--|
| 10.11 | Advanced Micro Devices, Inc. 1996 Stock Incentive Plan, filed as Exhibit 99 to the Corporation's Form S-8 Registration Statement (No. 333-04797) filed on May 30, 1996, is hereby incorporated by reference. |
| 10.14(b) | 1996 Executive Incentive Plan |
| 10.37 | 1995 Stock Plan of NexGen, Inc. (assumed by Advanced Micro Devices, Inc.) as amended. |
| 27.1 | Financial Data Schedule |

ADVANCED MICRO DEVICES, INC.

EXECUTIVE INCENTIVE PLAN
FEBRUARY, 1996

1. PURPOSES

The purposes of the Advanced Micro Devices, Inc. (AMD) Executive Incentive Plan are to motivate the Company's key employees to improve stockholder value by linking a portion of their cash compensation to the Company's financial performance, reward key employees for improving the Company's financial performance, and help attract and retain key employees.

2. DEFINITIONS

- A. "Award" means any cash incentive payment made under the Plan.
- B. "Code" means the Internal Revenue Code of 1986, as amended.
- C. "Committee" means the Compensation Committee of AMD's Board of Directors, or such other committee designated by that Board of Directors, which is authorized to administer the Plan under Section 3 hereof. The Committee shall be comprised solely of directors who are outside directors under Section 162(m) of the Code.
- D. "Company" means AMD and any corporation or other business entity of which AMD (i) directly or indirectly has an ownership interest of 50% or more, or (ii) has a right to elect or appoint 50% or more of the board of directors or other governing body.
- E. "Key Employee" means any employee of the Company whose performance the Committee determines can have a significant effect on the success of the Company.
- F. "Participant" means any Key Employee to whom an Award is granted under the Plan.
- G. "Plan" means this Plan, which shall be known as the AMD Executive Incentive Plan.

3. ADMINISTRATION

A. The Plan shall be administered by the Committee. The Committee shall have the authority to:

- (i) interpret and determine all questions of policy and expediency pertaining to the Plan;
- (ii) adopt such rules, regulations, agreements and instruments as it deems necessary for its proper administration;
- (iii) select Key Employees to receive Awards;
- (iv) determine the terms of Awards;
- (v) determine amounts subject to Awards (within the limits prescribed in the Plan);
- (vi) determine whether Awards will be granted in replacement of or as alternatives to any other incentive or compensation plan of the Company or an acquired business unit;
- (vii) grant waivers of Plan or Award conditions (other than Awards intended to qualify under Section 162(m) of the Code);
- (viii) accelerate the payment of Awards (but with respect to Awards intended to qualify under Section 162(m) of the Code, only as permitted under that Section);
- (ix) correct any defect, supply any omission, or reconcile any inconsistency in the Plan, any Award or any Award notice;
- (x) take any and all other actions it deems necessary or advisable for the proper administration of the Plan;

- (xi) adopt such Plan procedures, regulations, subplans and the like as it deems are necessary to enable Key Employees to receive Awards; and
- (xii) amend the Plan at any time and from time to time, provided however that no amendment to the Plan shall be effective unless approved by the Company's stockholders, to the extent such stockholder approval is required under Section 162(m) of the Code with respect to Awards which are intended to qualify under that Section.

B. The Committee may delegate its authority to grant and administer Awards to a separate committee; however, only the Committee may grant and administer Awards which are intended to qualify as performance-based compensation under Section 162(m) of the Code.

4. ELIGIBILITY

Only Key Employees as designated by the Committee are eligible to become Participants in the Plan.

5. PERFORMANCE GOALS

A. The Committee shall establish performance goals applicable to a particular fiscal year (or performance period) prior to its start, provided, however, that such goals may be established after the start of the fiscal year (or performance period) but while the outcome of the performance goal is substantially uncertain if such a method of establishing performance goals is permitted under proposed or final regulations issued under Code Section 162(m).

B. Each performance goal applicable to a fiscal year shall identify one or more business criteria of the Company and/or any business unit that are to be monitored during the fiscal year (or performance period), such as:

- . Net income
- . Earnings per share
- . Return on investment
- . Operating income
- . Strategic positioning programs
- . Cash flow
- . Stockholder return
- . Revenue
- . Revenue growth
- . Market share
- . Return on net assets
- . Return on equity
- . New product releases

C. The Committee shall determine the target level of performance that must be achieved with respect to each criterion that is identified in a performance goal in order for a performance goal to be treated as attained.

D. The Committee may base performance goals on one or more of the foregoing business criteria. In the event performance goals are based on more than one business criterion, the Committee may determine to make Awards upon attainment of the performance goal relating to any one or more of such criteria, provided the performance goals, when established, are stated as alternatives to one another at the time the performance goal is established.

6. AWARDS

A. Awards may be made on the basis of Company and/or business unit performance goals and formulas determined by the Committee. During any fiscal year of the Company, no Participant shall receive an Award of more \$5,000,000.

B. The Committee, in its discretion, may reduce or eliminate a Participant's Award at any time before it is paid, whether or not calculated on the basis of pre-established performance goals or formulas.

C. The payment of an Award requires that the Participant be on the Company's payroll as of the last day of the fiscal year (or performance period). The Committee may make exceptions to this requirement in the case of retirement, death or disability, as determined by the Committee in its sole discretion.

D. The Company shall withhold all applicable federal, state, local and

foreign taxes required by law to be paid or withheld relating to the receipt or payment of any Award.

- E. At the discretion of the Committee, payment of an Award or any portion thereof may be deferred until a time established by the Committee. Deferrals shall be unfunded and shall be made in accordance with guidelines established by the Committee to ensure that such deferrals comply with applicable requirements of the Code and its regulations. Deferrals shall be initiated by the delivery of a written, irrevocable election by the Participant to the Committee or its nominee. Such election shall be made prior to the date specified by the Committee. The Committee may also credit earnings on cash payments that are deferred and set the rates of such interest.

7. GENERAL

- A. The Plan shall become effective as of January 1, 1996, subject to stockholder approval of the Plan prior to January 1, 1996 or within twelve months thereafter.
- B. Any rights of a Participant under the Plan shall not be assignable by such Participant, by operation of law or otherwise, except by will or the laws of descent and distribution. No Participant may create a lien on any funds or rights to which he or she may have an interest under the Plan, or which is held by the Company for the account of the Participant under the Plan.
- C. Participation in the Plan shall not give any Key Employee any right to remain in the employ of the Company. Further, the adoption of this Plan shall not be deemed to give any Key Employee or other individual the right to be selected as a Participant or to be granted an Award.
- D. To the extent any person acquires a right to receive payments from the Company under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company.
- E. The Plan shall be governed by and construed in accordance with the laws of the State of California.
- F. The Board may amend or terminate the Plan (i) at any time and for any reason subject to stockholder approval and (ii) at any time and for any reason if and to the extent the Plan's qualification under Section 162(m) of the Code would not be adversely affected.

EXHIBIT 10.37

1995 STOCK PLAN OF NEXGEN, INC.

(As Amended Effective April 25, 1996)

TABLE OF CONTENTS

	Page

SECTION 1. ESTABLISHMENT AND PURPOSE.....	1
SECTION 2. DEFINITIONS.....	1
SECTION 3. ADMINISTRATION.....	4
(a) Committee Membership.....	4
(b) Committee Procedures.....	5
(c) Committee Responsibilities.....	5
SECTION 4. ELIGIBILITY.....	6
(a) General Rules.....	6
(b) Outside Directors.....	6
(c) Ten-Percent Stockholders.....	8
(d) Attribution Rules.....	8
(e) Outstanding Stock.....	8
SECTION 5. STOCK SUBJECT TO PLAN.....	8
(a) Basic Limitation.....	8
(b) Additional Shares.....	9
SECTION 6. TERMS AND CONDITIONS OF AWARDS OR SALES.....	9
(a) Stock Purchase Agreement.....	9
(b) Duration of Offers and Nontransferability of Rights.....	9
(c) Purchase Price.....	9
(d) Withholding Taxes.....	9
(e) Restrictions on Transfer of Shares.....	10
SECTION 7. TERMS AND CONDITIONS OF OPTIONS.....	10
(a) Stock Option Agreement.....	10
(b) Number of Shares.....	10
(c) Exercise Price.....	10
(d) Withholding Taxes.....	10
(e) Exercisability.....	11
(f) Term.....	11
(g) Nontransferability.....	11
(h) No Rights as a Stockholder.....	11
(i) Modification, Extension and Renewal of Options.....	11
(j) Restrictions on Transfer of Shares.....	12
SECTION 8. PAYMENT FOR SHARES.....	12
(a) General Rule.....	12
(b) Surrender of Stock.....	12
(c) Exercise/Sale.....	12
(d) Exercise/Pledge.....	13
(e) Services Rendered.....	13
(f) Promissory Note.....	13

SECTION 9. ADJUSTMENT OF SHARES..... 13
 (a) General..... 13
 (b) Reorganizations..... 14
 (c) Reservation of Rights..... 14

SECTION 10. SECURITIES LAWS..... 14

SECTION 11. NO RETENTION RIGHTS..... 14

SECTION 12. DURATION AND AMENDMENTS..... 15
 (a) Term of the Plan..... 15
 (b) Right to Amend or Terminate the Plan..... 15
 (c) Effect of Amendment or Termination..... 15

1995 STOCK PLAN OF NEXGEN, INC.

SECTION 1. ESTABLISHMENT AND PURPOSE.

The Plan was adopted by the Board of Directors of NexGen, Inc. (the "NexGen Board") on March 12, 1995, thereafter amended by the NexGen Board on May 10, 1995 and December 8, 1995. Effective upon the merger of NexGen, Inc. with and into Advanced Micro Devices, Inc. ("AMD") on January 17, 1996, AMD assumed the Plan as the successor to NexGen. The AMD Board of Directors amended the Plan on February 7, 1996 and April 25, 1996. The purpose is to offer to selected employees, consultants and promotional representatives an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares of the Company's Common Stock. The Plan provides both for the direct award or sale of Shares and for the grant of Options to purchase Shares. Options granted under the Plan may include Nonstatutory Options as well as ISOs intended to qualify under section 422 of the Code.

The Plan is intended to comply in all respects with Rule 16b-3 (or its successor) under the Exchange Act and shall be construed accordingly.

SECTION 2. DEFINITIONS.

(a) "Board of Directors" shall mean the Board of Directors of the Company,

 as constituted from time to time.

(b) "Change in Control" shall mean the occurrence of either of the

 following events:

(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 (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or any of its affiliates) representing more than 20% of either the then outstanding shares of the Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities;

(ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors and any new director (other than a director designated by a person who has entered into an agreement or arrangement with the Company to effect a transaction described in clause (i) or (iii) of this sentence) whose appointment, election, or nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election, or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board of Directors;

(iii) there is consummated a merger or consolidation of the Company or a Subsidiary thereof with or into any other corporation, other than a merger or consolidation which would result in the holders of the voting securities of the Company 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 the Company or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there is consummated the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 80% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing (i) no "Change of Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the Common Stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately prior to such transaction or series of transactions and (ii) "Change of Control" shall exclude the acquisition of securities representing more than 20% of either the then outstanding shares of the Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities by the Company or any of its wholly owned Subsidiaries, or any trustee or other fiduciary holding securities of the Company under an employee benefit plan now or hereafter established by the Company.

-1-

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(d) "Committee" shall mean a committee of the Board of Directors, as

described in Section 3(a).

(e) "Company" shall mean NexGen, Inc., a Delaware corporation, its parent

corporation, or its successor.

(f) "Employee" shall mean:

(i) Any individual who is a common-law employee of the Company or of a Subsidiary;

(ii) An Outside Director; and

(iii) An independent contractor who performs services for the Company or a Subsidiary and who is not a member of the Board of Directors.

Service as an Outside Director or independent contractor shall be considered employment for all purposes of the Plan, except as provided in Section 4(a).

(g) "Exchange Act" shall mean the Securities Exchange Act of 1934, as

amended.

(h) "Exercise Price" shall mean the amount for which one Share may be

purchased upon exercise of an Option, as specified by the Committee in the applicable Stock Option Agreement.

(i) "Fair Market Value" shall mean the market price of Stock, determined

by the Committee as follows:

(i) If Stock was traded over-the-counter on the date in question but was not traded on the Nasdaq system or the Nasdaq National Market System, then the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which Stock is quoted or, if Stock is not quoted on any such system, by the "Pink Sheets" published by the National Quotation Bureau, Inc.;

(ii) If Stock was traded over-the-counter on the date in question and was traded on the Nasdaq system or the Nasdaq National Market System, then the Fair Market Value

-2-

shall be equal to the last-transaction price quoted for such date by the Nasdaq system or the Nasdaq National Market System;

(iii) If Stock was traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite-transactions report for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

(j) "IPO" means the initial offering of Stock to the public pursuant to a registration statement filed with the Securities and Exchange Commission on Form S-1.

(k) "ISO" shall mean an employee incentive stock option described in section 422(b) of the Code.

(l) "Nonstatutory Option" shall mean a stock option not described in sections 422(b) or 423(b) of the Code.

(m) "Offeree" shall mean an individual to whom the Committee has offered the right to acquire Shares under the Plan (other than upon exercise of an Option).

(n) "Option" shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares.

(o) "Optionee" shall mean an individual who holds an Option.

(p) "Outside Director" shall mean a member of the Board of Directors who is not a common-law employee of the Company or of a Subsidiary.

(q) "Plan" shall mean this 1995 Stock Plan of NexGen, Inc., as it may be amended from time to time.

(r) "Purchase Price" shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee.

(s) "Service" shall mean service as an Employee.

(t) "Share" shall mean one share of Stock, as adjusted in accordance with Section 9 (if applicable).

-3-

(u) "Stock" shall mean the Common Stock of the Company.

(v) "Stock Option Agreement" shall mean the agreement between the Company

and an Optionee which contains the terms, conditions and restrictions pertaining to his or her Option.

(w) "Stock Purchase Agreement" shall mean the agreement between the

Company and an Offeree who acquires Shares under the Plan which contains the terms, conditions and restrictions pertaining to the acquisition of such Shares.

(x) "Subsidiary" shall mean any corporation, if the Company and/or one or

more other Subsidiaries own not less than 50 percent of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(y) "Total and Permanent Disability" shall mean that the Optionee is

unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

(z) "Vesting Start Date," in the case of an Outside Director, shall mean

the latest of:

(i) The date of the IPO;

(ii) The earliest date when the Outside Director no longer holds unexercisable options to purchase more than 10,000 Shares that were granted to him or her by the Company prior to the IPO; or

(iii) The date when the Outside Director first joins the Board of Directors.

SECTION 3. ADMINISTRATION. -----

(a) Committee Membership. The Plan shall be administered by the

Committee. The Committee shall consist of two or more members of the Board of Directors who meet the requirements established from time to time by:

(i) The Securities and Exchange Commission for plans intended to qualify for exemptions under Rule 16b-3 (or its successor) under the Exchange Act; and

(ii) The Internal Revenue Service for plans intended to qualify for an exemption under section 162(m)(4)(C) of the Code.

-4-

An Outside Director shall not fail to meet such requirements solely because he or she receives the Nonstatutory Options described in Section 4(b). The Board of Directors may appoint a separate committee, consisting of one or more members of the Board of Directors who need not meet such requirements. Such committee may administer the Plan with respect to Employees who are not officers or directors of the Company, may grant Shares and Options under the Plan to such Employees and may determine the timing, number of Shares and other terms of such grants.

(b) Committee Procedures. The Board of Directors shall designate one of

the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The acts of a majority of the Committee members present at meetings at which a quorum exists, or acts reduced to or approved in writing by all Committee members, shall be valid acts of the Committee.

(c) Committee Responsibilities. Subject to the provisions of the Plan,

the Committee shall have full authority and discretion to take the following
actions:

- (i) To interpret the Plan and to apply its provisions;
- (ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan;
- (iii) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;
- (iv) To determine when Shares are to be awarded or offered for sale and when Options are to be granted under the Plan;
- (v) To select the Offerees and Optionees;
- (vi) To determine the number of Shares to be offered to each Offeree or to be made subject to each Option;
- (vii) To prescribe the terms and conditions of each award or sale of Shares, including (without limitation) the Purchase Price, and to specify the provisions of the Stock Purchase Agreement relating to such award or sale;
- (viii) To prescribe the terms and conditions of each Option, including (without limitation) the Exercise Price, to determine whether such Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the Stock Option Agreement relating to such Option;
- (ix) To amend any outstanding Stock Purchase Agreement or Stock Option Agreement, subject to applicable legal

-5-

restrictions and to the consent of the Offeree or Optionee who entered into such agreement;

- (x) To prescribe the consideration for the grant of each Option or other right under the Plan and to determine the sufficiency of such consideration; and
- (xi) To take any other actions deemed necessary or advisable for the administration of the Plan.

All decisions, interpretations and other actions of the Committee shall be final and binding on all Offerees, all Optionees, and all persons deriving their rights from an Offeree or Optionee. No member of the Committee shall be liable for any action that he or she has taken or has failed to take in good faith with respect to the Plan, any Option, or any right to acquire Shares under the Plan.

SECTION 4. ELIGIBILITY. -----

(a) General Rules. Only Employees (including, without limitation,

independent contractors who are not members of the Board of Directors) shall be eligible for designation as Optionees or Offerees by the Committee. In addition, only Employees who are common-law employees of the Company or a Subsidiary shall be eligible for the grant of ISOs. Employees who are Outside Directors shall only be eligible for the grant of the Nonstatutory Options described in Subsection (b) below.

(b) Outside Directors. Any other provision of the Plan notwithstanding,

Outside Directors shall not participate in the Plan after February 7, 1996, although Options granted to Outside Directors prior to such date shall continue to be governed by the Plan as in effect prior to February 7, 1996.

(c) Ten-Percent Stockholders. An Employee who owns more than 10 percent

of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for the grant of an ISO unless:

(i) The Exercise Price is at least 110 percent of the Fair Market Value of a Share on the date of grant; and

(ii) Such ISO by its terms is not exercisable after the expiration of five years from the date of grant.

(d) Attribution Rules. For purposes of Subsection (c) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for such Employee's brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or

-6-

beneficiaries. Stock with respect to which such Employee holds an option shall not be counted.

(e) Outstanding Stock. For purposes of Subsection (c) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant. "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person.

SECTION 5. STOCK SUBJECT TO PLAN.

(a) Basic Limitation. Shares offered under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares which is issued under the Plan (upon exercise of Options or other rights to acquire Shares) shall not exceed 2,250,741 Shares; provided that the number of Shares which is issued under the Plan upon exercise of ISOs shall in no event exceed 1,200,000 Shares during the entire term of the Plan. All limitations under this Subsection (a) shall be subject to adjustment pursuant to Section 9. The number of Shares which are subject to Options or other rights outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) Additional Shares. In the event that any outstanding option granted under this Plan or the 1987 Employee Stock Plan of NexGen, Inc. (the "Prior Plan") for any reason expires or is cancelled or otherwise terminated, the Shares allocable to the unexercised portion of such option shall become available for the purposes of this Plan. In the event that Shares issued under this Plan or the Prior Plan are reacquired by the Company pursuant to a forfeiture provision, a right of repurchase or a right of first refusal, such Shares shall become available for the purposes of this Plan.

SECTION 6. TERMS AND CONDITIONS OF AWARDS OR SALES.

(a) Stock Purchase Agreement. Each award or sale of Shares under the Plan (other than upon exercise of an Option) shall be evidenced by a Stock Purchase Agreement between the Offeree and the Company. Such award or sale shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Purchase Agreement. The provisions of the various Stock Purchase Agreements entered into under the Plan need not be identical.

(b) Duration of Offers and Nontransferability of Rights. Any right to acquire Shares under the Plan (other than an Option) shall automatically expire if not exercised by the Offeree within 30 days after the grant of such right was communicated to the

Offeree by the Committee. Such right shall not be transferable and shall be exercisable only by the Offeree to whom such right was granted.

(c) Purchase Price. The Purchase Price of Shares to be offered under the -----
Plan shall not be less than the par value of such Shares. Subject to the preceding sentence, the Purchase Price shall be determined by the Committee at its sole discretion. The Purchase Price shall be payable in a form described in Section 8.

(d) Withholding Taxes. As a condition to the award, sale or vesting of -----
Shares, the Offeree shall make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that arise in connection with such Shares. The Committee may permit the Offeree to satisfy all or part of his or her tax obligations related to such Shares by having the Company withhold a portion of any Shares that otherwise would be issued to him or her or by surrendering any Shares that previously were acquired by him or her. The Shares withheld or surrendered shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. The payment of taxes by assigning Shares to the Company, if permitted by the Committee, shall be subject to such restrictions as the Committee may impose, including any restrictions required by rules of the Securities and Exchange Commission.

(e) Restrictions on Transfer of Shares. Any Shares awarded or sold under -----
the Plan shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Purchase Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 7. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each grant of an Option under the Plan shall -----
be evidenced by a Stock Option Agreement executed by the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(b) Number of Shares. Each Stock Option Agreement shall specify the -----
number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance

with Section 9. Options granted to any Optionee in a single calendar year shall in no event cover more than 400,000 Shares, subject to adjustment in accordance with Section 9. The Stock Option Agreement shall also specify whether the Option is an ISO or a Nonstatutory Option.

(c) Exercise Price. Each Stock Option Agreement shall specify the -----
Exercise Price. The Exercise Price of an ISO shall not be less than 100 percent of the Fair Market Value of a Share on the date of grant, except as otherwise provided in Section 4(c). The Exercise Price of a Nonstatutory Option shall not be less than the par value of a Share. Subject to the preceding two sentences, the Exercise Price under any Option shall be determined by the Committee at its sole discretion. The Exercise Price shall be payable in a form described in Section 8.

(d) Withholding Taxes. As a condition to the exercise of an Option, the -----
Optionee shall make such arrangements as the Committee may require for the

satisfaction of any federal, state, local or foreign withholding tax obligations that arise in connection with such exercise. The Optionee shall also make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option. The Committee may permit the Optionee to satisfy all or part of his or her tax obligations related to the Option by having the Company withhold a portion of any Shares that otherwise would be issued to him or her or by surrendering any Shares that previously were acquired by him or her. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. The payment of taxes by assigning Shares to the Company, if permitted by the Committee, shall be subject to such restrictions as the Committee may impose, including any restrictions required by rules of the Securities and Exchange Commission.

(e) Exercisability. Each Stock Option Agreement shall specify the date

when all or any installment of the Option is to become exercisable. The vesting of any Option shall be determined by the Committee at its sole discretion. If the employment of any Optionee who is a common law employee of the Company is terminated by the Company for any reason other than Misconduct or if applicable, by Constructive Termination, within one year after a Change of Control has occurred, then all Options held by such Optionee shall become fully vested for exercise upon the date of termination, irrespective of the vesting provisions of the Optionee's Stock Option Agreement. For purposes of this paragraph, the following definitions apply: (i) "Change of Control" shall have the meaning assigned by Section 2(b) of the Plan unless a different meaning is defined in an Optionee's Stock Option Agreement; (ii) "Misconduct" shall mean the commission of an act of theft, embezzlement, fraud, dishonesty, breach of fiduciary duty to the Company or any of its Subsidiaries (as determined by the Board of Directors), the deliberate disregard of the rules of the Company or any of its Subsidiaries, any unauthorized disclosure of any of the trade secrets or confidential information of the Company or any of its Subsidiaries, engaging in any conduct which constitutes unfair competition with the Company or any of its Subsidiaries, the inducement of any customer of the Company or any of its Subsidiaries to break any contract with the Company or any of its Subsidiaries, or the inducement of any principal for whom the Company or any of its Subsidiaries acts as agent to terminate such agency relationship; and (iii) "Constructive Termination" shall mean a resignation by an Optionee who has been elected by the Board of Directors as a corporate officer of the Company due to diminution of or adverse change in the circumstances of the Optionee's employment with the Company, as determined in good faith by the Optionee, including, without limitation, reporting relationships, job description, duties, responsibilities, compensation, perquisites, office or location of employment. Constructive Termination shall be communicated by written notice to the Company, and such termination shall be deemed to occur on the date such notice is delivered to the Company.

A Stock Option Agreement may also provide for accelerated exercisability in the event of the Optionee's death, Total and Permanent Disability, retirement or upon other events.

(f) Term. Each Stock Option Agreement shall specify the term of the

Option. The term of an ISO shall not exceed 10 years from the date of grant, except as otherwise provided in Section 4(c). Subject to the preceding sentence, the Committee at its sole discretion shall determine when an Option is to expire. A Stock Option Agreement may provide that the Option will expire

-9-

before the end of its normal term in the event that the Optionee's Service terminates.

(g) Nontransferability. During an Optionee's lifetime, such Optionee's

Option(s) shall be exercisable only by him or her and shall not be transferable. In the event of an Optionee's death, such Optionee's Option(s) shall not be transferable other than by will, by written beneficiary designation or by the laws of descent and distribution.

(h) No Rights as a Stockholder. An Optionee, or a transferee of an

Optionee, shall have no rights as a stockholder with respect to any Shares covered by his or her Option until the date of the issuance of a stock

certificate for such Shares. No adjustments shall be made, except as provided in Section 9.

(i) Modification, Extension and Renewal of Options. Within the

limitations of the Plan, the Committee may modify, extend or renew outstanding Options or may accept the cancellation of outstanding Options (to the extent not previously exercised) in return for the grant of new Options at the same or a different price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, impair such Optionee's rights or increase his or her obligations under such Option.

(j) Restrictions on Transfer of Shares. Any Shares issued upon exercise

of an Option may be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Option Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 8. PAYMENT FOR SHARES.

(a) General Rule. The entire Purchase Price or Exercise Price of Shares

issued under the Plan shall be payable in lawful money of the United States of America at the time when such Shares are purchased, except as follows:

(i) Stock Purchases. In the case of Shares sold under the terms of a

Stock Purchase Agreement subject to the Plan, payment shall be made only pursuant to the express provisions of such Stock Purchase Agreement. However, the Committee (at its sole discretion) may specify in the Stock Purchase Agreement that payment may be made in one or both of the forms described in Subsections (e) and (f) below.

(ii) ISOs. In the case of an ISO granted under the Plan, payment

shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. However, the Committee (at its sole discretion) may specify in

-10-

the Stock Option Agreement that payment may be made pursuant to Subsections (b), (c), (d) or (f) below.

(iii) Nonstatutory Options. In the case of a Nonstatutory Option

granted under the Plan, the Committee (at its sole discretion) may accept payment pursuant to Subsections (b), (c), (d) or (f) below.

(b) Surrender of Stock. To the extent that this Subsection (b) is

applicable, payment may be made all or in part with Shares which have already been owned by the Optionee or his or her representative for more than 12 months and which are surrendered to the Company in good form for transfer. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan.

(c) Exercise/Sale. To the extent that this Subsection (c) is applicable,

payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

(d) Exercise/Pledge. To the extent that this Subsection (d) is

applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to pledge Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

(e) Services Rendered. To the extent that this Subsection (e) is

applicable, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary prior to the award. If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the award) of the value of the services rendered by the Offeree and the sufficiency of the consideration to meet the requirements of Section 6(c).

(f) Promissory Note. To the extent that this Subsection (f) is

applicable, a portion of the Purchase Price or Exercise Price, as the case may be, of Shares issued under the Plan may be payable by a full-recourse promissory note, provided that (i) the par value of such Shares must be paid in lawful money of the United States of America at the time when such Shares are purchased, (ii) the Shares are security for payment of the principal amount of the promissory note and interest thereon and (iii) the interest rate payable under the terms of the promissory note shall be no less than the minimum rate (if any) required to avoid the imputation of additional interest under the Code. Subject to the foregoing, the Committee (at its sole

-11-

discretion) shall specify the term, interest rate, amortization requirements (if any) and other provisions of such note.

SECTION 9. ADJUSTMENT OF SHARES.

(a) General. In the event of a subdivision of the outstanding Stock, a

declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the value of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make appropriate adjustments in one or more of:

(i) The number of Shares available under Section 5 for future grants;

(ii) The limit set forth in Section 7(b);

(iii) The number of Nonstatutory Options to be granted to Outside Directors under Section 4(b);

(iv) The number of Shares covered by each outstanding Option; or

(v) The Exercise Price under each outstanding Option.

(b) Reorganizations. In the event that the Company is a party to a merger

or other reorganization, outstanding Options shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Options by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for payment of a cash settlement equal to the difference between the amount to be paid for one Share under such agreement and the Exercise Price, or for the acceleration of their exercisability followed by the cancellation of Options not exercised, in all cases without the Optionees' consent. Any cancellation shall not occur until after such acceleration is effective and Optionees have been notified of such acceleration.

(c) Reservation of Rights. Except as provided in this Section 9, an

Optionee or Offeree shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Shares subject to an Option. The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital

or

business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

SECTION 10. SECURITIES LAWS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange on which the Company's securities may then be listed.

SECTION 11. NO RETENTION RIGHTS.

Neither the Plan nor any Option shall be deemed to give any individual a right to remain an employee or consultant of the Company or a Subsidiary. The Company and its Subsidiaries reserve the right to terminate the service of any employee or consultant at any time, with or without cause, subject to applicable laws and a written employment agreement (if any).

SECTION 12. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan, as set forth herein, shall become

effective as of May 10, 1995. The Plan, if not extended, shall terminate automatically on March 11, 2005. It may be terminated on any earlier date pursuant to Subsection (b) below.

(b) Right to Amend or Terminate the Plan. The Board of Directors may

amend, suspend or terminate the Plan at any time and for any reason, except that the provisions of Section 4(b) relating to the amount, price and timing of grants to Outside Directors shall not be amended more than once in any six-month period. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws or regulations.

(c) Effect of Amendment or Termination. No Shares shall be issued or sold

under the Plan after the termination thereof, except upon exercise of an Option granted prior to such termination. The termination of the Plan, or any amendment thereof, shall not affect any Share previously issued or any Option previously granted under the Plan.

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	6-MOS	
<FISCAL-YEAR-END>		DEC-29-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		JUN-30-1996
<CASH>		77,806
<SECURITIES>		203,852
<RECEIVABLES>		220,727
<ALLOWANCES>		(11,036)
<INVENTORY>		175,837
<CURRENT-ASSETS>		872,511
<PP&E>		3,117,829
<DEPRECIATION>		(1,436,709)
<TOTAL-ASSETS>		2,845,025
<CURRENT-LIABILITIES>		467,941
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		1,404
<OTHER-SE>		2,069,951
<TOTAL-LIABILITY-AND-EQUITY>		2,845,025
<SALES>		998,996
<TOTAL-REVENUES>		999,289
<CGS>		748,514
<TOTAL-COSTS>		748,514
<OTHER-EXPENSES>		373,622
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		3,793
<INCOME-PRETAX>		(75,542)
<INCOME-TAX>		(31,723)
<INCOME-CONTINUING>		(9,345)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(9,345)
<EPS-PRIMARY>		(0.07)
<EPS-DILUTED>		(0.07)