

Competition is good and we are **good competition.**

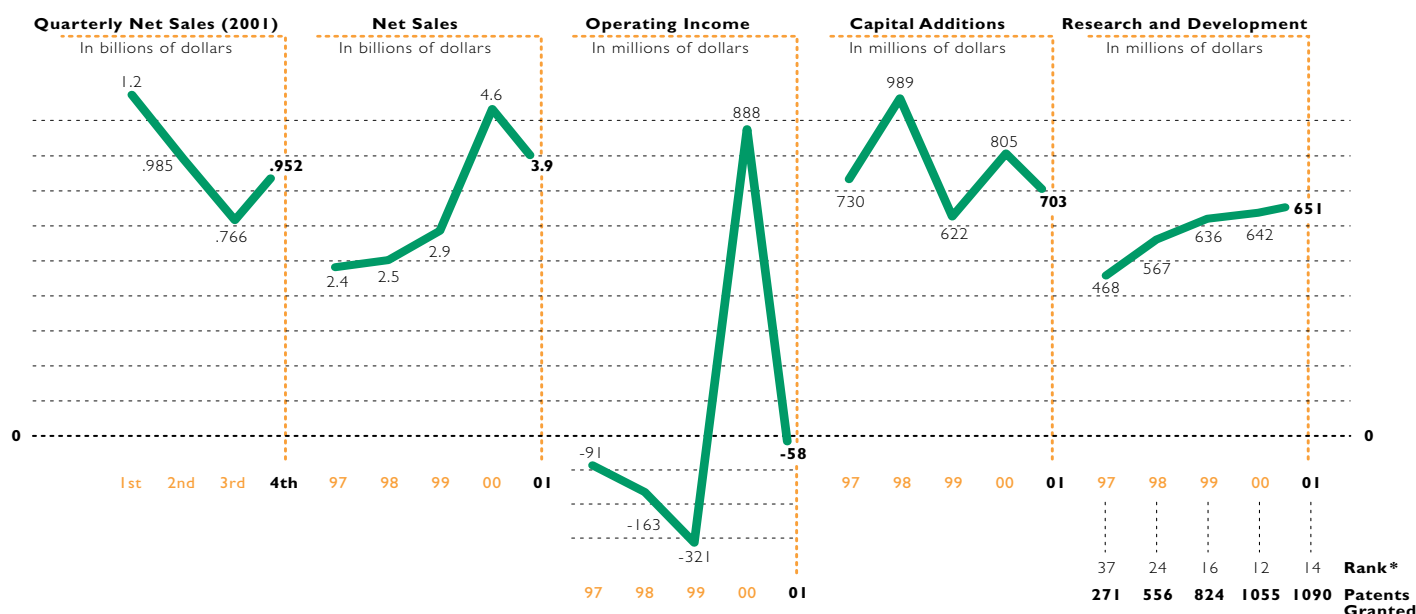
“What was particularly gratifying in 2001 was our achievement of a gain of more than four points of unit market share in PC processors despite a six percent year-on-year drop in industry PC unit sales.... Our worldwide unit market share has grown from less than 12 percent in 1996 to more than 20 percent in 2001.”

— **W.J. Sanders III**, Chairman and Chief Executive Officer

“With some 37 million transistors packed onto a chip that is only 80 mm²...our Thoroughbred version of the AMD Athlon™ XP processor represents the marriage of ingenious design and leading-edge process technology. We expect to complete the transition to 130-nm technology [in Fab 30] by the end of this year.”

— **Hector de J. Ruiz**, President and Chief Operating Officer

Financial highlights



Five Years Ended December 30, 2001 (Dollars in thousands except per share amounts, ratios, and employment figures)

	2001	2000	1999	1998	1997
Net sales	\$3,891,754	\$4,644,187	\$2,857,604	\$2,542,141	\$2,356,375
Operating income (loss)	(58,258)	888,736	(320,916)	(163,642)	(90,653)
Net income (loss)	(60,581)	983,026	(88,936)	(103,960)	(21,090)
Net income (loss) per common share:					
Basic	(0.18)	3.18	(0.30)	(0.36)	(0.07)
Diluted	(0.18)	2.89	(0.30)	(0.36)	(0.07)
Working capital	1,039,172	1,433,580	499,226	721,308	448,497
Total assets	5,647,242	5,767,735	4,377,698	4,252,968	3,515,271
Long-term debt, capital lease obligations and other, less current portion	672,945	1,167,973	1,427,282	1,372,416	662,689
Stockholders' equity	3,555,055	3,171,667	1,979,273	2,005,049	2,029,543
Capital additions	703,120	805,474	622,079	989,013	729,870
Depreciation and amortization	622,867	579,070	515,520	467,521	394,465
Research and development	650,930	641,799	635,786	567,402	467,877
Research and development as a percentage of net sales	16.7%	13.8%	22.2%	22.3%	19.9%
Return on equity	(1.8)%	38.2%	(4.5)%	(5.2)%	(1.0)%
Debt as a percentage of capital	15.9%	26.9%	41.9%	40.7%	24.8%
Worldwide employment	14,757	14,435	13,354	13,597	12,759

* Worldwide ranking based on U.S. patents granted

Letter to our shareholders

“Early this year we demonstrated Hammer processors running platforms that booted both Microsoft Windows XP and Linux 64 operating systems. Targeted at all segments of the PC industry, from desktop and mobile systems to high-end servers and workstations, we believe Hammer family processors will deliver an unparalleled computing experience.”

For the worldwide semiconductor industry, 2001 brought new meaning to the word *cyclicality*! After a stunning advance of 36 percent in worldwide sales in 2000, the integrated circuit industry declined by 32 percent last year—the sharpest drop in history—erasing all of the previous year’s gains, and more. The drop in information technology spending in response to the collapse in the networking and communications sector with the demise of the “dot-coms,” a slowing worldwide economy, and uncertainty brought about by the horrific events of September 11, presented a harsh environment for chipmakers.

In this grim landscape, AMD distinguished itself. Just as it has over the prior 25-year-period, AMD’s performance in 2001 substantially exceeded that of the industry. Annual sales of \$3,892,000,000 decreased by only 16 percent year-to-year overall—half the rate of decline of the industry. We are proud of the magnificent execution of the AMD worldwide team in this very difficult climate.

Outstanding fourth-quarter results—with sequential revenue growth of 24 percent to more than \$950 million—enabled us to post a *pro forma* operating profit of \$70 million and *pro forma* net income of \$29 million, or \$0.09 per share, for the year as a whole.* PC processor sales, led by rapid market acceptance of the recently introduced AMD Athlon™ XP processor, surged by 50 percent sequentially during the quarter, establishing new records in both units and dollars.

What was particularly gratifying in 2001 was our achievement of a gain of more than four points of unit market share in PC processors despite a six percent year-on-year drop in industry PC unit sales—the first such decline since 1985. AMD grew its PC processor unit sales by 16 percent, to nearly 31 million units. We also grew our PC processor revenues in the year by 3.5 percent in the face of an industry decline of 20 percent.

In 1996, we introduced our fifth-generation PC processor—our first proprietary, differentiated Microsoft® Windows® compatible processor—and ushered in a new era of AMD innovation. Since then, we have steadily increased processor

performance and gained significant market share. Our worldwide unit market share has grown from less than 12 percent in 1996 to more than 20 percent in 2001! Our worldwide revenue market share has grown from less than 2 percent in 1996 to more than 10 percent, reflecting our increasing penetration of the higher-priced performance desktop and mobile markets. In the final quarter of 2001, our worldwide revenue market share reached record levels of more than 12 percent.

The introduction of our first proprietary, Microsoft Windows compatible processor in 1996 marked the beginning of the first of a series of thousand-day journeys and a new era of innovation for AMD.

In the first 1,000 days, we achieved our principal objective of establishing AMD as a nucleating point for an alternative PC platform.

Our main focus in the just-concluded second thousand-day journey was to extract value for AMD shareholders from the investments we have made in wealth-producing assets.

In our third thousand-day journey, beginning now, our overarching objective is to challenge the leadership of the 800-pound gorilla in our industry in both Microsoft Windows compatible microprocessors and flash memory.

The market for the former (Windows compatible PC processors) is huge and exciting growth is expected. The market for the latter is currently stalled in the face of the slowdown in the communications and networking segment. With economic recovery generally expected by year-end and with growing demand for wireless devices, the opportunities in flash memories are also promising. AMD believes in competition, and our customers welcome our aggressive challenge to the dominant supplier in these market segments.

In the current year, we are committed to driving additional gains in market share and growing faster than the industry by continuing to out-innovate our competition.

* Consolidated Statements of Operations, which contains our actual operating results for 2001, appear on page 25.

As we have said many times, innovation is the cornerstone of our competitive strategy. AMD currently can neither out-invest nor out-produce our primary competitor. We must out-innovate the competition, delivering semiconductor solutions based on better ideas that increase the performance, reduce the cost, and shorten the time to market for our customers' products. Innovation, however, also applies to other aspects of our business—especially in the business practices that enable us to make more effective and efficient use of capital and human ingenuity.

By the world's most widely accepted index of innovation—patents issued by the United States Patent and Trademark Office—AMD continued to rank among the world leaders. With 1,090 new U.S. patents issued in 2001, AMD ranked 14th in the world and fifth among U.S.-based companies in the total number of patents issued. Our current patent portfolio comprises a rich mix of both product-related patents on the one hand, and process technology and manufacturing patents on the other.

We are resolved that AMD will continue to be the provider of the highest-performance PC processors in the world. Maintaining this leadership position requires more than innovative designs. We must also have leading-edge process technology and state-of-the-art production capacity to produce in high volume. We have made substantial progress on each of these fronts during the past year.

We have widely sampled AMD Athlon XP processors (code-named "Thoroughbred") produced on 130-nm (nanometer) technology in Fab 30 in Dresden. We expect initial revenues from shipments of the Thoroughbred version in the current quarter. We believe that migration to 130-nm technology will widen our existing competitive advantage over Intel's newest "Northwood" version of the Pentium 4 processor. With some 37 million transistors packed onto a chip that is only 80 mm²—approximately 45 percent smaller than the Northwood chip—

our Thoroughbred version of the AMD Athlon XP processor represents the marriage of ingenious design and leading-edge process technology. We expect to complete the transition to 130-nm technology by the end of this year.

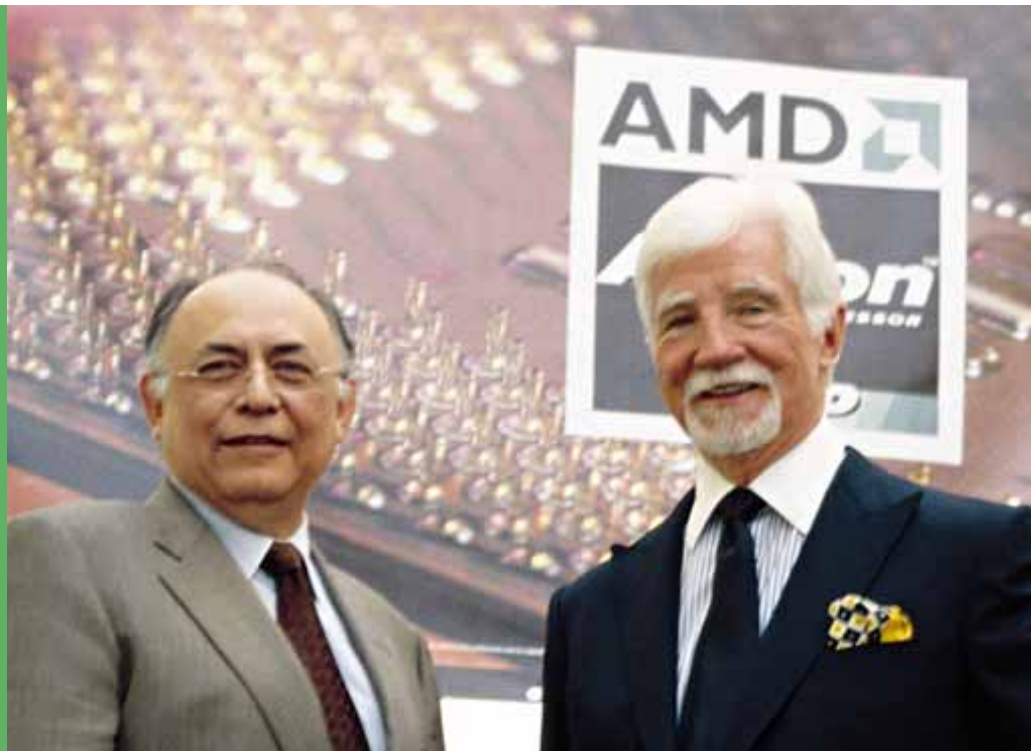
We plan to begin shipments of the first members of the "Hammer" family of PC processors on 130-nm technology employing SOI (silicon-on-insulator) technology in the fourth quarter of 2002. Meanwhile, we are continuing the development of a 90-nm technology node employing SOI technology, which we plan to implement in Fab 30 in 2003.

In Fab 25 in Austin we have begun the conversion from logic to production of flash memory devices. Our initial production is on 170-nm technology, and we plan to qualify production for 130-nm technology by year-end. We believe that Fab 25 can support several additional technology generations, thereby extending the life of this facility.

During the first quarter of 2002, we announced a comprehensive alliance with UMC, one of the world's premier semiconductor manufacturing companies. This alliance includes creation of a 50-50 joint venture that will own and operate a 300-mm wafer fabrication facility and collaboration on advanced process technology development. This innovative alliance leverages the unique strengths and capabilities of each company to address changes in the fundamental economics of the semiconductor industry that are currently under way.

AMD and UMC will work together to develop leading-edge logic processes. As a part of this joint development effort, AMD will continue to focus on those areas of process and manufacturing that are key to our high-performance, future-generation PC processors. Under the agreement, AMD will gain immediate access to an existing UMC 300-mm wafer fabrication facility in Taiwan for R&D activities.

“With economic recovery generally expected by year-end and with growing demand for wireless devices, the opportunities in flash memories are also promising. AMD believes in competition, and our customers welcome our aggressive challenge to the dominant supplier in these market segments.”



The alliance with UMC will also enable AMD to make the transition to 300-mm manufacturing at precisely the right time. We expect to require substantial additional production capacity to meet the demands of a growing market for Microsoft Windows compatible processors and to support our expected growth in market share in this huge market segment. We believe the optimum time to make the transition to high-volume 300-mm production is in the mid-2005 time frame, when we expect to be starting production on the 65-nanometer node.

Our alliance with UMC also includes a foundry arrangement under which UMC will produce PC processors to augment our internal production capacity in Fab 30 for devices produced on 130-nm and smaller-geometry technology.

Our current 1,000-day journey will take us to new and exciting destinations. We will introduce new platforms based on innovative concepts that we believe will open new market segments for AMD while creating opportunities for growth within segments in which we currently participate.

Our proprietary MirrorBit™ flash memory architecture is a leading example of how a better idea should enable us to expand our market penetration. MirrorBit technology is a breakthrough in memory cell architecture that enables a flash memory device to store twice as much data as standard flash with no compromise in device endurance, performance, or reliability. MirrorBit flash devices offer an ideal solution for cell phones, as well as other applications where high density, low cost, and low-voltage operation are essential. We expect to begin shipments of flash memory devices with MirrorBit architecture in the second half of this year.

Our acquisition of Alchemy Semiconductor in the first quarter of 2002 will enable AMD to address a high-growth market segment—personal connectivity devices such as personal digital assistants, web tablets, and portable and wired Internet access devices and gateways—in which we currently do not participate. Alchemy designs, develops, and markets high-performance, low-power microprocessors based on the widely used MIPS architecture. Our customers, including Japanese consumer electronics giants, are excited about our entry into this market segment, which we believe offers the potential for significant growth during our current 1,000-day journey.

When we introduced the AMD Athlon XP processor in October of 2001, we also announced a new initiative to develop a reliable metric for PC processor performance that users everywhere can trust. For most of the 20-year history of the personal computer, megahertz—i.e., the processor's speed measured in clock cycles per second—was a reliable indicator of PC processor performance because all of the major players used the same architecture for product design. The innovative architecture of our seventh-generation processors has rendered the old performance

metric obsolete. Clock speed alone tells no more about the true performance of a PC processor than engine RPMs (revolutions per minute) tell about the true performance of an internal combustion engine.

The True Performance Initiative (TPI) spearheaded by AMD is intended to drive a new, broadly accepted standard that will measure the actual delivered performance of a PC processor that PC users can trust.

The initial success of the AMD Athlon XP processor family has demonstrated widespread acceptance of performance metrics that take into account architectural performance—the amount of actual work done per clock cycle—as well as raw clock speed.

This year we plan to introduce our eighth-generation PC processor family—code-named Hammer—that we believe will change the face of the industry. The Hammer family will provide a seamless path to 64-bit computing with unsurpassed performance for both 32- and 64-bit computing while maintaining full compatibility with the industry-standard x86 instruction set for Microsoft Windows computing.

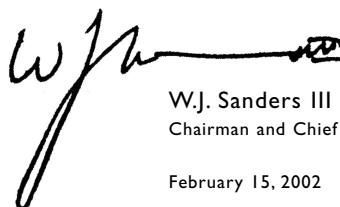
Early this year we demonstrated Hammer processors running platforms that booted both Microsoft Windows XP and Linux 64 operating systems. Targeted at all segments of the PC industry, from desktop and mobile systems to high-end servers and workstations, we believe Hammer family processors will deliver an unparalleled computing experience.

Near the end of our current 1,000-day journey in late 2004, we believe Hammer family processors will comprise more than half of our unit production of PC processors and produce the great majority of our revenues.

We are very excited about the future of AMD, and especially about the next 1,000 days. AMD has never been better positioned in terms of product portfolio, process technology, and production capacity to change the face of our industry.

After the annual shareholder meeting on April 25, we expect that the board of directors will elect Dr. Hector Ruiz as president and chief executive officer and W.J. Sanders III as chairman of AMD. We look forward to continuing our work together to capitalize on the incredible opportunities afforded by our strong position.

Thank you for your continuing support.



W.J. Sanders III
Chairman and Chief Executive Officer
February 15, 2002



Hector de J. Ruiz
President and Chief Operating Officer

February 15, 2002

The forward looking statements contained in the above letter are subject to risks and uncertainties, including those discussed in this annual report and the company's Form 10-K for the fiscal year ended December 30, 2001, as filed with the Securities and Exchange Commission, that could cause actual results to differ materially from those projected.



Changing the face of the industry

Now is a pivotal time for AMD. In the face of intense competition, AMD continues to build on its history of industry leadership, commitment to success, and passion for developing innovative solutions at the lowest possible cost on behalf of our OEM, channel, and end-user customers. AMD has the opportunity to change the face of the computing industry, a chance to break commonly held beliefs of what is technologically achievable while at the same time setting a new standard of excellence in customer advocacy.

Customer Focused, Solution Driven. Strength, commitment, and passion are the primary concepts that exemplify the AMD brand. Going forward, as we have in the past, we will further demonstrate our customer-first philosophy through the AMD Customer Advocacy Initiative. We'll strive to deliver breakthrough products, such as the family of microprocessors code-named "Hammer" planned for release later this year.

AMD's brand focus is merely an extension of who we are as a company. For more than 30 years, AMD has been an innovative force in the development of groundbreaking products, ideas, and initiatives designed to solve customers' real problems. We have ranked among the top 25 of all companies worldwide for U.S. patents issued in each of the last four years. From the stability and longevity of AMD's Socket A platform to the launch of the True Performance Initiative (TPI)—an initiative designed to help customers realize the real benefits of PC performance by providing a new performance metric they can trust—AMD has continuously sought to become a trusted and relied upon advocate for the customer.



A Technical Tour de Force

By the end of 2002, AMD will complete the transition to 130-nm technology for production of all AMD Athlon family processors. The transition to smaller-geometry technology produces important benefits for AMD, its OEM customers and those who use computers powered by AMD Athlon processors. Each new technology generation enables smaller devices that run cooler and faster and are less costly to produce.

The first members of the Hammer family of processors will be produced on the 130-nm process enhanced with silicon-on-insulator (SOI) technology that will deliver higher-performance devices with lower power dissipation. In 2003, AMD will migrate production of Hammer family processors to 90-nm technology, and then to 65-nm technology by 2005. By employing leading-edge technology and innovative architectural concepts, AMD has succeeded in producing an engineering tour de force—a PC processor that provides a seamless path to the future.

Hammer family processors will also feature AMD innovations, such as:

- **HyperTransport™ Technology**—a high-speed, high-bandwidth interconnect that significantly reduces input/output bottlenecks. HyperTransport technology enables “glueless” multiprocessing, enabling processor-to-processor communication without need for a chipset.
- **On-chip DDR Memory Controller**—enables a 1:1 frequency scaling, which means that it operates at the same frequency as the processor core to reduce latency and improve performance.

Like many brilliant ideas, the fundamental concept of the AMD Hammer family is simplicity itself: a mainstream processor with unsurpassed performance for today's 32-bit and tomorrow's 64-bit applications. It is truly a processor that can change the face of the industry.

“AMD believes in ‘smart’ innovation to better satisfy a customer need and never for the sake of innovation alone.”

Processing Power for Today and Tomorrow

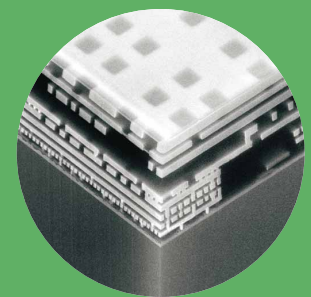
This year's planned release of the first member of the highly anticipated Hammer family of processors marks a major milestone in AMD's tradition of delivering innovative, customer-driven products to the marketplace. Hammer packs a wealth of technology onto a very small die, a benefit of AMD's focus on building the competitive cost structures necessary to compete in the future. This release is designed to provide unprecedented levels of performance for both 32-bit and 64-bit applications.

More importantly, purchasing Hammer processor-based systems will grant business and home users the benefit of long-term investment protection as these systems are designed to enable seamless transition from a 32-bit to 64-bit environment. While other technology-based companies may proffer a “here it is, now use it” philosophy, AMD's thoughtful consideration for the realities affecting customers and Independent Software Vendors (ISVs) separates AMD from its competitors. In short, AMD believes in “smart” innovation to better satisfy a customer need and never for the sake of innovation alone.

The Next Level of Performance for 32-Bit Applications— with Seamless Migration to 64-Bit Applications

While 64-bit applications may seem like tomorrow's technology for the majority of today's PC users, the benefits of 32-bit applications running on a Hammer processor-based system can't be overlooked. Hammer takes the processing prowess of AMD's award-winning AMD Athlon™ XP processor and builds on it. Hammer was designed to deliver performance that can only be described as exceptional.

More to the point, AMD expects the entertainment value of today's PC to dramatically improve as Hammer processor-based systems deliver stunning, more life-like audio, video, and imaging capabilities for a richer, more complete computing experience. Those who use their PC to get their work done will find they can get it done faster, improving productivity both at home and the office as applications start quickly, graphics and images load rapidly, and the PC “hourglass” virtually evaporates.



Hammer die cross-section of 130-nm technology, featuring AMD's high-performance 9-layer copper interconnect.

Tools for Tomorrow's Enterprise Needs

Hammer architecture embodies AMD's vision of leadership in the high end of the microprocessor market. For the enterprise, Hammer processor-based systems are planned to offer a tremendous opportunity for Return on Investment (ROI). By delivering a single architecture for all enterprise needs—server, workstation, desktop and mobile—Hammer should help lower capital expenditures, keeping down the costs associated with enterprise servers and support. Additionally, features such as an on-chip memory controller and HyperTransport™ bus technology are designed to enable the enterprise-class performance required by CAD/CAM, digital content creation, and other professionally oriented applications.

Meanwhile, servers based on Hammer architecture are designed to enable rapid, secure access to the mission-critical databases that will power tomorrow's business. The capabilities of 64-bit Hammer are a handsome match for the demanding requirements of Java-enabled Web servers, database servers including Microsoft's SQL server and Oracle, as well as computation-intensive decision support systems such as SAS. Most importantly, CIOs and their IT managers should appreciate the value of a system that won't force them to prematurely discard their 32-bit applications, allowing them to migrate to appropriate 64-bit applications at their own pace.

Visionary Technology for Visionary Ideas

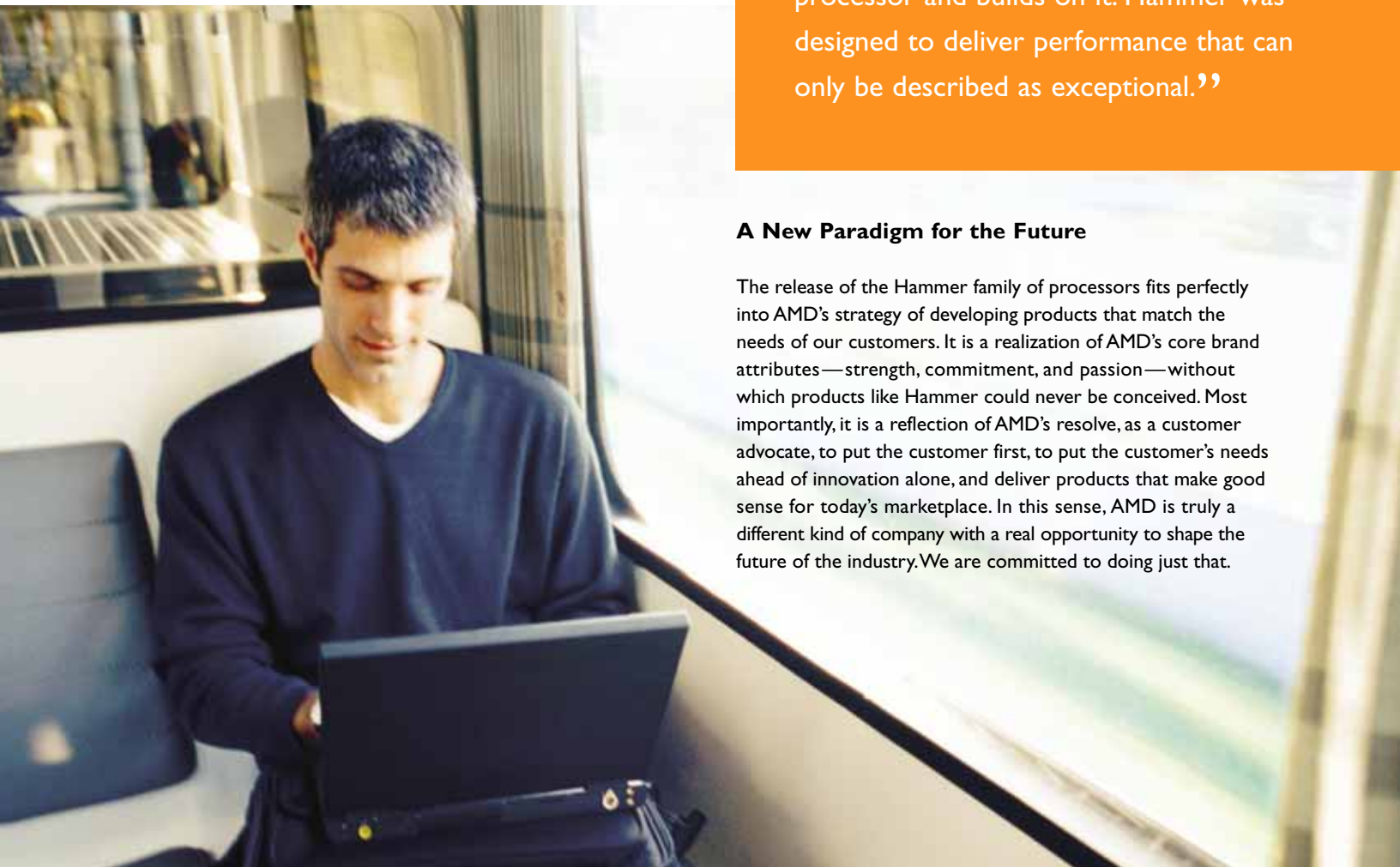
In the worlds of science and research and development, the impact of 64-bit applications running on Hammer processor-based systems is potentially life altering. Scientists and researchers routinely working with complex, data-intensive problems could work faster, saving precious time in areas such as geological modeling, weather prediction, human genome mapping, and pharmaceutical research.

AMD expects the 64-bit environment enabled by the Hammer family of processors will dramatically change home computing as well. The potential benefits excite the imagination. Certainly, one can envision the possibility of stronger ties to family and friends as the realization of instant communication grows nearer. But perhaps even more intriguing is the concept of the "digital living room,"—an idea likely not far away from becoming reality—in which digital media are shared seamlessly throughout the home, bringing new meaning to the words "home entertainment."

“Hammer takes the processing prowess of AMD's award-winning AMD Athlon™ XP processor and builds on it. Hammer was designed to deliver performance that can only be described as exceptional.”

A New Paradigm for the Future

The release of the Hammer family of processors fits perfectly into AMD's strategy of developing products that match the needs of our customers. It is a realization of AMD's core brand attributes—strength, commitment, and passion—without which products like Hammer could never be conceived. Most importantly, it is a reflection of AMD's resolve, as a customer advocate, to put the customer first, to put the customer's needs ahead of innovation alone, and deliver products that make good sense for today's marketplace. In this sense, AMD is truly a different kind of company with a real opportunity to shape the future of the industry. We are committed to doing just that.



Financial information

10	Management's Discussion and Analysis of Financial Condition and Results of Operations
25	Consolidated Statements of Operations
26	Consolidated Balance Sheets
27	Consolidated Statements of Stockholders' Equity
28	Consolidated Statements of Cash Flows
29	Notes to Consolidated Financial Statements
46	Report of Ernst & Young LLP, Independent Auditors
47	Supplementary Financial Data
48	Financial Summary
49	Corporate Directory
51	About AMD

Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes as of December 30, 2001 and December 31, 2000 and for each of the three years in the period ended December 30, 2001, which are included in this annual report.

AMD, the AMD Arrow logo, and combinations thereof, Advanced Micro Devices, AMD-K6, AMD Athlon, AMD Duron and MirrorBit are either trademarks or registered trademarks of Advanced Micro Devices, Inc. Vantis is a trademark of Vantis Corporation. Legerity is a trademark of Legerity, Inc. Microsoft and Windows are either registered trademarks or trademarks of Microsoft Corporation. Other terms used to identify companies and products may be trademarks of their respective owners.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our esti-

mates, including those related to our investments, allowance for doubtful accounts, revenues, inventories, asset impairments, income taxes, commitments, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies relate to those policies that are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Investments in Debt and Equity Securities. We hold minority interests in companies having operations or possessing technology primarily in areas within our strategic focus, some of which are publicly traded and have highly volatile stock prices. We also make investments in marketable equity and debt securities. We record an investment impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary. In determining if a decline in market value below cost for a publicly traded security or debt instrument is other-than-temporary, we evaluate the relevant market conditions, offering prices, trends of earnings, price multiples and other key measures providing an indication of the instrument's fair value. For private equity investments, we evaluate the financial condition of the investee, market conditions, trends of earnings and other key factors that provide indicators of the fair value of the investment. When a decline in value is deemed to be other-than-temporary, we recognize an impairment loss in the current period to the extent of the decline below the carrying value of the investment. Adverse changes in market conditions or poor operating results of underlying investments could result in additional other-than-temporary losses in future periods.

Allowance for Doubtful Accounts. We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsened, additional allowances may be required in the future.

Revenue Reserves. We record a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

Inventory Valuation. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. Inventories on hand, in excess of forecasted demand, generally six months or less, are not valued. In addition, we write off inventories that are considered obsolete. Remaining inventory balances are adjusted to approximate the lower of our standard manufacturing cost or market value. If future demand or market conditions are less favorable than our projections, additional inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets. We routinely consider whether indicators of impairment of long-lived assets are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, we recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. We may incur impairment losses in future periods if factors influencing our estimates change.

Deferred Income Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance covers the tax benefit from the exercise of employee stock options. When these tax benefits are realized the valuation allowance will be reversed and credited to capital in excess of par value.

Commitments and Contingencies. From time to time we are a defendant or plaintiff in various legal actions, which arise in the normal course of business. We are also a party to environmental matters, including local, regional, state and federal governed clean-up activities at or near locations where we currently or have in the past conducted our business. We are also a guarantor of various third-party obligations and commitments. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these contingencies, if any, which would be charged to earnings, is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. Changes in required reserves could increase or decrease our earnings in the period the changes are made.

RESULTS OF OPERATIONS

In 2001, we participated in all three technology areas within the digital integrated circuit (IC) market—microprocessors, memory circuits and logic circuits—through our Core Products and Foundry Services segments. In 2000 and 1999, in addition to our Core Products and Foundry Services segments, we also participated in the digital IC market through our Voice Communications and Vantis segments. Our Core Products segment includes our PC processor products, Memory products and Other IC products. PC processor products include our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors, and our sixth-generation microprocessors. Memory products include Flash memory devices and Erasable Programmable Read-Only Memory (EPROM) devices. Other IC products include embedded processors, networking products and platform products, which primarily consist of chipsets. Our Foundry Services segment consists of service fees from Legerity, Inc. and Vantis Corporation. Our Voice Communications segment consisted of our voice communications products subsidiary, Legerity, Inc. (Legerity), until July 31, 2000, the effective date of its sale. Our Vantis segment consisted of our programmable logic devices subsidiary, Vantis Corporation (Vantis), until June 15, 1999, the date of its sale.

We sold 90 percent of Legerity for approximately \$375 million in cash, effective July 31, 2000. We sold Vantis to Lattice Semiconductor Corporation (Lattice) for approximately \$500 million in cash, effective June 15, 1999.

The following is a summary of net sales by segment for 2001, 2000 and 1999:

(Millions)	2001	2000	1999
Core Products segment:			
PC Processors	\$2,419	\$2,337	\$1,387
Memory Products	1,133	1,567	773
Other IC Products	242	457	400
	3,794	4,361	2,560
Foundry Services segment	98	143	43
Voice Communications segment	—	140	168
Vantis segment	—	—	87
Total	\$3,892	\$4,644	\$2,858

Net Sales Comparison for Years Ended December 30, 2001 and December 31, 2000

Total net sales of \$3,892 million decreased by 16 percent in 2001 compared to 2000.

PC processors net sales of \$2,419 million increased by four percent in 2001 compared to 2000. This increase was primarily due to an increase in unit sales of our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors, partially offset by a decline in average selling prices. We expect PC processor unit shipments and average selling prices in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001. Maintaining PC processor sales levels in 2002 depends on a continuing successful technology transition in Dresden Fab 30, our ability to maintain average selling prices for our seventh-generation microprocessors, continuing growth in

unit shipments of our PC processors, and increasing market acceptance of the newest versions of the AMD Athlon and AMD Duron microprocessors.

Memory products net sales of \$1,133 million decreased by 28 percent in 2001 compared to 2000. The decrease was primarily due to continuing weakness in the communications and networking equipment industries and excess inventories held by major customers. Although we expect shipments to remain flat, we expect a decline in revenues from memory products in the first quarter of 2002, as compared to the fourth quarter of 2001, primarily due to continuing pricing pressures.

Other IC products net sales of \$242 million decreased by 47 percent in 2001 compared to 2000. The decrease was due to decreased net sales of platform products, embedded processors and networking products as a result of the sustained market declines in the communications and networking equipment industries. We expect Other IC revenues in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001.

The Foundry Services segment service fees of \$98 million decreased by 31 percent in 2001 compared to 2000. The decrease was primarily due to a significant reduction in demand for wafer fabrication services from Vantis, partially offset by an increase in overall service fees from Legerity. We expect that service fees will continue to decline in the first quarter of 2002 due to our plan to discontinue these services in 2002. Other than the restructuring and other special charges recorded in the third quarter of 2001, we do not expect to have any termination liabilities associated with our plan to discontinue these services.

There were no sales from the Voice Communications segment in our 2001 net sales. Voice Communications products contributed \$140 million to our 2000 net sales, prior to our sale of Legerity, effective July 31, 2000.

There were no sales from the Vantis segment in our 2001 and 2000 net sales.

Net Sales Comparison for Years Ended December 31, 2000 and December 26, 1999

Total net sales increased by \$1,786 million in 2000, or 62 percent, to \$4,644 million from \$2,858 million in 1999.

PC processors net sales of \$2,337 million increased by 68 percent in 2000 compared to 1999. This increase was primarily due to a strong increase in net sales of our seventh-generation microprocessors, the AMD Athlon and AMD Duron microprocessors. The AMD Duron microprocessor, a derivative of the AMD Athlon microprocessor designed to provide a solution for value conscious PC buyers, became available in June 2000. The strong increase in unit sales of our seventh-generation microprocessors more than offset the decline in average selling prices. The increase was partially offset by a decrease in net sales of AMD-K6™ family microprocessors as a result of the market shift toward our seventh-generation microprocessors.

Memory products net sales of \$1,567 million increased by 103 percent in 2000 compared to 1999 primarily due to growth in sales volume, higher average selling prices and a rich product mix of Flash memory devices, which was slightly offset by a decline in net sales of EPROMs.

Other IC products net sales of \$457 million increased by 14 percent in 2000 compared to 1999. The increase was primarily due to increased net sales from our platform and networking products.

The Foundry Services segment included service fees of \$143 million from Lattice and Legerity in 2000 compared to \$43 million from Lattice in 1999. The increase was primarily due to the addition of service fees from Legerity and secondarily to an increase in service fees from Lattice during 2000.

Voice Communications products net sales of \$140 million decreased by 17 percent in 2000 compared to 1999 as a result of the sale of our Legerity subsidiary, effective July 31, 2000.

There were no sales from the Vantis segment in our 2000 net sales. Vantis segment contributed \$87 million to our 1999 net sales, prior to our sale of Vantis, effective June 15, 1999.

Comparison of Expenses, Gross Margin Percentage and Interest and Other Income, Net

The following is a summary of expenses, gross margin percentage, and interest and other income, net for 2001, 2000 and 1999:

(Millions except for gross margin percentage)	2001	2000	1999
Cost of sales	\$2,590	\$2,515	\$1,964
Gross margin percentage	33%	46%	31%
Research and development	\$ 651	\$ 642	\$ 636
Marketing, general and administrative	620	599	540
Restructuring and other special charges	89	—	38
Gain on sale of Vantis	—	—	432
Gain on sale of Legerity	—	337	—
Interest and other income, net	26	86	32
Interest expense	61	60	69

We operate in an industry characterized by intense competition and high fixed costs due to capital-intensive manufacturing processes, particularly the costs to build and maintain state-of-the-art production facilities required for PC processors and memory devices. As a result, our gross margin percentage is significantly affected by fluctuations in unit sales and average selling prices.

Gross margin percentage decreased to 33 percent in 2001 compared to 46 percent in 2000. The decrease in gross margin in 2001 was primarily due to lower unit sales and average selling prices from Flash memory devices, networking products and embedded processors and lower average selling prices of PC processors. We expect gross margins in the first quarter of 2002 to remain relatively flat as compared to the fourth quarter of 2001. Maintenance of gross margin percentage depends on continually increasing unit sales of microprocessors and memory products because of pricing pressures and because fixed costs continue to rise with ongoing capital investments required to expand production capability and capacity.

Gross margin percentage increased to 46 percent in 2000 compared to 31 percent in 1999. The increase in gross margin in 2000 was primarily due to higher net sales from PC processors and Flash memory devices, partially offset by a reduction in gross margin as a result of the sale of Legerity, effective July 31, 2000, and an increase in fixed costs.

Research and development expenses of \$651 million in 2001 increased slightly compared to 2000. This slight increase was due to increased costs related to research and development activities for PC processors.

Research and development expenses of \$642 million in 2000 increased slightly compared to 1999. This slight increase was due to increased costs related to research and development activities for PC processors, offset by a substantial portion of Dresden Fab 30 expenses shifting to cost of sales as production commenced in the second quarter of 2000 and research and development subsidies received from the German government.

Marketing, general and administrative expenses of \$620 million in 2001 increased four percent compared to 2000 primarily as a result of increased advertising and marketing expenses associated with our core products and the AMD Athlon XP processor launch, offset by the absence of Legerity expenses during 2001.

Marketing, general and administrative expenses of \$599 million in 2000 increased 11 percent compared to 1999 primarily as a result of marketing and promotional activities for the AMD Athlon microprocessor, our launch of the AMD Duron microprocessor and higher expenses associated with higher labor costs, including profit sharing. These increases were partially offset by the absence of Legerity expenses during the second half of 2000.

On September 25, 2001, due to the continued slowdown in the semiconductor industry and a resulting decline in revenues, we announced a restructuring plan to accelerate key components of our strategy to reduce costs and enhance the financial per-

formance of our core products. In connection with the plan, we will close Fabs 14 and 15 in Austin, Texas by the end of June 2002. These facilities support certain of our older products and Foundry Service operations, which will be discontinued as part of our plan. We will also reorganize other manufacturing facilities and reduce activities primarily in Penang, Malaysia, along with associated administrative support.

The restructuring plan will result in the reduction of approximately 2,300 direct manufacturing and related administrative support positions, or approximately 15 percent of our worldwide workforce, by the end of the second quarter of 2002. Approximately 1,000 of these positions are associated with closing Fabs 14 and 15 in Austin. The balance of the reductions will result from reorganizing activities primarily in Penang, Malaysia.

Pursuant to the September 25, 2001 plan, we recorded restructuring costs and other special charges of \$89.3 million, consisting of \$34.1 million of anticipated severance and employee benefit costs, \$16.2 million of anticipated exit costs to close facilities in Austin and Penang and \$39.0 million of non-cash asset impairment charges. The asset impairment charges relate primarily to buildings and production equipment and have been incurred as a result of our decision to implement the plan.

The following table summarizes activity under the plan through December 30, 2001:

(Thousands)	Severance and employee benefits	Facility and equipment impairment	Facility and equipment decommission costs	Other facilities exit costs	Total
2001 provision	\$34,105	\$ 39,000	\$ 15,500	\$700	\$ 89,305
Cash charges	(7,483)	—	—	(54)	(7,537)
Non-cash charges	—	(39,000)	—	—	(39,000)
Accruals at December 30, 2001	\$26,622	\$ —	\$ 15,500	\$646	\$ 42,768

We expect to substantially complete execution of our restructuring plan by the end of the second quarter of 2002. As a result of this restructuring plan, we expect to realize overall cost reductions of \$125 million on an annualized basis. As of December 30, 2001, 786 employees had been terminated resulting in cash payments of approximately \$7.5 million in severance and employee benefit costs.

During 1999, we initiated a review of our cost structure. Based upon this review, we recorded restructuring and other special charges of \$38 million in 1999 to better align our cost structure with expected revenue growth rates.

The restructuring and other special charges for the year ended December 26, 1999, and related activity during 1999, 2000 and 2001, are reflected in the following table:

(Thousands)	Severance and employee benefits	Facilities	Equipment	Equipment disposal costs	Discontinued system projects	Total
1999 provision	\$ 3,024	\$ 968	\$ 23,769	\$ 4,380	\$ 6,089	\$ 38,230
Cash charges	(3,024)	(56)	—	(1,937)	—	(5,017)
Non-cash charges	—	—	(23,769)	—	(6,089)	(29,858)
Accruals at December 26, 1999	—	912	—	2,443	—	3,355
Cash charges	—	(429)	—	(2,443)	—	(2,872)
Accruals at December 31, 2000	—	483	—	—	—	483
Cash charges	—	(443)	—	—	—	(443)
Accruals at December 30, 2001	\$ —	\$ 40	\$ —	\$ —	\$ —	\$ 40

We anticipate that the remaining accrual related to sales office facilities will be utilized over the period through lease terminations in the second quarter of 2002.

We sold 90 percent of Legerity to Francisco Partners, L.P. for approximately \$375 million in cash, effective July 31, 2000. Prior to the sale, Legerity was a wholly owned subsidiary of AMD, selling voice communications products. Our pre-tax gain on the sale of Legerity was \$337 million. The gain was computed based on the excess of the consideration received for Legerity's net assets as of July 31, 2000, less direct expenses related to the sale. The applicable tax rate on the gain was 37 percent, resulting in an after-tax gain of \$212 million.

On June 15, 1999, we sold Vantis to Lattice for approximately \$500 million in cash. Our pre-tax gain on the sale of Vantis was \$432 million. The gain was computed based on the excess of the consideration received for Vantis' net assets as of June 15, 1999, less direct expenses related to the sale. The applicable tax rate on the gain was 40 percent, resulting in an after-tax gain of \$259 million.

Interest and other income, net, decreased \$60 million or 70 percent in 2001 compared to 2000 primarily due to \$27 million in charges for other-than-temporary declines in our equity investments, a \$14 million decrease in interest income due to a decrease in short-term investments and a \$9 million decrease due to the absence of a gain on the sale of real property.

Interest expense increased slightly in 2001 compared to 2000 due to a decrease in capitalized interest expense attributable to the substantial completion of Dresden Fab 30 and increased borrowings by AMD Saxony manufacturing GmbH (AMD Saxony) under the Dresden Loan Agreements, offset by the effect of redeeming our 6% convertible subordinated notes in May 2001.

Interest and other income, net, increased \$54 million or 168 percent in 2000 compared to 1999 primarily due to higher average cash and short- and long-term investment balances.

Interest expense decreased \$9 million or 13 percent in 2000 compared to 1999 primarily due to lower average debt balances resulting from retirement of a portion of our 11% Senior Secured Notes due 2003 (Senior Secured Notes) in August 2000, offset by a reduction of capitalized interest as a result of the completion of the initial phase of Dresden Fab 30.

Income Tax

We recorded an income tax benefit of \$14 million in 2001 and income tax provisions of \$257 million in 2000 and \$167 million in 1999. The effective benefit tax rate of 15.4 percent for the year ended December 30, 2001 was less than the statutory rate because of a 24 percent tax benefit rate on the restructuring charges, reflecting the allocation of the charges between U.S. and foreign low-taxed jurisdictions, and a provision for U.S. taxes on certain previously undistributed earnings of low-taxed foreign subsidiaries. The effective tax rate was 20.5 percent for the year ended December 31, 2000. The effective tax rate, excluding the gain on the sale of Legerity, was 14.5 percent reflecting the benefit of realizing previously reserved deferred tax assets. The tax rate recorded in 2000 attributable to the gain on the sale of Legerity was 37 percent. The effective tax rate was 227 percent for the year ended December 26, 1999. The effective tax rate, excluding the gain on the sale of Vantis and restructuring charges, was zero. This reflected the establishment of reserves against our deferred tax assets due to current and prior operating losses. The

tax rate recorded in 1999 attributable to the gain on the sale of Vantis net of restructuring charges was 39 percent.

We had net deferred tax assets of \$51 million as of December 30, 2001.

Other Items

International sales as a percent of net sales were 66 percent in 2001 and 60 percent in both 2000 and 1999. During 2001, approximately two percent of our net sales were denominated in foreign currencies. We do not have sales denominated in local currencies in countries that have highly inflationary economies (as defined by accounting principles generally accepted in the United States). The impact on our operating results from changes in foreign currency rates individually and in the aggregate has not been material.

Comparison of Segment Income (Loss)

In 2001, we operated in two reportable segments: the Core Products segment, which reflects the aggregation of the PC processors and memory products operating segments, and the Foundry Services segment. The Core Products segment includes PC processors, Flash memory devices, EPROMs, embedded processors, platform products and networking products. The Foundry Services segment included fees for services provided to Legerity and Vantis. Our previous Voice Communications segment included the voice communications products of our former subsidiary, Legerity, prior to its sale effective July 31, 2000. Our former Vantis segment included the programmable logic devices (PLD) of our former subsidiary, Vantis, prior to its sale in 1999. For a comparison of segment net sales, refer to the previous discussions on net sales by product group.

The following is a summary of operating income (loss) by segment for 2001, 2000 and 1999:

(Millions)	2001	2000	1999
Core Products	\$ 72	\$832	\$(342)
Foundry Services	(34)	22	1
Voice Communications	—	35	14
Vantis	—	—	6
Total	\$ 38	\$889	\$(321)

Core Products segment operating income decreased by \$760 million in 2001 compared to 2000 due to a decrease in net sales. The decrease was primarily due to a decline in the average selling prices and unit sales of our core products due to the sustained downturn in the microprocessor, communications, and networking equipment industries and our restructuring plan previously discussed.

The Foundry Services segment operating income decreased by \$56 million in 2001 compared to 2000 primarily due to the significant reduction in demand for wafer fabrication services from Vantis and Legerity.

The Voice Communications segment operating income was zero in 2001 due to our sale of Legerity, effective July 31, 2000.

The Vantis segment operating income was zero in 2001 due to our sale of Vantis, effective June 15, 1999.

FINANCIAL CONDITION

Net cash provided by operating activities was \$168 million in 2001 as a result of our net loss of \$61 million, adjusted for non-cash charges, including, \$623 million of depreciation and amortization expense, \$82 million of restructuring charges, \$27 million of impairment charges on equity investments and \$10 million of provision for doubtful accounts, offset by non-cash credits of \$93 million from net changes in deferred income taxes and foreign grant and subsidy income, and other uses of cash in operating activities of approximately \$428 million due to net changes in operating assets and liabilities.

Net cash provided by operating activities was \$1,206 million in 2000 primarily due to net income of \$983 million and depreciation and amortization of \$579 million, offset by a nonrecurring \$337 million reduction to operating cash flows from the gain on the sale of Legerity in 2000, a decrease of \$269 million in other assets, an increase of \$158 million from income tax benefits from employee stock option exercises, a decrease of \$156 million in inventory, an increase of \$157 million in payables and accrued liabilities, an increase of \$143 million from customer deposits under long-term purchase agreements, a decrease of \$140 million in accounts receivable, an increase of \$79 million in prepaid expenses and a decrease of \$35 million from foreign grant and subsidy income.

Net cash provided by operating activities was \$260 million in 1999 primarily due to the net loss of \$89 million, a nonrecurring \$432 million reduction in operating cash flows from the gain on the sale of Vantis in 1999, an increase of \$516 million from depreciation and amortization, an increase of \$160 million from deferred income taxes, an increase of \$241 million in payables and accrued liabilities, a decrease of \$102 million in prepaid expenses, an increase of \$55 million in other assets, a decrease of \$50 million from foreign grant and subsidy income not received in cash and a decrease of \$48 million in accounts receivable.

Net cash used in investing activities was \$554 million in 2001 primarily due to \$679 million used for the purchases of property, plant, and equipment, primarily for Dresden Fab 30 and Asia manufacturing facilities, and \$122 million for additional equity invest-

ments in FASL, offset by \$246 million of net proceeds from sales and maturities of available-for-sale securities.

Net cash used in investing activities was \$816 million in 2000 primarily due to \$805 million used for purchases of property, plant and equipment, offset by \$375 million we received in 2000 from the sale of Legerity and \$398 million of net purchases of available-for-sale securities.

Net cash used in investing activities was \$142 million in 1999 primarily due to \$454 million from the sale of Vantis, a decrease of \$620 million from purchases of property, plant and equipment offset by \$19 million in net proceeds from sales of available-for-sale securities and \$4 million in proceeds from sales of property, plant and equipment.

Net cash provided by financing activities was \$232 million in 2001 primarily due to \$63 million in proceeds from the issuance of notes payable to banks, \$308 million in proceeds from Dresden borrowing activities, \$38 million in proceeds from the receipt of foreign grants and subsidies and \$37 million in proceeds from the issuance of stock in connection with stock option exercises and purchases under our Employee Stock Purchase Plan, offset by \$137 million in payments on debt and capital lease obligations and \$77 million used to repurchase our common stock.

Net cash used in financing activities was \$101 million in 2000 primarily due to \$375 million in payments on debt and capital lease obligations, offset by \$136 million in proceeds from borrowing activities, \$123 million in proceeds from the issuance of stock and \$15 million in proceeds from foreign grants and subsidies.

Net cash used in financing activities was \$174 million in 1999 primarily due to \$244 million in payments on debt and capital lease obligations, offset by \$12 million in proceeds from borrowings, \$44 million in proceeds from issuance of stock and \$14 million in proceeds from foreign grants and subsidies.

Contractual Cash Obligations and Commercial Commitments

The following tables summarize our contractual cash obligations and commercial commitments at December 30, 2001 and are supplemented by the discussion following the tables:

Contractual Cash Obligations at December 30, 2001 were:

(In Thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Notes payable to banks	\$ 63,362	\$ 63,362	\$ —	\$ —	\$ —
Dresden term loans	602,046	186,842	342,544	72,660	—
Commercial mortgage	1,190	182	423	245	340
Capital lease obligations	36,075	13,589	20,060	2,426	—
Operating leases	457,176	57,612	91,375	40,636	267,553
Unconditional purchase commitments	54,979	15,036	20,067	9,895	9,981
Total contractual cash obligations	\$1,214,828	\$336,623	\$474,469	\$125,862	\$277,874

Commercial Commitments at December 30, 2001 were:

(In Thousands)	Total amounts committed	Amount of commitment expiration per period			
		Less than 1 year	1–3 years	4–5 years	Over 5 years
Dresden guarantee	\$277,000	\$ —	\$ —	\$ —	\$277,000
FASL guarantee	192,000	—	—	—	192,000
Fujitsu guarantee	125,000	\$ —	\$125,000	—	—
Total commercial commitments	\$594,000	\$ —	\$125,000	\$ —	\$469,000

Notes Payable to Banks

We entered into a Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by a domestic financial institution on July 13, 1999. The Loan Agreement provides for a four-year secured revolving line of credit of up to \$200 million. We can borrow, subject to amounts that may be set aside by the lenders, up to 85 percent of our eligible accounts receivable from Original Equipment Manufacturers (OEMs) and 50 percent of our eligible accounts receivable from distributors. We must comply with certain financial covenants if the level of domestic cash we hold declines to \$200 million or the amount of borrowings under the Loan Agreement rises to 50 percent of available credit. Under these circumstances the Loan Agreement restricts our ability to pay cash dividends on our common stock. Our obligations under the Loan Agreement are secured by a pledge of all of our accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, \$50 million was outstanding under the Loan Agreement, which was repaid in January 2002.

As of December 30, 2001, we had approximately \$18 million in lines of credit available to our foreign subsidiaries under other financing agreements, of which approximately \$13 million is outstanding.

Dresden Term Loans and Dresden Guarantee

AMD Saxony, an indirect wholly owned German subsidiary of AMD, continues to facilitate Dresden Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony, and a consortium of banks are providing credit support for the project. We currently estimate construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. As of December 30, 2001, we had invested \$1.8 billion. In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG in order to finance the project. Because most of the amounts under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth below are subject to change based on applicable conversion rates. We used the exchange rate as of December 30, 2001, which was approximately 2.17 deutsche marks to one U.S. dollar, to value the amounts denominated in deutsche marks. The Dresden Loan Agreements provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

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

The Dresden Loan Agreements require that we partially fund

Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested \$334 million as of December 30, 2001 in the form of subordinated loans to and equity investments in AMD Saxony, which are eliminated in our consolidated financial statements. In addition to support from AMD, the consortium of banks referred to above has made available \$692 million in loans to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$602 million of such loans outstanding as of December 30, 2001, which are included in our consolidated balance sheets.

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

- guarantees of the lesser of 65 percent of AMD Saxony bank debt or \$692 million;
- capital investment grants and allowances totaling \$286 million; and
- interest subsidies totaling \$142 million.

Of these amounts, AMD Saxony had received \$284 million in capital investment grants and allowances and \$64 million in interest subsidies through December 30, 2001, which are included in our consolidated financial statements. The grants and subsidies are subject to conditions, including meeting specified levels of employment by December 2001 and maintaining those levels until June 2007. Noncompliance with the conditions of the grants and subsidies could result in the forfeiture of all or a portion of the future amounts to be received, as well as the repayment of all or a portion of amounts received to date. As of December 30, 2001, we were in compliance with all of the conditions of the grants and subsidies.

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

AMD Saxony, the related receivable is not recorded on our consolidated financial statements.

The Dresden Loan Agreements, as amended, also require that we:

- provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed, such funding to be repaid to AMD as AMD Saxony receives the grants or subsidies from the State of Saxony;
- fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates; and
- guarantee up to 35 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$100 million or more than \$277 million, until the bank loans are repaid in full.

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

- material variances from the approved plans and specifications;
- our failure to fund equity contributions or shareholder loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- the sale of shares in AMD Saxony or AMD Holding;
- the failure to pay material obligations;
- the occurrence of a material adverse change or filings or proceedings in bankruptcy or insolvency with respect to us, AMD Saxony or AMD Holding; and
- the occurrence of default under the Loan Agreement.

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

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

Commercial Mortgage

As of December 30, 2001, we had a \$1.2 million commercial mortgage outstanding relating to one of our research facilities. The mortgage balance will be repaid through 2007.

Capital Lease Obligations

As of December 30, 2001, we had capital lease obligations of approximately \$36 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2005.

Operating Leases and Purchase Commitments

We lease certain of our facilities, including our executive offices in Sunnyvale, California, under agreements which expire at vari-

ous dates through 2018. We lease certain of our manufacturing and office equipment for terms ranging from one to five years. Total future lease obligations as of December 30, 2001 were approximately \$457 million.

We enter into purchase commitments for manufacturing supplies and services. Total purchase commitments as of December 30, 2001 were approximately \$55 million for periods through 2009.

FASL Facilities and Guarantees

FASL, a joint venture formed by AMD and Fujitsu Limited in 1993, operates advanced integrated circuit manufacturing facilities in Aizu-Wakamatsu, Japan, to produce Flash memory devices. FASL is continuing the facilitization of its second and third Flash memory device wafer fabrication facilities, FASL JV2 and FASL JV3. We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately \$1.5 billion of these costs had been funded by cash generated from FASL operations. These costs are incurred in Japanese yen and are, therefore, subject to change due to foreign exchange rate fluctuations. On December 30, 2001, the exchange rate was 128.02 yen to one U.S. dollar; the rate we used to translate the amounts denominated in yen into U.S. dollars.

In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

A significant portion of FASL capital expenditures in 2002 will continue to be funded by cash generated from FASL operations. In addition, both Fujitsu and AMD made capital contributions of 15 billion yen (\$122 million) each to FASL during the second quarter of 2001. Further, to the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, AMD will be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL, up to 25 billion yen (\$192 million). As of December 30, 2001, we had \$148 million in loan guarantees outstanding with respect to these third-party loans.

UMC

On January 31, 2002, we announced an alliance with United Microelectronics Corporation (UMC) under which UMC and AMD will establish a joint venture to own and operate a state-of-the-art, 300-mm wafer fabrication facility in Singapore for high-

volume production of PC processors and other logic products. As part of the alliance, we and UMC will collaborate in the development of advanced process technologies for semiconductor logic products. We separately announced a foundry agreement under which UMC will produce PC processors to augment Dresden Fab 30 production capacity for devices produced on 130-nanometer and smaller-geometry technology.

Other Financing Activities

On January 29, 2002, we closed a private offering of \$500 million aggregate principal amount of our 4¾% Convertible Senior Debentures due 2022 issued pursuant to Rule 144A and Regulation S. The Debentures bear interest at a rate of 4¾% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4¾% and will not exceed 6¾%. The Debentures will be convertible into our common stock initially at a conversion price of \$23.38 per share. At the initial conversion price, each \$1,000 principal amount of the Debentures will be convertible into approximately 43 shares of our common stock. We intend to use the net proceeds generated from the offering for capital expenditures, working capital, and general corporate purposes.

On August 1, 2001, we redeemed for cash the remaining \$43 million of our outstanding Senior Secured Notes.

On May 21, 2001, we called for redemption of the then outstanding \$517.1 million 6% Convertible Subordinated Notes due 2005, which resulted in the conversion of \$509.6 million of such Notes, into approximately 28 million shares of our common stock, net of unamortized debt issuance cost of \$7.3 million. The remaining \$0.2 million was paid in cash to investors.

On January 29, 2001, we announced that our Board of Directors had authorized a program to repurchase up to \$300 million worth of our common stock over a period of time to be determined by management. These repurchases may be made in the open market or in privately negotiated transactions from time to time in compliance with the SEC's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. This program does not obligate us to acquire any particular amount of our common stock and the program may be suspended at any time at our discretion. As of December 30, 2001, we had acquired approximately 6.3 million shares of our common stock at an aggregate cost of \$77 million. Shares repurchased under this program will be used in connection with our stock option plans.

We plan to make capital investments of approximately \$850 million during 2002, including amounts related to the continued facilitation of Dresden Fab 30. We believe that cash flows from operations and current cash balances, together with available external financing and the extension of existing facilities, will be sufficient to fund operations and capital investments for at least the next 12 months.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite

lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization and impairment provisions of SFAS 142 are effective upon the adoption of SFAS 142. We are required to adopt SFAS 141 and SFAS 142 at the beginning of 2002. Presently these accounting standards would not have a material effect on our consolidated financial statements as we do not have material amounts of intangibles or any goodwill.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which supersedes both Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets to be "held and used." In addition, the Statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset or group of assets to be disposed of other than by sale be classified as "held-and-used" until they are disposed of, and establishes more restrictive criteria to classify an asset or group of assets as "held for sale." SFAS 144 also retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). We will adopt SFAS 144 at the beginning of 2002. We do not believe the adoption of SFAS 144 will have a material impact on our operating results or financial position.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and short-term debt obligations. We mitigate default risk by investing in only the highest credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk.

We use proceeds from debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 30, 2001 and comparable fair values as of December 31, 2000:

	2001							2000
	2002	2003	2004	2005	2006	Thereafter	Total	Fair value
(Thousands)								
Investment Portfolio								
Cash equivalents:								
Fixed rate amounts	\$125,334	\$ —	\$ —	\$ —	\$ —	\$ —	\$125,334	\$126,379
Weighted-average rate	2.70%	—	—	—	—	—	—	—
Variable rate amounts	\$152,122	—	—	—	—	—	\$152,122	\$152,140
Weighted-average rate	2.09%	—	—	—	—	—	—	—
Short-term investments:								
Fixed rate amounts	\$427,183	—	—	—	—	—	\$427,183	\$426,359
Weighted-average rate	4.17%	—	—	—	—	—	—	—
Variable rate amounts	\$ 16,350	—	—	—	—	—	\$ 16,350	\$ 16,350
Weighted-average rate	2.86%	—	—	—	—	—	—	—
Long-term investments:								
Equity investments	—	\$ —	—	—	—	—	\$ 11,571	\$ 19,342
Fixed rate amounts	—	\$ 13,323	—	—	—	—	\$ 13,323	\$ 13,323
Weighted-average rate	—	2.40%	—	—	—	—	—	—
Total Investment Portfolio	\$720,989	\$ 13,323	\$ —	\$ —	\$ —	\$ —	\$745,883	\$753,893
Debt Obligations								
Debt—fixed rate								
amounts	\$187,024	\$197,423	\$145,544	\$72,905	\$270	\$ 70	\$603,236	\$571,679
Weighted-average rate	4.83%	5.23%	5.74%	6.49%	9.88%	9.88%	—	—
Notes payable to banks	\$ 63,362	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 63,362	\$ 63,362
Weighted-average rate	5.23%	—	—	—	—	—	—	—
Capital leases	\$ 10,779	\$ 10,499	\$8,765	\$ 2,426	\$ —	\$ —	\$ 32,469	\$ 31,550
Weighted-average rate	7.48%	7.38%	6.90%	6.75%	—	—	—	—
Total Debt Obligations	\$261,165	\$207,922	\$154,309	\$75,331	\$270	\$ 70	\$699,067	\$666,591

Foreign Exchange Risk. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations on our foreign currency exposures in our foreign sales subsidiaries, on liabilities for products purchased from FASL and AMD Saxony, and for foreign currency denominated fixed asset purchase commitments. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisition. Our accounting policy for these instruments is based on our designation of such instruments as hedges of underlying exposure to variability in cash flows. We do not use derivative financial instruments for speculative or trading purposes.

We had an aggregate of \$507 million (notional amount) of short-term foreign currency forward contracts and option con-

tracts denominated in Japanese yen, European Union euro and Singapore dollar outstanding as of December 30, 2001.

Gains and losses related to the foreign currency forward and option contracts for the year ended December 30, 2001 were not material. We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. We cannot give any assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The table below provides information about our foreign currency forward and option contracts as of December 30, 2001 and December 31, 2000. All of our foreign currency forward contracts and option contracts mature within the next 12 months.

	2001			2000		
	Notional amount	Average contract rate	Estimated fair value	Notional amount	Average contract rate	Estimated fair value
(Thousands except contract rates)						
Foreign currency forward contracts:						
Japanese yen	\$105,895	122.76	\$(4,066)	\$ 54,915	110.22	\$ (781)
British pound	—	—	—	5,103	1.45	(16)
European Union euro	195,907	0.89	1,778	134,867	0.88	(1,602)
Singapore dollar	19,854	1.81	171	5,573	1.70	7
Thai baht	—	—	—	6,712	39.52	(619)
Foreign currency option contracts:						
Japanese yen	86,400	125.00	(1,375)	—	—	—
European Union euro	99,076	0.92	93	—	—	—
	\$ 507,132		\$(3,399)	\$207,170		\$(3,011)

RISK FACTORS

We Depend Upon Market Demand for Our Flash Memory Products.

The demand for Flash memory devices continues to be weak due to the sustained downturn in the communications and networking equipment industries and excess inventories held by our customers. In addition, we expect competition in the market for Flash memory devices to increase in 2002 and beyond as competing manufacturers introduce new products and industry-wide production capacity increases. We may be unable to maintain or increase our market share in Flash memory devices as the market develops and Intel and other competitors introduce competitive products. A decline in sales of our Flash memory devices and/or lower average selling prices could have a material adverse effect on us.

In 2001, we announced a new memory cell architecture, our MirrorBit™ technology that enables Flash memory products to hold twice as much data as standard Flash memory devices. MirrorBit technology is expected to result in reduced cost of our products. We plan to produce our first products with MirrorBit technology in the second half of 2002. Any delay in our transition to MirrorBit technology, or failure to achieve the cost savings we expect, could reduce our ability to be competitive in the market and could have a material adverse effect on us.

We Depend on the Commercial Success of Our Microprocessor Products.

The microprocessor market is characterized by short product life cycles and migration to ever-higher performance microprocessors. To compete successfully against Intel in this market, we must transition to new process technologies at a fast pace and offer higher-performance microprocessors in significantly greater volumes. If we fail to achieve yield and volume goals or to offer higher-performance microprocessors in significant volume on a timely basis, we could be materially adversely affected.

We must continue to market successfully our seventh-generation Microsoft Windows compatible microprocessors, the AMD Athlon and AMD Duron microprocessors. To sell the volume of AMD Athlon and AMD Duron microprocessors we currently plan to manufacture through 2002, we must increase sales to existing customers and develop new customers in both consumer and commercial markets. Our production and sales plans for microprocessors are subject to other risks and uncertainties, including:

- our ability to achieve a successful marketing position for the AMD Athlon XP microprocessor, which relies on market acceptance of a metric based on overall processor performance versus processor speed;
- our ability to maintain average selling prices of microprocessors despite increasingly aggressive Intel pricing strategies, marketing programs, new product introductions and product bundling of microprocessors, motherboards, chipsets and combinations thereof;
- our ability to continue offering new higher performance microprocessors competitive with Intel's Pentium 4 processor;
- our ability, on a timely basis, to produce microprocessors in the volume and with the performance and feature set required by customers;
- the pace at which we are able to ramp production in Dresden Fab 30 on 0.13 micron copper interconnect process technology;
- our ability to expand our chipset and system design capabilities;
- the availability and acceptance of motherboards and chipsets designed for our microprocessors; and

- the use and market acceptance of a non-Intel processor bus, adapted by us from Digital Equipment Corporation's EV6 bus, in the design of our seventh-generation and future generation microprocessors, and the availability of chipsets from vendors who will develop, manufacture and sell chipsets with the EV6 interface in volumes required by us.

Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors depends on the continuing success of the AMD Athlon and AMD Duron microprocessors, our seventh-generation processors, and future generations of microprocessors, beginning with the eighth-generation "Hammer" family of processors that we currently plan to introduce at the end of 2002.

If we fail to achieve continued and expanded market acceptance of our seventh-generation microprocessors or if we fail to introduce in a timely manner, or achieve market acceptance for, the Hammer microprocessors, we may be materially adversely affected.

We Face Significant Competition from Intel Corporation.

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

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

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

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, distributors of Intel technology.

In marketing our microprocessors to these OEMs and dealers, we depend on companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel micro-

processors. Our ability to compete with Intel in the market for seventh-generation and eighth-generation microprocessors will depend on our ability to ensure that the microprocessors can be used in PC platforms designed to support our microprocessors or that platforms are available that support both Intel processors and our microprocessors. A failure of the designers and producers of motherboards, chipsets, processor modules and other system components to support our microprocessor offerings would have a material adverse effect on us.

The Cyclical Nature of the Semiconductor Industry May Limit Our Ability to Maintain or Increase Revenue and Profit Levels During Industry Downturns. The semiconductor industry is highly cyclical, to a greater extent than other less dynamic or less technology-driven industries. In the past, including during 2001 and currently, our financial performance has been negatively affected by significant downturns in the semiconductor industry as a result of:

- the cyclical nature of the demand for the products of semiconductor customers;
- excess inventory levels by customers;
- excess production capacity; and
- accelerated declines in average selling prices.

If current conditions do not improve in the near term or if these or other conditions in the semiconductor industry occur in the future, we will be adversely affected.

Our Business Is Subject to Fluctuations in the Personal Computer Market. Our business is closely tied to the personal computer industry. Industry-wide fluctuations in the PC marketplace have materially adversely affected us, including the industry downturn experienced during 2001 and currently, and may materially adversely affect us in the future.

Worldwide Economic and Political Conditions May Affect Demand for Our Products. The economic slowdown in the United States and worldwide, exacerbated by the occurrence and threat of terrorist attacks and consequences of sustained military action, has adversely affected demand for our microprocessors, Flash memory devices and other integrated circuits. Similarly, a continued decline of the worldwide semiconductor market or a significant decline in economic conditions in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us.

We Depend on Microsoft Corporation's Support for Our Products and Its Logo License. Our ability to innovate beyond the x86 instruction set controlled by Intel depends on support from Microsoft in its operating systems. If Microsoft does not provide support in its operating systems for our x86 instruction sets, independent software providers may forego designing their software applications to take advantage of our innovations. In addition, we have entered into logo license agreements with Microsoft that allow us to label our products as "Designed for Microsoft Windows." If we fail to retain the support and certification of Microsoft, our ability to market our processors could be materially adversely affected.

We Will Have Significant Capital Requirements in 2002. We plan to continue to make significant capital expenditures to support our microprocessor and Flash memory products both in the

near and long term, including \$850 million in 2002. These capital expenditures will be a substantial drain on our cash flow and may also decrease our cash balances. To the extent that we cannot generate the required capital internally or obtain such capital externally, we could be materially adversely affected.

In March 1997, our indirect wholly owned subsidiary, AMD Saxony, entered into a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, and equity investments in, AMD Saxony. We currently estimate that the construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. We had invested \$1.8 billion as of December 30, 2001. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the loan agreement, which would permit acceleration of indebtedness.

We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately \$1.5 billion of this cost had been funded. To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million. If we are unable to fulfill our obligations with respect to FASL, our business could be materially and adversely affected.

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

Fluctuations in Demand for Our Products Relative to the Capacity of Our Manufacturing Facilities Could Have a Material Adverse Effect on Us. Because we cannot quickly adapt our manufacturing capacity to rapidly changing market conditions, at times we underutilize our manufacturing facilities as a result of reduced demand for certain of our products. We are substantially increasing our manufacturing capacity by making significant capital investments in Dresden Fab 30, FASL JV3 and our test and assembly facility in Suzhou, China. If the increase in demand for our products is not consistent with our expectations,

we may underutilize our manufacturing facilities, and we could be materially adversely affected. This has in the past had, and in the future may have, a material adverse effect on our earnings.

We have also begun to convert our manufacturing facility in Austin, Texas (Fab 25) from production of microprocessors to production of our Flash memory devices. At this time, the most significant risk is that we will have underutilized capacity in Fab 25 as we continue to transition the production of microprocessors out of Fab 25 and into Dresden Fab 30 and as we convert Fab 25 to a Flash memory device production facility while demand for flash memory products remains depressed.

There may also be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on us. Further, we cannot be certain that we will be able to implement the process technology for the conversion of Fab 25 in a timely manner. During this period of conversion, Fab 25 may not be fully productive. Similarly, Dresden Fab 30 is expected to be fully facilitated by the end of 2003. During this process, Dresden Fab 30 will not be fully productive. A substantial delay in the successful conversion of Fab 25 or the facilitization of Dresden Fab 30 could have a material adverse effect on us.

We Make Substantial Investments in Research and Development of Process Technologies that May Not Be Successful.

We make substantial investments in research and development of process technologies in an effort to improve the technologies and equipment used to fabricate our products. For example, the successful development and implementation of silicon on insulator technology is critical to the Hammer family of microprocessors currently under development. However, we cannot be certain that we will be able to develop or obtain or successfully implement leading-edge process technologies needed to fabricate future generations of our products.

Any Substantial Interruption of or Problems with Our Manufacturing Operations Could Materially Adversely Affect Us.

Any substantial interruption of our manufacturing operations, either as a result of a labor dispute, equipment failure or other cause, could materially adversely affect us. Further, manufacturing yields may be adversely affected by, among other things, errors and interruptions in the fabrication process, defects in raw materials, implementation of new manufacturing processes, equipment performance and process controls. A decline in manufacturing yields may have a material adverse effect on our earnings.

Our Products May Not Be Compatible with Some or All Industry-Standard Software and Hardware.

It is possible that our products may not be compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on us.

Costs Related to Defective Products Could Have a Material Adverse Effect on Us.

It is possible that one or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product

replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

We Rely on the Availability of Essential Raw Materials to Manufacture Our Products.

Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure certain of these materials, we might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

We Are Subject to Political and Economic Risks Associated with Our Operations in Foreign Countries.

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

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

We Rely on Our Ability to Attract and Retain Key Personnel.

Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be otherwise adversely affected.

Our Operating Results are Subject to Substantial Quarterly and Annual Fluctuations.

Our operating results are subject to substantial quarterly and annual fluctuations due to a variety of factors, including decreases in average selling prices of our products, general worldwide economic conditions, the gain or loss of significant customers, market acceptance of our products and new product introductions by us or our competitors. In addition, changes in the mix of products produced and sold in the mix of sales by distribution channels, in the availability and cost of products from our suppliers or in production capacity and manufacturing yields can contribute to periodic fluctuations in operating results.

Our operating results also tend to vary seasonally. Our revenues are generally lower in the first, second and third quarters of each year than in the fourth quarter. This seasonal pattern is largely a result of decreased demand in Europe during the summer months and higher demand in the retail sector of the PC market during the winter holiday season.

The Market for Our Products Is Subject to Rapid Technological Change. The market for our products is generally characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products, develop and introduce new products that take advantage of technological advances and meet the demands of our customers.

We Face Intense Competition in the Integrated Circuit Industry. The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market and successive generations of products are developed and introduced for sale. Failure to reduce our costs on existing products or to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins, would have a material adverse effect on us.

Our Customers Can Cancel or Revise Purchase Orders Without Penalty. As a Result, We Must Commit Resources to the Manufacture of Products Without Any Advance Purchase Commitments from Customers. Sales of our products are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time, which may be revised or canceled without penalty. As a result, we must commit resources to the manufacture of products without any advance purchase commitments from customers. Therefore, the failure of demand for our products to match the supply of our products could result in the expenditure of excess costs, which could have a material adverse effect on us.

Our Obligations Under Specific Provisions in Our Agreements with Distributors Expose Us to Material Adverse Effects When We Experience an Unexpected Significant Decline in the Price of Our Products. Distributors typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally allow for the return of our products. The price protection and return rights we offer to our distributors could materially adversely affect us if there is an unexpected significant decline in the price of our products.

We May Not Be Able to Adequately Protect Our Technology or Other Intellectual Property, in the United States and Abroad, Through Patents, Copyrights, Trade Secrets, Trademarks and Other Measures. We may not be able to adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Further, patent applications that we file may

not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property on a worldwide basis.

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

Our Inability to Effectively Transition to a New Enterprise Resource Planning Program Could Have a Material Adverse Effect on Us. We are currently in the process of transitioning to a new enterprise resource planning program. If we are unsuccessful in transitioning to this new system in an effective and timely manner, we could be materially adversely affected.

Failure to Comply with Applicable Environmental Regulations Could Materially Adversely Affect our Business. Our business involves the use of hazardous materials. If we fail to comply with governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process, we may be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations. Such regulations could require us to procure expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure to control the use of, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on us. Violations of environmental laws may result in criminal and civil liabilities.

Terrorist Attacks, Such as the Attacks That Occurred in New York and Washington, DC on September 11, 2001, and Other Acts of Violence or War May Materially Adversely Affect the Markets in Which We Operate, Our Operations and Our Profitability. Terrorist attacks may negatively affect our operations. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive and ultimately affect our sales.

Also as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our sales, our supply chain, and our ability to deliver products to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in or exacerbate economic recession in the United States or abroad. Any of these occur-

rences could have a significant impact on our operating results, revenues and costs, volatility of the market price for our securities and on the future price of our securities.

We Are Located in an Earthquake Zone. Our corporate headquarters, a portion of our manufacturing facilities, assembly and research and development activities and certain other critical business operations are located near major earthquake fault lines. In the event of a major earthquake, we could experience business interruptions, destruction of facilities, and/or loss of life, all of which could materially adversely affect us.

We Have a Substantial Amount of Debt and Debt Service Obligations, Which Could Adversely Affect Our Financial Position. Our Loan Agreement provides for a four-year secured revolving line of credit of up to \$200 million, which currently expires on July 14, 2003. Under this agreement, we can borrow, subject to amounts which may be set aside by the lenders, up to 85% of our eligible accounts receivable from OEMs and 50% of our eligible accounts receivable from distributors. We must comply with certain financial covenants if the level of cash we hold in the United States declines to certain levels. Our obligations under this agreement are secured by a pledge of most of our accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, we had \$50 million outstanding under the Loan Agreement, which has subsequently been repaid.

Our indirect wholly owned subsidiary, AMD Saxony, is a party to a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the Bank of America loan and security agreement, which would permit acceleration of indebtedness under both agreements. In addition, the Dresden Loan Agreement prohibits AMD Saxony from paying any dividends, so cash held by AMD Saxony will not be available for the repayment of the debentures.

To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. If we are unable to fulfill our obligations to FASL, our business could be materially and adversely affected. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the

Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

On January 29, 2002, we closed a private offering of \$500 million aggregate principal amount of its 4¾% Convertible Senior Debentures Due 2022 (the Debentures). The Debentures bear interest at a rate of 4¾% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4¾% and will not exceed 6¾%.

Our ability to make payments on and to refinance our debt or our guarantees of other parties' debts will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our Loan Agreement in an amount sufficient to enable us to pay our debt or Debentures, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt, including the Debentures, on or before maturity. We cannot assure you that we will be able to refinance any of our debt, including our Loan Agreement or the Debentures, on commercially reasonable terms or at all.

We may incur substantial additional debt in the future. As of December 30, 2001, we had the ability to borrow \$150 million under the loan and security agreement, and currently have the ability to borrow the full \$200 million. If new debt is added to our and our subsidiaries' current debt levels, the risk of our inability to repay our debt, including the Debentures, could intensify.

The Price of Our Common Stock Continues to Be Highly Volatile. Based on the trading history of our common stock, we believe that the following factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially:

- quarterly fluctuations in our operating and financial results;
- announcements of new technologies, products and/or pricing by us or our competitors;
- the pace of new process technology and product manufacturing ramps;
- fluctuations in the stock price and operating results of our competitors, particularly Intel;
- changes in earnings estimates or buy/sell recommendations by financial analysts;
- changes in the ratings of our debentures or other securities;
- production yields of key products; and
- general conditions in the semiconductor industry.

In addition, an actual or anticipated shortfall in revenue, gross margins or earnings from securities analysts' expectations could have an immediate effect on the trading price of our common stock. Technology company stocks in general have experienced extreme price and volume fluctuations that are often unrelated to the operating performance of the companies. Market volatility may adversely affect the market price of our common stock, which could affect the price of our debentures and limit our ability to raise capital or to make acquisitions.

Consolidated Statements of Operations

Three Years Ended December 30, 2001 (Thousands except per share amounts)			
	2001	2000	1999
Net sales	\$3,891,754	\$4,644,187	\$2,857,604
Expenses:			
Cost of sales	2,589,747	2,514,637	1,964,434
Research and development	650,930	641,799	635,786
Marketing, general and administrative	620,030	599,015	540,070
Restructuring and other special charges	89,305	—	38,230
	3,950,012	3,755,451	3,178,520
Operating income (loss)	(58,258)	888,736	(320,916)
Gain on sale of Vantis	—	—	432,059
Gain on sale of Legerity	—	336,899	—
Interest and other income, net	25,695	86,301	31,735
Interest expense	(61,360)	(60,037)	(69,253)
Income (loss) before income taxes, equity in net income of joint venture and extraordinary item	(93,923)	1,251,899	73,625
Provision (benefit) for income taxes	(14,463)	256,868	167,350
Income (loss) before equity in net income of joint venture and extraordinary item	(79,460)	995,031	(93,725)
Equity in net income of joint venture	18,879	11,039	4,789
Net income (loss) before extraordinary item	(60,581)	1,006,070	(88,936)
Extraordinary item—debt retirement, net of \$13,497 tax benefit	—	(23,044)	—
Net income (loss)	\$ (60,581)	\$ 983,026	\$ (88,936)
Net income (loss) per common share:			
Basic—income (loss) before extraordinary item	\$ (0.18)	\$ 3.25	\$ (0.30)
Diluted—income (loss) before extraordinary item	\$ (0.18)	\$ 2.95	\$ (0.30)
Basic—income (loss) after extraordinary item	\$ (0.18)	\$ 3.18	\$ (0.30)
Diluted—income (loss) after extraordinary item	\$ (0.18)	\$ 2.89	\$ (0.30)
Shares used in per share calculations:			
Basic	332,407	309,331	294,577
Diluted	332,407	350,000	294,577

See accompanying notes

Consolidated Balance Sheets

December 30, 2001, and December 31, 2000
(Thousands except share and per share amounts)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 427,288	\$ 591,457
Short-term investments	442,709	701,708
Total cash, cash equivalents and short-term investments	869,997	1,293,165
Accounts receivable, net of allowance for doubtful accounts of \$19,270 in 2001 and \$22,712 in 2000	659,783	547,200
Inventories:		
Raw materials	26,489	34,413
Work-in-process	236,679	154,854
Finished goods	117,306	154,274
Total inventories	380,474	343,541
Deferred income taxes	155,898	218,527
Prepaid expenses and other current assets	286,957	255,256
Total current assets	2,353,109	2,657,689
Property, plant and equipment:		
Land	33,207	33,094
Buildings and leasehold improvements	1,461,228	1,420,313
Equipment	4,162,652	3,563,125
Construction in progress	469,191	445,269
Total property, plant and equipment	6,126,278	5,461,801
Accumulated depreciation and amortization	(3,387,140)	(2,825,334)
Property, plant and equipment, net	2,739,138	2,636,467
Investment in joint venture	363,611	261,728
Other assets	191,384	211,851
	\$5,647,242	\$5,767,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$ 63,362	\$ —
Accounts payable	304,990	477,369
Accrued compensation and benefits	129,042	172,815
Accrued liabilities	443,995	276,721
Income taxes payable	56,234	74,806
Deferred income on shipments to distributors	47,978	92,828
Current portion of long-term debt, capital lease obligations and other	268,336	129,570
Total current liabilities	1,313,937	1,224,109
Deferred income taxes	105,305	203,986
Long-term debt, capital lease obligations and other, less current portion	672,945	1,167,973
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Common stock, par value \$0.01; 750,000,000 shares authorized in 2001 and 2000; 340,502,883 shares issued and outstanding in 2001 and 314,137,160 in 2000	3,405	3,141
Capital in excess of par value	1,966,374	1,406,290
Treasury stock, at cost: 6,310,580 shares	(77,157)	—
Retained earnings	1,795,680	1,856,261
Accumulated other comprehensive loss	(133,247)	(94,025)
Total stockholders' equity	3,555,055	3,171,667
	\$5,647,242	\$5,767,735

See accompanying notes

Consolidated Statements of Stockholders' Equity

Three Years Ended December 30, 2001
(Thousands)

	Common Stock		Capital in excess of par value	Treasury Stock	Retained Earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number of shares	Amount					
December 27, 1998	290,954	\$2,910	\$1,070,146	\$ —	\$ 962,171	\$ (30,178)	\$2,005,049
Comprehensive income (loss):							
Net loss	—	—	—	—	(88,936)	—	(88,936)
Other comprehensive income (loss):							
Net change in unrealized gains (losses)							
on investments, net of taxes of \$2,635	—	—	—	—	—	12,121	12,121
Less: Reclassification adjustment for							
gains included in earnings	—	—	—	—	—	(4,603)	(4,603)
Net change in cumulative							
translation adjustments	—	—	—	—	—	(5,246)	(5,246)
Total other comprehensive income							12,764
Total comprehensive loss							(76,172)
Issuance of shares:							
Employee stock plans	5,358	53	31,126	—	—	—	31,179
Fujitsu Limited	1,000	10	12,588	—	—	—	12,598
Compensation recognized under employee							
stock plans	—	—	6,619	—	—	—	6,619
December 26, 1999	297,312	2,973	1,120,479	—	873,235	(17,414)	1,979,273
Comprehensive income (loss):							
Net income	—	—	—	—	983,026	—	983,026
Other comprehensive income:							
Net change in unrealized gains (losses)							
on investments, net of taxes of \$745	—	—	—	—	—	(1,135)	(1,135)
Net change in cumulative translation							
adjustments	—	—	—	—	—	(75,476)	(75,476)
Total other comprehensive loss							(76,611)
Total comprehensive income							906,415
Issuance of shares:							
Employee stock plans	16,805	168	122,826	—	—	—	122,994
Conversion of our 6% Subordinated Notes	20	—	360	—	—	—	360
Income tax benefits realized from employee							
stock option exercises	—	—	158,253	—	—	—	158,253
Compensation recognized under employee							
stock plans	—	—	4,372	—	—	—	4,372
December 31, 2000	314,137	3,141	1,406,290	—	1,856,261	(94,025)	3,171,667
Comprehensive income (loss):							
Net loss	—	—	—	—	(60,581)	—	(60,581)
Other comprehensive income (loss):							
Net change in unrealized gains (losses)							
on investments, net of taxes of \$5,166	—	—	—	—	—	(9,655)	(9,655)
Plus: Reclassification adjustment for							
losses included in earnings	—	—	—	—	—	1,583	1,583
Net change in cumulative translation							
adjustments	—	—	—	—	—	(27,751)	(27,751)
Net change in unrealized losses on							
cash flow hedges	—	—	—	—	—	(3,399)	(3,399)
Total other comprehensive loss							(39,222)
Total comprehensive loss							(99,803)
Issuance of shares:							
Employee stock plans	4,734	47	44,029	—	—	—	44,076
Conversion of 6% Subordinated Notes	27,943	280	509,310	—	—	—	509,590
Common stock repurchases	(6,311)	(63)	—	(77,157)	—	—	(77,220)
Premium from put options issued in							
Company stock	—	—	2,153	—	—	—	2,153
Compensation recognized under employee							
stock plans	—	—	4,592	—	—	—	4,592
December 30, 2001	340,503	\$3,405	\$1,966,374	\$(77,157)	\$1,795,680	\$(133,247)	\$3,555,055

See accompanying notes

Consolidated Statements of Cash Flows

Three Years Ended December 30, 2001 (Thousands)	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	\$ (60,581)	\$ 983,026	\$ (88,936)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of Vantis	—	—	(432,059)
Gain on sale of Legerity	—	(336,899)	—
Depreciation	601,673	558,378	491,424
Amortization	21,194	20,692	24,096
Provision for doubtful accounts	9,791	8,154	3,543
Impairment of equity investments	27,164	—	—
(Increase) decrease in deferred income tax assets	(36,052)	(19,076)	159,964
Restructuring and other special charges	81,768	—	29,858
Foreign grant and subsidy income	(57,156)	(35,187)	(50,178)
Net loss on disposal of property, plant and equipment	22,371	10,380	10,665
Net loss (gain) realized on sale of available-for-sale securities	1,565	—	(4,250)
Compensation recognized under employee stock plans	4,592	867	2,655
Undistributed income of joint venture	(18,879)	(11,039)	(4,789)
Recognition of deferred gain on sale of building	(1,681)	(1,681)	(1,680)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(122,174)	(140,479)	(48,069)
Increase in inventories	(36,975)	(156,284)	(23,138)
Decrease (increase) in prepaid expenses	28,560	79,293	(101,786)
(Increase) decrease in other assets	(88,775)	(269,392)	55,485
Income tax benefits from employee stock option exercises	—	158,253	—
Increase (decrease) in tax refund receivable and tax payable	(52,288)	57,479	(4,288)
(Refund) receipt of customer deposits under LT purchase agreements	(39,000)	142,500	—
Net (decrease) increase in payables and accrued liabilities	(117,472)	156,567	241,403
Net cash provided by operating activities	167,645	1,205,552	259,920
Cash flows from investing activities:			
Purchases of property, plant and equipment	(678,865)	(805,474)	(619,772)
Proceeds from sale of Vantis	—	—	454,269
Proceeds from sale of Legerity	—	375,000	—
Proceeds from sale of property, plant and equipment	1,737	12,899	3,996
Purchases of available-for-sale securities	(4,130,769)	(4,179,993)	(1,579,813)
Proceeds from sale and maturity of available-for-sale securities	4,376,732	3,781,766	1,598,946
Investment in joint venture	(122,356)	—	—
Net cash used in investing activities	(553,521)	(815,802)	(142,374)
Cash flows from financing activities:			
Proceeds from notes payable to banks	63,363	—	—
Proceeds from borrowings	308,457	135,789	12,101
Payments on debt and capital lease obligations	(137,104)	(375,016)	(243,762)
Proceeds from foreign grants and subsidies	37,510	15,382	14,341
Proceeds from issuance of stock	36,706	122,994	43,777
Repurchase of common stock	(77,220)	—	—
Net cash provided by (used in) financing activities	231,712	(100,851)	(173,543)
Effect of exchange rate changes on cash and cash equivalents	(10,005)	8,433	(11,786)
Net increase (decrease) in cash and cash equivalents	(164,169)	297,332	(67,783)
Cash and cash equivalents at beginning of year	591,457	294,125	361,908
Cash and cash equivalents at end of year	\$ 427,288	\$ 591,457	\$ 294,125
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 52,749	\$ 115,791	\$ 51,682
Income taxes	\$ 68,220	\$ 46,009	\$ 15,466
Non-cash financing activities:			
Debt converted to common stock	\$ 509,590	—	—
Equipment capital leases	\$ 24,255	—	2,307

See accompanying notes

Notes to Consolidated Financial Statements

**December 30, 2001, December 31, 2000
and December 26, 1999**

NOTE 1: NATURE OF OPERATIONS

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year. The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. Fiscal 2001 and 1999 were 52-week years, which ended on December 30 and December 26, respectively. Fiscal 2000 was a 53-week year, which ended on December 31, 2000. Fiscal 2002 will be a 52-week year ending December 29, 2002.

Investments. The Company classifies its marketable debt and equity securities at the date of acquisition, into either held-to-maturity or available-for-sale categories. Currently, the Company classifies all securities as available-for-sale. These securities are reported at fair market value with the related unrealized gains and losses included in other comprehensive income (loss), net of tax, a component of stockholders' equity. Realized gains and losses and declines in the value of securities determined to be other-than-temporary are included in interest and other income, net. Interest and dividends on all securities are also included in interest and other income, net. The cost of securities sold is based on the specific identification method.

The Company classifies investments with maturities between three and 12 months as short-term investments. Short-term investments consist of money market auction rate preferred stocks and debt securities such as commercial paper, corporate notes, certificates of deposit and marketable direct obligations of United States governmental agencies. Available for sale securities with maturities greater than twelve months are classified as short term as they represent investments of cash that are for current operations.

Revenue Recognition. The Company recognizes revenue from products sold directly to customers when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company sells to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise held by them. The distributor agreements, which may be canceled by either party upon specified notice, generally contain a

provision for the return of the Company's products in the event the agreement with the distributor is terminated and such products have not yet been sold by the distributor. Accordingly, the Company defers recognition of revenue and related profits from sales to distributors with agreements that have the aforementioned terms until the merchandise is resold by the distributors. The Company also sells its products to distributors with substantial independent operations under sales arrangements whose terms do not allow for rights of return or price protection on unsold products held by them. In these instances, the Company recognizes revenue when it ships the product directly to the distributors. Shipping and handling costs associated with product sales are included in cost of sales.

Investments in Derivative Financial Instruments Indexed to Advanced Micro Devices Stock. In November 2000, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force ("EITF") reached a final consensus on EITF issue No. 00-19, "Determination of Whether Share Settlement is Within the Control of the Issuer" for purposes of applying EITF Issue No. 96-13, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock' ("EITF 00-19" or "the Consensus"). EITF 96-13 addresses accounting for equity derivative contracts indexed to, and potentially settled in, a company's own stock ("equity derivatives") by providing guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. EITF 00-19 addresses and clarifies whether specific contract provisions or other circumstances cause a net-share or physical settlement alternative to be within or outside the control of the issuer.

To qualify as permanent equity, all the following criteria must be met: the equity derivative contract must permit the Company to settle in unregistered shares; the Company must have sufficient authorized but unissued shares available to settle the contract; the contract must contain an explicit limit on the number of shares to be delivered in a share settlement; there can be no requirement in the contract to post collateral; there can be no "make whole" provisions in the contract; and there can be no provisions in the contract that indicate the counterparty has rights that rank higher than those of a common shareholder. Equity derivative contracts accounted for as permanent equity are recorded at their initial fair value and subsequent changes in fair value are not recognized unless a change in the contracts' classification occurs. Equity derivative contracts not qualifying for permanent equity accounting are recorded at fair value as an asset or liability with subsequent changes in fair value recognized through the statement of operations.

During the year ended December 30, 2001, the Company sold equity derivatives indexed to and potentially settled in its own stock and recorded the premiums received as permanent equity under the provisions of the Consensus. Premiums received during 2001 totaled approximately \$2 million. At December 30, 2001, there were no contracts outstanding.

Impairment of Long-lived Assets. If indicators of impairment of long-lived assets are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. If the assets determined to be impaired are to be held for use, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset is less than the asset's carrying value.

Treasury Stock. The Company accounts for treasury stock using the cost method.

Principles of Consolidation. The consolidated financial statements include the Company's accounts and those of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Also included in the financial statements, under the equity method of accounting, is the Company's 49.992 percent share of the operating results of Fujitsu AMD Semiconductor Limited (FASL).

Foreign Currency Translation. The functional currency of the Company's foreign subsidiaries, except AMD Saxony, is the U.S. dollar. The functional currency of AMD Saxony and the Company's unconsolidated joint venture, FASL, are their local currencies. Translation adjustments resulting from the process of remeasuring the foreign currency financial statements of the Company's foreign subsidiaries are included in operations. Adjustments resulting from translating the foreign currency financial statements of AMD Saxony and FASL are included in stockholders' equity.

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

Derivative Financial Instruments. On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 requires the Company to record all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through operating results. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through operations (fair value hedges) or recognized in other comprehensive income until the hedged item is recognized in operations (cash flow hedges). The ineffective portion of a derivative's change in fair value is immediately recognized in operations. As of January 1, 2001, the Company had entered into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of foreign currency denominated intercompany accounts into U.S. dollars. As a result, these derivatives, which were not designated as hedges, were recorded at fair value, with changes in their fair value recognized in operations. Accordingly, the initial adoption of SFAS 133 had no impact on the Company's consolidated financial position or operating results. These transactions in 2001 were denominated in Japanese yen, British pounds, Thai baht, Singapore dollars and European Union euros.

The Company purchases a significant volume of inventory from FASL, AMD's unconsolidated joint venture in Japan, and from AMD Saxony. Purchases from FASL and AMD Saxony are denominated in yen and euros, respectively. Therefore, in the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations. The Company's general practice is to ensure that material business exposure to foreign exchange risks are identified, measured and minimized using the most effective and efficient methods to eliminate or reduce such exposures. To protect against the reduction in value of forecasted yen and euro denominated cash flows resulting from these transactions, the Company has instituted a foreign currency cash flow hedging program. Under this program, the Company purchases foreign currency forward contracts and sells or purchases foreign currency option contracts, generally expiring within twelve months, to hedge portions of its forecasted foreign currency denominated cash flows. The hedging transactions in 2001 were denominated in yen and euros. These foreign currency contracts are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gain or loss initially recorded in accumulated other comprehensive income (a component of stockholders' equity) and subsequently recognized in operations in the same period the hedged forecasted transaction affects operations. Generally, the gain or loss on derivative contracts, when recognized in operations, offsets the gain or loss on the hedged foreign currency assets, liabilities, or firm commitments. The Company does not use derivatives for trading purposes.

The effectiveness test for these foreign currency contracts utilized by the Company is the fair value to fair value comparison method. The Company includes in its effectiveness assessment the time value portion of the change in value of the currency forward contract.

If a cash flow hedge should be discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income will be reclassified into operations as a component of income and expense. No such amounts were recorded in operations during the year ended December 30, 2001.

Premiums paid for foreign currency forward and option contracts are immediately charged to operations.

Inventories. Inventories are stated at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or market (net realizable value). Inventories on hand, in excess of forecasted demand, generally six months or less, are not valued. Obsolete inventories are written off.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets for financial reporting purposes. Estimated useful lives for financial reporting purposes are as follows:

- machinery and equipment, three to five years;
- buildings, up to 26 years; and
- leasehold improvements, the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

Foreign Grants and Subsidies. The Federal Republic of Germany and the State of Saxony have agreed to support the Dresden Fab 30 project in the amount of \$428 million, consisting of capital investment grants and interest subsidies. Dresden Fab 30 is the Company's integrated circuit manufacturing and design facility in Dresden, Germany. The grants and subsidies are subject to conditions, including meeting specified levels of employment as of December 2001 and maintaining those levels until June 2007. As of December 30, 2001, AMD Saxony had received grants and subsidies totaling approximately \$348 million. Noncompliance with the conditions of the grants and subsidies could result in the forfeiture of all or a portion of the future amounts to be received, as well as the repayment of all or a portion of the amounts received to date. There have been no conditions of noncompliance through December 30, 2001 that would result in forfeiture of any of the grants and subsidies. The grants and subsidies are being recognized as a reduction of operating expense ratably over the life of the project. In 2001, grants and subsidies recognized as

a reduction to operating expenses amounted to \$57 million. Grants and subsidies received but not yet recognized in operations as of December 30, 2001, were approximately \$206 million.

Advertising Expenses. The Company accounts for advertising costs as expenses in the period in which they are incurred. Advertising expenses for 2001, 2000 and 1999 were approximately \$184 million, \$148 million and \$101 million, respectively.

Net Income (Loss) Per Common Share. Basic net income (loss) per common share is computed using the number of weighted-average common shares outstanding. Diluted net income (loss) per common share is computed using weighted-average common shares and weighted-average dilutive potential common shares outstanding.

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	2001	2000	1999
Numerator:			
Numerator for basic income (loss) per common share before extraordinary item	\$(60,581)	\$1,006,070	\$(88,936)
Numerator for basic extraordinary loss per common share	—	(23,044)	—
Numerator for basic income (loss) per common share	\$(60,581)	\$ 983,026	\$(88,936)
Numerator for basic income (loss) per common share before extraordinary item	\$(60,581)	\$1,006,070	\$(88,936)
Effect of adding back interest expense associated with convertible debentures	—	27,507	—
Numerator for diluted income (loss) per common share before extraordinary item	\$(60,581)	\$1,033,127	\$(88,936)
Numerator for diluted extraordinary loss per common share	—	(23,044)	—
Numerator for diluted income (loss) per common share	\$(60,581)	\$1,010,083	\$(88,936)
Denominator:			
Denominator for basic income (loss) per common share—weighted-average shares	332,407	309,331	294,577
Effect of dilutive securities:			
Employee stock options	—	12,711	—
Convertible debentures	—	27,958	—
Dilutive potential common shares	—	40,669	—
Denominator for diluted income (loss) per common share—adjusted weighted-average shares	332,407	350,000	294,577
Net income (loss) per common share:			
Basic:			
Income (loss) before extraordinary item	\$ (0.18)	\$ 3.25	\$ (0.30)
Extraordinary item	\$ —	\$ (0.07)	\$ —
Net income (loss)	\$ (0.18)	\$ 3.18	\$ (0.30)
Diluted:			
Income (loss) before extraordinary item	\$ (0.18)	\$ 2.95	\$ (0.30)
Extraordinary item	\$ —	\$ (0.06)	\$ —
Net income (loss)	\$ (0.18)	\$ 2.89	\$ (0.30)

In 2001 and 1999, approximately 14.4 million and 8.5 million of potential common shares were excluded from the computation of diluted net loss per common share because the effect in years with a net loss would be antidilutive.

Accumulated Other Comprehensive Income (Loss). Unrealized gains or losses on the Company's available-for-sale securities, deferred gains and losses on derivative financial instruments qualifying as cash flow hedges and foreign currency translation adjustments are included in accumulated other comprehensive income (loss).

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

(Thousands)	2001	2000
Unrealized gain on investments, net of taxes of \$2,939	\$ 5,071	\$ 13,143
Net unrealized loss on cash flow hedges	(3,399)	—
Cumulative translation adjustments	(134,919)	(107,168)
	<u>\$ (133,247)</u>	<u>\$ (94,025)</u>

Stock-based Compensation and Employee Stock Plans. The Company uses the intrinsic value method under APB Opinion No. 25 to account for stock options issued to its employees under its stock option plans and amortizes deferred compensation over the vesting period of the options. See Note 10.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results are likely to differ from those estimates, and such differences may be material to the financial statements.

New Accounting Pronouncements. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after

June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization and impairment provisions of SFAS 142 are effective upon the adoption of SFAS 142. The Company is required to adopt SFAS 141 and SFAS 142 at the beginning of 2002. Presently these accounting standards would not have a material effect on the Company's consolidated financial statements as the Company does not have material amounts of intangibles or any goodwill.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which supersedes both Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121) and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets to be "held and used." In addition, the Statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset or group of assets to be disposed of other than by sale be classified as "held and used" until they are disposed of, and establishes more restrictive criteria to classify an asset or group of assets to be "held for sale." SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company will adopt SFAS 144 at the beginning of 2002. The Company does not believe the adoption of SFAS 144 will have a material impact on its operating results or financial position.

NOTE 3: SALE OF SUBSIDIARIES

The Company sold 90 percent of Legerity for approximately \$375 million in cash to Francisco Partners, L.P., effective July 31, 2000. Prior to the sale, Legerity was a wholly owned subsidiary of AMD, selling voice communications products. The Company's pretax gain on the sale of Legerity was \$337 million. The gain was computed based on the excess of the consideration received for Legerity's net assets as of July 31, 2000, less direct expenses related to the sale. The applicable tax rate on the gain was 37 percent, resulting in an after-tax gain of \$212 million.

On June 15, 1999, the Company sold Vantis to Lattice Semiconductor Corporation for approximately \$500 million in cash. The actual cash received was net of Vantis' cash and cash equivalents balance of approximately \$46 million as of the closing of the sale. The Company's pretax gain on the sale of Vantis was \$432 million. The gain was computed based upon Vantis' net assets as of June 15, 1999 and other direct expenses related to the sale. The applicable tax rate on the gain was 40 percent, resulting in an after-tax gain of \$259 million.

NOTE 4: FINANCIAL INSTRUMENTS

Available-For-Sale Securities

Available-for-sale securities held by the Company as of December 30, 2001 and December 31, 2000 are as follows:

(Thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair market value
2001				
Cash equivalents:				
Commercial paper	\$ 76,976	\$ 545	\$ —	\$ 77,521
Certificates of deposit	10,001	240	—	10,241
Federal agency notes	38,357	260	—	38,617
Money market funds	152,122	18	—	152,140
Total cash equivalents	\$277,456	\$ 1,063	\$ —	\$ 278,519
Short-term investments:				
Money market auction rate preferred stocks	\$128,130	\$ 158	\$ (14)	\$ 128,274
Municipal bonds	1,331	—	—	1,331
Floating rate notes	155,729	5	(290)	155,444
Federal agency notes	153,343	114	(832)	152,625
Tax exempt money market fund	5,000	35	—	5,035
Total short-term investments	\$443,533	\$ 312	\$ (1,136)	\$ 442,709
Long-term investments:				
Equity investments	\$ 11,571	\$ 8,257	\$ (486)	\$ 19,342
Commercial paper	10,000	—	—	10,000
Federal agency notes	3,323	—	—	3,323
Total long-term investments	\$ 24,894	\$ 8,257	\$ (486)	\$ 32,665
Grand Total:	\$745,883	\$ 9,632	\$ (1,622)	\$ 753,893
2000				
Cash equivalents:				
Commercial paper	\$200,261	\$ 1,762	\$ (13)	\$ 202,010
Money market funds	78,300	—	—	78,300
Total cash equivalents	\$278,561	\$ 1,762	\$ (13)	\$ 280,310
Short-term investments:				
Money market auction rate preferred stocks	\$224,590	\$ —	\$ —	\$ 224,590
Certificates of deposit	20,001	—	(1)	20,000
Corporate notes	9,366	523	—	9,889
Federal agency notes	44,106	654	(2)	44,758
Commercial paper	401,324	3,973	(2,826)	402,471
Total short-term investments	\$699,387	\$ 5,150	\$ (2,829)	\$ 701,708
Long-term investments:				
Equity investments	\$ 10,161	\$16,695	\$ —	\$ 26,856
Federal agency notes	2,105	—	(2)	2,103
Total long-term investments	\$ 12,266	\$16,695	\$ (2)	\$ 28,959
Grand Total:	\$990,214	\$23,607	\$ (2,844)	\$1,010,977

The Company realized a loss on the sale of available-for-sale securities of \$1.6 million in 2001 and a gain of \$4.3 million in 1999. The Company did not sell any available-for-sale securities in 2000.

Derivative Financial Instruments

The following table summarizes activity in accumulated other comprehensive income (loss) related to derivatives classified as cash flow hedges held by the Company during the period from January 1, 2001 through December 30, 2001:

	Year Ended December 30, 2001
Thousands	
Cumulative effect of adopting SFAS 133	\$ —
Reclassified into operations	—
Changes in fair value of derivatives, net	(3,399)
	<u>\$(3,399)</u>

As of December 30, 2001, the Company expects to reclassify the amount accumulated in other comprehensive income (loss) to operations within the next twelve months upon the recognition in operations of the hedged forecasted transactions.

Fair Value of Other Financial Instruments

The Company estimates the fair value of debt using a discounted cash flow analysis based on estimated interest rates for similar types of borrowing arrangements with similar remaining maturities. The carrying amounts and estimated fair values of the Company's debt are as follows:

	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Notes payable to banks	\$ 63,362	\$ 63,362	\$ —	\$ —
Long-term debt and capital leases:				
Capital leases	32,469	31,550	15,874	15,213
Long-term debt (excluding capital leases)	603,236	571,679	936,789	865,963
Total long-term debt and capital leases	635,705	603,229	952,663	881,176
Less: current portion	197,803	216,496	49,440	67,428
Total long-term debt and capi- tal leases, less current portion	\$437,902	\$386,733	\$903,223	\$813,748

The fair value of the Company's accounts receivable and accounts payable approximate book value based on existing payment terms.

NOTE 5: CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents,

short-term investments, trade receivables and derivative financial instruments used in hedging activities.

The Company places its cash equivalents and short-term investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure with any one financial institution. The Company acquires investments in time deposits and certificates of deposit from banks having combined capital, surplus and undistributed profits of not less than \$200 million. Investments in commercial paper and money market auction rate preferred stocks of industrial firms and financial institutions are rated A1, P1 or better. Investments in tax-exempt securities, including municipal notes and bonds are rated AA, Aa or better, and investments in repurchase agreements must have securities of the type and quality listed above as collateral.

Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs in-depth credit evaluations of all new customers and requires letters of credit, bank guarantees and advance payments, if deemed necessary.

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

NOTE 6: INCOME TAXES

The provision (benefit) for income taxes consists of:

	2001	2000	1999
Thousands			
Current:			
U.S. Federal	\$ —	\$251,849	\$ (7,072)
U.S. State and Local	(6)	3,599	363
Foreign National and Local	21,595	20,496	14,095
Total	21,589	275,944	7,386
Deferred:			
U.S. Federal	(30,192)	25,163	134,050
U.S. State and Local	(7,321)	(43,789)	26,178
Foreign National and Local	1,461	(450)	(264)
Total	(36,052)	(19,076)	159,964
Provision (benefit) for income taxes	<u>\$(14,463)</u>	\$256,868	\$167,350

Tax benefits resulting from the exercise of nonqualified stock options and the disqualifying disposition of shares issued under the Company's stock-based compensation plans reduced taxes currently payable by \$158.3 million in 2000. Such benefits were credited to capital in excess of par value.

Deferred income taxes reflect the net tax effects of tax carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the balances for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 30, 2001 and December 31, 2000 are as follows:

(Thousands)	2001	2000
Deferred tax assets:		
Net operating loss carryovers	\$ 4,147	\$ 3,934
Deferred distributor income	17,730	32,848
Inventory valuation	74,434	22,327
Accrued expenses not currently deductible	74,063	46,400
Investments	29,237	15,173
Federal and state tax credit carryovers	76,234	120,938
Other	62,189	67,073
Total deferred tax assets	338,034	308,693
Less: valuation allowance	(24,559)	—
	313,475	308,693
Deferred tax liabilities:		
Depreciation	(175,878)	(222,355)
Capitalized Interest	(30,967)	(40,790)
Unremitted foreign earnings	(27,400)	—
Other	(28,637)	(31,007)
Total deferred tax liabilities	(262,882)	(294,152)
Net deferred tax assets (liabilities)	\$ 50,593	\$ 14,541

In 2001, the valuation allowance for deferred tax assets increased by \$25 million due to the stock option deduction arising from activity under the Company's stock option plans, the benefits of which will increase capital in excess of par value when realized. Pretax income from foreign operations was approximately \$52 million in 2001, \$83 million in 2000 and \$62 million in 1999.

The federal and state tax credit and net operating loss carryovers expire beginning in the year 2003 through 2021.

The table below displays a reconciliation between statutory federal income taxes and the total provision (benefit) for income taxes.

2001

(Thousands except percent)

	Tax	Rate
Statutory federal income tax expense	\$ (32,872)	(35.0)%
State taxes, net of federal benefit	(4,762)	(5.1)
Tax-exempt foreign sales corporation income	(2,394)	(2.5)
Residual U.S. tax on previously reinvested earnings	21,663	23.1
Restructuring charges at other than U.S. rates	11,082	11.8
Tax credits	(6,018)	(6.4)
Other	(1,162)	(1.3)
	\$ (14,463)	(15.4)%

2000

(Thousands except percent)

	Tax	Rate
Statutory federal income tax expense	\$438,165	35.0%
State taxes, net of federal benefit	9,292	0.7
Tax-exempt foreign sales corporation income	(1,756)	(0.2)
Foreign income at other than U.S. rates	(9,091)	(0.7)
Valuation allowance utilized	(177,008)	(14.1)
Tax credits	(5,000)	(0.4)
Other	2,266	0.2
	\$256,868	20.5%

1999

(Thousands except percent)

	Tax	Rate
Statutory federal income tax expense	\$ 25,766	35.0%
State taxes, net of federal benefit	17,252	23.4
Foreign income at other than U.S. rates	(4,952)	(6.7)
Net operating losses not currently benefited	126,684	172.1
Other	2,600	3.5
	\$167,350	227.3%

The Company has made no provision for U.S. income taxes on approximately \$387 million of cumulative undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings. If such earnings were distributed, the Company would accrue additional taxes of approximately \$117 million.

NOTE 7: DEBT

Significant elements of notes payable to banks are:

	2001	2000
(Thousands except percent)		
Amounts available under notes payable to bank:		
Three-year secured notes payable to bank	\$150,000	\$200,000
Lines of credit available to foreign subsidiaries	4,251	24,419
Total amounts available at year-end under notes payable to banks:	\$154,251	\$224,419
Amounts outstanding at year-end under notes payable to banks:	63,362	—
Weighted-average interest rate on amounts outstanding at year-end	5.23%	—

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

On July 13, 1999, the Company entered into a Loan and Security Agreement (the Loan Agreement) with a consortium of banks led by a domestic financial institution. Under the Loan Agreement, which provides for a four-year secured revolving line of credit of up to \$200 million, the Company can borrow, subject to amounts which may be set aside by the lenders, up to 85 percent of its eligible accounts receivable from Original Equipment Manufacturers (OEMs) and 50 percent of its eligible accounts receivable from distributors. The Company must comply with certain financial covenants if the levels of domestic cash it holds declines to \$200 million, or the amount of borrowing under the Loan Agreement rises to 50 percent of available credit. The Company's obligations under the Loan Agreement are secured by a pledge of all of its accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, the Company had \$50 million outstanding under the Loan Agreement, which was repaid in January of 2002. The Loan Agreement restricts the Company from paying cash dividends on its common stock.

Information with respect to the Company's long-term debt, capital lease obligations and other at years ended 2001 and 2000 is:

	2001	2000
(Thousands)		
6% Convertible Subordinated Notes with interest payable semiannually and principal due in April 2005	\$ —	\$ 517,140
11% Senior Secured Notes with interest payable semiannually and principal due on August 1, 2003, secured by the Fab 25 property, facility and equipment	—	43,066
Term loans under the Dresden Loan Agreements with a weighted-average interest rate of 5.72% and principal due between February 2001 and December 2005, secured by the Dresden Fab 30 property, facility and equipment	602,046	375,226
Obligations under capital leases	32,469	15,874
Commercial mortgage with principal and 9.88% interest payable in monthly installments through April 2007	1,190	1,357
	635,705	952,663
Other	305,576	344,880
	\$941,281	\$1,297,543
Less: current portion	268,336	129,570
Long-term debt, capital lease obligations and other, less current portion	\$672,945	\$1,167,973

In May 1998, the Company sold \$517.5 million of Convertible Subordinated Notes due May 15, 2005 (Convertible Subordinated Notes) under its \$1 billion shelf registration declared effective by the Securities and Exchange Commission on April 20, 1998. Interest on the Convertible Subordinated Notes accrued at the rate of six percent per annum and was payable semiannually in arrears on May 15 and November 15 of each year, commencing November 15, 1998. On May 21, 2001, the Company called for redemption all of the then outstanding \$517.1 million of these Convertible Subordinated Notes due 2005, which resulted in the conversion of \$509.6 million of such Notes, into approximately 28 million shares of the Company's common stock, net of unamortized debt issuance cost of \$7.3 million. The remaining \$0.2 million of such Notes was paid in cash to investors.

On July 6, 2000, the Company announced a cash tender offer and consent solicitation for the outstanding \$400 million aggregate principal amount of the 11% Senior Secured Notes due 2003. On August 2, 2000, the Company repurchased \$356 million of these notes at a premium of \$36 million. The premium was recorded as an extraordinary loss of approximately \$23 million net of tax benefit of \$13 million. On August 1, 2001, the Company redeemed the remaining \$43 million of these notes for cash.

Obligations under the lease agreements are collateralized by the assets leased. The Company's leased assets totaled approximately \$77 million and \$53 million as of December 30, 2001 and December 31, 2000, respectively, and are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. Accumulated amortization of these leased assets was approximately \$45 million as of December 30, 2001 and \$39 million as of December 31, 2000.

Included in Other is \$173.5 million of deferred grants and subsidies related to the Dresden Fab 30 project. See Note 2. Also included in Other is a deferred gain of \$28.5 million as of December 30, 2001, as a result of the sale and leaseback of the Company's corporate marketing, general and administrative facility in 1998. The Company is amortizing the deferred gain ratably over the lease term, which is 20 years. See Note 12. In addition, Other includes \$103.5 million in customer cash deposits related to multi-year memory product manufacturing supply agreements, which guarantee customers' specific volume shipment.

The above debt agreements limit the Company and its subsidiaries' ability to engage in various transactions and require satisfaction of specified financial performance criteria. As of December 30, 2001, the Company was in compliance with all restrictive covenants of such debt agreements.

Under certain circumstances, cross-defaults result under the Loan Agreement and the Dresden Loan Agreements, which consist of a loan agreement and other related agreements between AMD Saxony and a consortium of banks led by Dresdner Bank AG (the Dresden Loan Agreements).

For each of the next five years and beyond, the Company's debt and capital lease obligations are:

(Thousands)	Debt (Principal only)	Capital leases	Total
2002	\$187,024	\$13,589	\$200,613
2003	197,423	11,564	208,987
2004	145,544	8,496	154,040
2005	72,905	2,426	75,331
2006	270	—	270
Beyond 2006	70	—	70
Total	\$603,236	\$36,075	\$639,311
Less: amount representing interest	—	3,606	3,606
Total at present value	\$603,236	\$32,469	\$635,705

NOTE 8: INTEREST EXPENSE & INTEREST AND OTHER INCOME, NET

Interest Expense

(Thousands)	2001	2000	1999
Total interest charges	\$68,403	\$86,488	\$116,255
Less: interest capitalized	(7,043)	(26,451)	(47,002)
Interest expense	\$61,360	\$60,037	\$69,253

In 2001, interest expense consisted primarily of interest incurred by AMD Saxony's secured term loan under the Dresden Loan Agreements and interest on the Company's Convertible Subordinated Notes issued in May 1998. In 2000 and 1999, interest expense consisted primarily of interest incurred on the Company's Senior Secured Notes issued in August 1996, interest on the Company's Convertible Subordinated Notes issued in May 1998, interest on the Company's \$250 million four-year secured term loan and interest on AMD Saxony's secured term loan, net of interest capitalized primarily related to the facilitization of Fab 25 and Dresden Fab 30.

Interest and Other Income, Net

(Thousands)	2001	2000	1999
Interest income	\$ 42,988	\$59,228	\$26,461
Other income (loss), net	(17,293)	27,073	5,274
	\$ 25,695	\$86,301	\$31,735

Other loss in 2001 consisted of charges for other than temporary declines in the value of our marketable debt and equity securities investments totaling approximately \$27 million. Other income in 2000 and 1999 consisted of gains from sales of investments and other assets.

NOTE 9: SEGMENT REPORTING

For purposes of disclosures required by Statement of Financial Accounting Standards No. 131 (SFAS 131), AMD operated in two reportable segments during 2001: the Core Products segment, which reflects the aggregation of the PC processor and memory products operating segments, and the Foundry Services segment. The aggregation of our operating segments into our reporting segments was made pursuant to the aggregation criteria set forth in SFAS 131. The Core Products segment includes microprocessors, Flash memory devices, Erasable Programmable Read-Only Memory (EPROM) devices, embedded processors, platform products and networking products. The Foundry Services segment includes fees for services provided to Legerity and Vantis. During 2000 and 1999, the Company also operated in the Voice Communications segment. The Voice Communications segment included voice communications products of the Company's former subsidiary, Legerity, until July 31, 2000, the effective date of its sale. In addition, in 1999, the Company also operated in the Vantis segment. The Vantis segment included the programmable logic devices of the Company's former subsidiary, Vantis, until June 15, 1999, the date of its sale. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates performance and allocates resources based on these segments' operating income (loss).

The following table is a summary of operating income (loss) by segment for 2001, 2000 and 1999:

(Thousands)

	2001	2000	1999
Net sales:			
Core Products segment			
External customers	\$3,793,962	\$4,361,398	\$2,559,939
Intersegment sales	—	—	32,626
	3,793,962	4,361,398	2,592,565
Foundry Services segment-external customers	97,792	142,480	43,204
Voice Communications segment-external customers	—	140,309	167,760
Vantis segment-external customers	—	—	86,701
Elimination of intersegment sales	—	—	(32,626)
Total net sales	\$3,891,754	\$4,644,187	\$2,857,604
Segment operating income (loss):			
Core Products segment	\$ 71,530	\$ 831,749	\$ (342,007)
Foundry Services segment*	(33,582)	22,000	1,509
Voice Communications segment	—	34,987	13,943
Vantis segment	—	—	5,639
Total segment operating income (loss)	37,948	888,736	(320,916)
Gain on sale of Vantis	—	—	432,059
Gain on sale of Legerity	—	336,899	—
Interest and other income, net	25,695	86,301	31,735
Interest expense	(61,360)	(60,037)	(69,253)
Restructuring and other special charges	(89,305)	—	—
Additional inventory provision	(6,901)	—	—
Benefit (provision) for income taxes	14,463	(256,868)	(167,350)
Equity in net income of FASL (Core Products)	18,879	11,039	4,789
Extraordinary item—debt retirement, net of tax benefit	—	(23,044)	—
Net income (loss)	\$ (60,581)	\$ 983,026	\$ (88,936)
Total assets:			
Core Products segment			
Assets excluding investment in FASL	\$5,283,631	\$5,506,007	\$4,066,346
Investment in FASL	363,611	261,728	273,608
	5,647,242	5,767,735	4,339,954
Foundry Services segment*	—	—	—
Voice Communications segment	—	—	37,744
Total assets	\$5,647,242	\$5,767,735	\$4,377,698
Expenditures for long-lived assets:			
Core Products segment	\$ 703,120	\$ 803,065	\$ 614,209
Foundry Services segment*	—	—	—
Voice Communications segment	—	2,409	1,729
Vantis segment	—	—	6,141
Total expenditures for long-lived assets	\$ 703,120	\$ 805,474	\$ 622,079
Depreciation and amortization expense:			
Core Products segment	\$ 622,867	\$ 578,302	\$ 512,203
Foundry Services segment*	—	—	—
Voice Communications segment	—	768	1,044
Vantis segment	—	—	2,273
Total depreciation and amortization expense	\$ 622,867	\$ 579,070	\$ 515,520

*Operations of the Foundry Services segment are conducted using assets of the Core Products segment.

The Company's operations outside the United States include both manufacturing and sales. The Company's manufacturing subsidiaries are located in Germany, Malaysia, Thailand, Singapore and China. Its sales subsidiaries are in Europe, Asia Pacific and Brazil.

The following is a summary of operations by entities within geographic areas for the three years ended December 30, 2001:

(Thousands)	2001	2000	1999
Sales to external customers:			
United States	\$1,327,403	\$1,875,408	\$1,131,983
Europe	1,492,428	1,553,808	835,673
Asia Pacific	1,071,923	1,214,971	889,948
	\$3,891,754	\$4,644,187	\$2,857,604
Long-lived assets:			
United States	\$1,079,882	\$1,220,193	\$1,469,412
Germany	1,335,861	1,064,308	812,773
Other Europe	2,825	3,188	3,847
Asia Pacific	320,570	348,778	237,204
	\$2,739,138	\$2,636,467	\$2,523,236

Sales to external customers are based on the customer's billing location. Long-lived assets are those assets used in each geographic area.

The Company markets and sells its products primarily to a broad base of customers comprised of distributors and OEMs of computation and communications equipment. No OEM customer accounted for more than ten percent of net sales in 2001. In 2000 and 1999, one of the Company's OEMs accounted for approximately 11 and 13 percent of net sales, respectively. No distributor accounted for ten percent or more of net sales in 2001, 2000 and 1999.

NOTE 10: STOCK-BASED INCENTIVE COMPENSATION PLANS

Stock Option Plans. The Company has several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase the Company's common stock. Generally, options vest and become exercisable over four years from the date of grant and expire five to ten years after the date of grant. ISOs granted under the plans have exercise prices of not less than 100 percent of the fair market value of the common stock on the date of grant. Exercise prices of NSOs range from \$0.01 to the fair market value of the common stock on the date of grant.

The following is a summary of stock option activity and related information:

	2001		2000		1999	
(Shares in thousands)	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options:						
Outstanding at beginning of year	43,852	\$20.70	41,988	\$ 8.37	40,550	\$ 8.36
Granted	14,088	16.91	21,044	35.07	9,806	8.35
Canceled	(1,444)	25.31	(3,247)	18.84	(4,710)	10.45
Exercised	(3,553)	7.56	(15,933)	7.01	(3,658)	5.46
Outstanding at end of year	52,943	20.44	43,852	20.70	41,988	8.37
Exercisable at end of year	22,465	17.63	14,667	9.64	21,408	7.97
Available for grant at beginning of year	11,803		6,114		11,306	
Available for grant at end of year	21,146		11,803		6,114	

The following table summarizes information about options outstanding as of December 30, 2001:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of shares	Weighted-average exercise price
\$ 0.01–\$ 9.44	13,711	5.92	\$ 7.66	10,318	\$ 7.59
\$ 9.47–\$17.06	14,047	8.46	12.13	3,823	11.97
\$17.07–\$32.10	13,369	8.39	23.57	3,679	21.28
\$32.66–\$45.91	11,816	8.35	41.63	4,645	41.73
\$ 0.01–\$45.91	52,943	7.76	20.44	22,465	17.63

Stock Purchase Plan. The Company has an employee stock purchase plan (ESPP) that allows eligible and participating employees to purchase, through payroll deductions, shares of the Company's common stock at 85 percent of the fair market value at specified dates. As of December 30, 2001, 6,346,135 common shares remained available for issuance under the plan. A summary of stock purchased under the plan is shown below:

(Thousands)	2001	2000	1999
Aggregate purchase price	\$16,816	\$12,388	\$13,294
Shares purchased	1,220	815	861

Stock Appreciation Rights. The Company may grant stock appreciation rights (SARs) to key employees under the 1992 stock incentive plan. The number of SARs exercised plus common stock issued under the stock option plans may not exceed the number of shares authorized under the stock incentive plan. The Company may grant SARs in tandem with outstanding stock options, in tandem with future stock option grants or independently of any stock options. Generally, the terms of SARs granted under the plan are similar to those of options granted under the stock incentive plans, including exercise prices, exercise dates and expiration dates. To date, the Company has granted only limited SARs, which become exercisable in the event of certain changes in control of AMD.

Restricted Stock Awards. In 1998, the Company adopted the 1998 stock incentive plan under which the Company was authorized to issue two million shares of common stock to employees who are not covered by Section 16 of the Securities Exchange Act of 1934, as amended, subject to terms and conditions determined at the discretion of the Company's Board of Directors. To date,

the Company has canceled agreements covering 40,791 shares without issuance and the Company has issued 370,524 shares pursuant to prior agreements. As of December 30, 2001, agreements covering 128,683 shares were outstanding. Activity under this plan is included in the accompanying tables summarizing activity under the Company's employee stock plans.

Shares Reserved for Issuance. The Company had a total of approximately 80,435,119 shares of common stock reserved as of December 30, 2001 for issuance under employee stock option plans and the ESPP, including restricted stock awards.

Stock-Based Compensation. The Company uses the intrinsic value method to account for stock-based awards to employees. As permitted under SFAS 123, the Company has elected to follow APB 25 and related interpretations in accounting for stock-based awards to employees and elects to make pro forma fair value disclosures as permitted by SFAS 123. The Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including expected stock price volatility. Because our stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock-based awards to employees. The fair value of our stock-based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

	Options			ESPP		
	2001	2000	1999	2001	2000	1999
Expected life (years)	3.02	4.27	3.45	0.25	0.25	0.25
Expected stock price volatility	83.43%	72.10%	68.72%	85.03%	87.95%	67.10%
Risk-free interest rate	3.57%	6.55%	5.48%	2.58%	5.95%	4.77%

For pro forma purposes, the estimated fair value of our stock-based awards to employees is amortized over the vesting period (for options) and the three-month purchase period (for stock purchases under the ESPP). Our pro forma information follows:

(Thousands except per share amounts)	2001	2000	1999
Net income (loss)—			
as reported	\$ (60,581)	\$983,026	\$(88,936)
Net income (loss)—			
pro forma	(178,918)	830,495	(122,497)
Basic net income			
(loss) per share—			
as reported	(0.18)	3.18	(0.30)
Diluted net income			
(loss) per share—			
as reported	(0.18)	2.89	(0.30)
Basic net income			
(loss) per share—			
pro forma	(0.54)	2.68	(0.42)
Diluted net income			
(loss) per share—			
pro forma	(0.54)	2.37	(0.42)

The Company granted a total of 13,870,950 stock-based awards during 2001 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$16.93 and \$9.27, respectively. The Company granted a total of 157,476 stock-based awards during 2001 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$21.21 and \$0.11, respectively. The Company granted a total of 59,115 stock-based awards during 2001 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$1.08 and \$22.54, respectively. The Company granted a total of 20,702,856 stock-based awards during 2000 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$35.12 and \$21.00, respectively. The Company granted a total of 25,800 stock-based awards during 2000 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$26.92 and \$0.02, respectively. The Company granted a total of 315,510 stock-based awards during 2000 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$4.92 and \$31.25, respectively.

The weighted-average fair value of shares purchased under the Company's employee stock purchase plan during 2001, 2000 and 1999 were \$3.82, \$5.54, and \$2.39 per share, respectively.

NOTE 11: OTHER EMPLOYEE BENEFIT PLANS

Profit Sharing Program. The Company has a profit sharing program to which the Board of Directors authorizes quarterly contributions. Profit sharing contributions were approximately \$25 million in 2001 and \$103 million in 2000. There were no profit sharing contributions in 1999.

Retirement Savings Plan. The Company has a retirement savings plan, commonly known as a 401(k) plan, that allows participating United States employees to contribute from one percent to 15 percent of their pretax salary subject to Internal Revenue Service limits. Before December 26, 1999, the Company made a matching contribution calculated at 50 cents on each dollar of the first three percent of participant contributions, to a maximum of 1.5 percent of eligible compensation. After December 26, 1999, the Company revised the contribution rate and contributes 50 cents on each dollar of the first six percent of participants' contributions, to a maximum of three percent of eligible compensation. The contributions to the 401(k) plan were approximately \$11 million in 2001, \$10 million in 2000 and \$5 million in 1999.

NOTE 12: COMMITMENTS

The Company leases certain of its facilities under agreements that expire at various dates through 2018. The Company also leases certain of its manufacturing and office equipment for terms ranging from one to five years. Rent expense was approximately \$62 million, \$48 million, and \$52 million in 2001, 2000 and 1999, respectively.

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

(Thousands)	Operating leases	Purchase commitments
2002	\$ 57,612	\$15,036
2003	47,695	10,172
2004	43,680	9,895
2005	40,636	9,895
2006	35,370	2,614
Beyond 2006	232,183	7,367
	\$457,176	\$54,979

The operating lease of the Company's corporate marketing, general and administrative facility in Sunnyvale expired in December 1998. At the end of the lease term, the Company was obligated to either purchase the facility or to arrange for its sale to a third party with a guarantee of residual value to the seller equal to the option purchase price. In December 1998, the Company arranged for the sale of the facility to a third party and leased it back under a new operating lease. The Company deferred the gain (\$37 million) on the sale and is amortizing it over a period of 20 years, the life of the lease. The lease expires in December 2018. At the beginning of the fourth lease year and every three years thereafter, the rent will be adjusted by 200 percent of the cumulative increase in the consumer price index over the prior three-year period up to a maximum of 6.9 percent. Certain other operating leases contain provisions for escalating lease payments subject to changes in the consumer price index.

AMD Saxony has constructed and installed equipment in Dresden Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are supporting the project. In March 1997, AMD Saxony entered into the Dresden Loan Agreements, which provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

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

The Dresden Loan Agreements require that the Company partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, the Company has invested \$334 million as of December 30, 2001 in the form of subordinated loans and equity investments in AMD Saxony (denominated in both deutsche marks and U.S. dollars) which are eliminated in our consolidated financial statements.

In addition to AMD's support, the consortium of banks referred to above has made available \$692 million in loans to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had \$602 million of such loans outstanding through December 30, 2001, which are included in the Company's consolidated balance sheets.

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

- guarantees equal to the lesser of 65 percent of AMD Saxony bank debt or \$692 million;
- capital investment grants and allowances totaling \$286 million; and
- interest subsidies totaling \$142 million.

Of these amounts, AMD Saxony has received \$284 million in capital investment grants and allowances and \$64 million in interest subsidies through December 30, 2001, which are included in the Company's consolidated financial statements. The grants and subsidies are subject to conditions, including meeting specified levels of employment by December 2001 and maintaining those levels until June 2007. Noncompliance with the conditions of the grants and subsidies could result in the forfeiture of all or a portion of the future amounts to be received as well as the repayment of all or a portion of amounts received to date. As of December 30, 2001, we were in compliance with all of the conditions of the grants and subsidies.

In February 2001, the Dresden Loan Agreements were amended to reflect new capacity and increased capital spending plans for Dresden Fab 30. Under the February 2001 amendments, the Company agreed to extend its guaranty of AMD Saxony's obligations and to make available to AMD Saxony revolving loans of up to \$500 million. The Company also expanded its obligation to reimburse AMD Saxony for the cost of producing wafers for the Company and agreed to cancel the cost overrun facility made available by the banks. Under these amendments, the Company was released from financial covenants limiting capital expenditures and requiring AMD Saxony to achieve capacity and production cost targets by the end of 2001.

The Dresden Loan Agreements also require that the Company:

- provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed, which will be repaid to AMD as AMD Saxony receives the grants or subsidies from the State of Saxony;
- fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates; and

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

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

- material variances from the approved plans and specifications;
- our failure to fund equity contributions or shareholder loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- the sale of shares in AMD Saxony or AMD Holding;
- the failure to pay material obligations;
- the occurrence of a material adverse change or filings or proceedings in bankruptcy or insolvency with respect to us, AMD Saxony or AMD Holding; and
- the occurrence of default under the Loan Agreement.

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

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

Because the amounts under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth herein are subject to change based on applicable conversion rates. At December 30, 2001, the exchange rate was approximately 2.17 deutsche marks to one U.S. dollar (which the Company used to translate the amounts denominated in deutsche marks).

NOTE 13: INVESTMENT IN JOINT VENTURE

In 1993, the Company formed a joint venture (FASL) with Fujitsu Limited for the development and manufacture of non-volatile memory devices. FASL operates advanced IC manufacturing facilities in Aizu-Wakamatsu, Japan, to produce Flash memory devices, which are sold to the Company and Fujitsu. The Company's share of FASL is 49.992 percent and the investment is being accounted for under the equity method. The Company's share of FASL net income during 2001 was \$18.9 million, net of income taxes of approximately \$13.5 million. As of December 30, 2001, the cumulative adjustment related to the translation of the FASL financial statements into U.S. dollars resulted in a decrease of approximately \$53.4 million to the investment in FASL. The following tables present the significant FASL related party transactions and balances:

(Thousands)	2001	2000	1999
Royalty income	\$ 44,342	\$ 33,273	\$ 23,214
Purchases	509,642	381,657	264,344

(Thousands)	December 30, 2001	December 31, 2000
Royalty receivable	\$ 6,962	\$ 9,561
Accounts payable	37,957	77,503

Pursuant to a cross-equity provision between the Company and Fujitsu, the Company purchased 0.5 million shares of Fujitsu Limited common stock as of December 30, 2001. Under the same provision, Fujitsu Limited purchased nine million shares of the Company's common stock as of December 30, 2001.

FASL is continuing the facilitization of its second and third Flash memory device wafer fabrication facilities, FASL JV2 and FASL JV3, in Aizu-Wakamatsu, Japan. Capital expenditures for FASL JV2 and FASL JV3 construction and facilitization to date have been funded by cash generated from FASL operations and borrowings by FASL.

FASL capital expenditures in 2002 are expected to be funded by cash generated from FASL operations and local borrowings by FASL. However, to the extent that FASL is unable to secure the necessary funds for FASL JV2 or FASL JV3, the Company will be required to contribute cash or guarantee third-party loans in proportion to its 49.992 percent interest in FASL. As of December 30, 2001, the Company had \$148 million in loan guarantees outstanding with respect to these third-party loans. At December 30, 2001, the exchange rate was approximately 128.02 yen to one U.S. dollar, which the Company used to translate the amounts denominated in yen.

The following is condensed financial data of FASL:

(Thousands)	2001	2000	1999
Net sales	\$ 978,059	\$733,574	\$501,797
Gross profit	165,115	53,174	20,415
Operating income	160,298	49,645	17,724
Net income	34,924	28,179	9,977

(Thousands)	December 30, 2001	December 31, 2000
Current assets	\$ 146,549	\$234,139
Non-current assets	1,056,061	786,802
Current liabilities	463,555	482,629
Non-current liabilities	1,058	1,271

The Company's share of the above FASL net income differs from the equity in net income of joint venture reported on the consolidated statements of operations. The difference is due to adjustments resulting from the intercompany profit eliminations and differences in U.S. and Japanese tax treatment, which are reflected on the Company's consolidated statements of operations. The Company has never received cash dividends from its investment in FASL.

In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, the Company agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a cosigner with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, the Company has not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, the Company was informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, the Company believes it is not at this time, and was not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that the Company pay the entire \$125 million under the Guarantee. Although the Company disagrees with Fujitsu as to the amount, if any, of its obligations under the Guarantee, Fujitsu has indicated its belief that the Company is obligated to pay the full \$125 million. The Company cannot predict the outcome of this matter. Accordingly, the Company has not recorded any liability in its consolidated financial statements associated with the Guarantee.

NOTE 14: RESTRUCTURING AND OTHER SPECIAL CHARGES

On September 25, 2001, due to the continued slowdown in the semiconductor industry, and a resulting decline in revenues, the Company announced a restructuring plan to accelerate key components of its strategy to reduce costs and enhance the financial performance of its core products. In connection with the plan, the Company will close Fabs 14 and 15 in Austin, Texas. These facilities support certain of the Company's older products and its Foundry Service operations, which will be discontinued as part of the plan. The Company will also reorganize other manufacturing facilities and reduce activities primarily in Penang, Malaysia along with associated administrative support.

The restructuring plan will result in the reduction of approximately 2,300 direct manufacturing and related administrative support positions, or approximately 15 percent of the Company's worldwide workforce, by the end of the second quarter of 2002. Approximately 1,000 of these positions are associated with closing Fabs 14 and 15 in Austin. The balance of the reductions will result from reorganizing activities primarily in Penang, Malaysia.

Pursuant to the September 25, 2001 plan, the Company recorded restructuring costs and other special charges of \$89.3 million, consisting of \$34.1 million of anticipated severance and fringe benefit costs, \$16.2 million of anticipated exit costs to close facilities in Austin and Penang and \$39.0 million of non-cash asset

The following table summarizes activity under the plan through December 30, 2001:

(Thousands)	Severance and employee benefits	Facility and equipment impairment	Facility and equipment decommission costs	Other facilities exit costs	Total
2001 provision	\$34,105	\$ 39,000	\$15,500	\$700	\$ 89,305
Cash charges	(7,483)	—	—	(54)	(7,537)
Non-cash charges	—	(39,000)	—	—	(39,000)
Accruals at December 30, 2001	\$26,622	\$ —	\$15,500	\$646	\$ 42,768

impairment charges. The asset impairment charges relate primarily to buildings and production equipment and have been incurred as a result of the Company's decision to implement the plan. The Company expects to substantially complete execution of its restructuring plan by the end of the second quarter of 2002. As of December 30, 2001, 786 employees were terminated resulting in cash payments of approximately \$7.5 million in severance and employee benefit costs.

During 1999, the Company initiated a review of its cost structure. Based upon this review, the Company recorded restructuring and other special charges of \$38 million in 1999 to better align its cost structure with the expected revenue growth rates.

The restructuring and other special charges for the year ended December 26, 1999, and the related activity during 1999, 2000 and 2001, are reflected in the table below:

(Thousands)	Severance and employee benefits	Facilities	Equipment	Equipment disposal costs	Discontinued system projects	Total
1999 provision	\$ 3,024	\$ 968	\$ 23,769	\$ 4,380	\$ 6,089	\$ 38,230
Cash charges	(3,024)	(56)	—	(1,937)	—	(5,017)
Non-cash charges	—	—	(23,769)	—	(6,089)	(29,858)
Accruals at December 26, 1999	—	912	—	2,443	—	3,355
Cash charges	—	(429)	—	(2,443)	—	(2,872)
Accruals at December 31, 2000	—	483	—	—	—	483
Cash charges	—	(443)	—	—	—	(443)
Accruals at December 30, 2001	\$ —	\$ 40	\$ —	\$ —	\$ —	\$ 40

The Company anticipates that the remaining accruals for sales office facilities will be utilized over the period through lease termination in the second quarter of 2002.

NOTE 15: SHARE REPURCHASE PROGRAM

On January 29, 2001, the Company announced that the Board of Directors had authorized a program to repurchase up to \$300 million worth of the Company's common stock over a period of time to be determined by management. Any such repurchases will be made, from time to time, in the open market or in privately negotiated transactions in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements and other factors. This program does not obligate the Company to acquire any particular amount of its common stock, and the program may be suspended at any time at the Company's discretion. As of December 30, 2001, AMD acquired approximately 6.3 million shares of its common stock at an aggregate cost of \$77 million under the program. Shares repurchased under this program will be used in connection with the Company's stock option plans.

NOTE 16: CONTINGENCIES

I. Environmental Matters

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

In 1991, the Company received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region, relating to the three sites. One of the orders named us as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. In January 1999, the Company entered into a settlement agreement with Philips whereby Philips assumed costs allocated to the Company under

this order, although the Company is responsible for these costs in the event that Philips does not fulfill its obligations under the settlement agreement. Another of the orders named AMD as well as National Semiconductor Corporation. In December 2001, AMD entered into a settlement agreement with National pursuant to which National will take the lead for a period of time on certain groundwater remediation required under that order, but AMD remains a responsible party for all purposes under the order and retains specific responsibilities.

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

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

The Company received a notice dated October 14, 1998 from the Environmental Protection Agency (EPA) indicating that the EPA has determined AMD to be a potentially responsible party that arranged for disposal of hazardous substances at a site located in Santa Barbara County, California. The Company is currently in settlement discussions with the EPA and believes that any settlement will not have a material adverse effect on the Company's financial condition or results of operations.

II. Other Matters

The Company is a defendant or plaintiff in various other actions, which arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition or results of operations.

NOTE 17: SUBSEQUENT EVENTS (UNAUDITED)

Issuance of Senior Convertible Debt

On January 29, 2002, the Company announced the closing of a private offering of \$500 million aggregate principal amount of its 4¾% Convertible Senior Debentures (the Debentures) due 2022 issued pursuant to Rule 144A and Regulation S. The Company intends to use the net proceeds generated from the offering for capital expenditures, working capital and general corporate purposes.

The Debentures bear interest at a rate of 4¾% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4¾% and will not exceed 6¾%. The Debentures are initially convertible into the Company's common stock at a conversion price of \$23.38 per share. At this conversion price, each \$1,000 principal amount of the Debentures will be convertible into approximately 43 shares of the Company's common stock.

The Debentures will be redeemable at specified prices declining to 100% of the principal amount plus accrued and unpaid interest at the Company's option beginning on February 5, 2005, provided that the Company may not redeem the Debentures prior to February 1, 2006 unless the last reported sale price of the Company's common stock is at least 130% of the then effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date of the redemption notice.

Holders of the Debentures will have the ability to require the Company to repurchase the Debentures, in whole or in part, on February 1, 2009, February 1, 2012 and February 1, 2017. The holders of the Debentures will also have the ability to require the Company to repurchase the Debentures in the event that the Company undergoes specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100% of the principal amount of the Debentures plus accrued and unpaid interest.

Report of Ernst & Young LLP, Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Advanced Micro Devices, Inc. as of December 30, 2001 and December 31, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test

basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. as of December 30, 2001 and December 31, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

San Jose, California
January 8, 2002

Supplementary Financial Data

2001 and 2000 by Quarter (Unaudited)
(Thousands except per share and market price amounts)

	2001				2000			
	Dec. 30	Sept. 30	July 1	Apr. 1	Dec. 31	Oct. 1	July 2	Apr. 2
Net Sales	\$951,873	\$ 765,870	\$985,264	\$1,188,747	\$1,175,172	\$1,206,549	\$1,170,437	\$1,092,029
Expenses:								
Cost of sales	644,662	594,056	636,199	714,830	657,303	639,010	612,567	605,757
Research and development	160,871	161,185	171,114	157,760	162,087	162,764	155,651	161,297
Marketing, general and administrative	163,683	150,918	156,291	149,138	160,756	141,931	152,022	144,306
Restructuring and other special charges	—	89,305	—	—	—	—	—	—
	969,216	995,464	963,604	1,021,728	980,146	943,705	920,240	911,360
Operating income (loss)	(17,343)	(229,594)	21,660	167,019	195,026	262,844	250,197	180,669
Gain on sale of Vantis	—	—	—	—	—	—	—	—
Gain on sale of Legerity	—	—	—	—	—	336,899	—	—
Interest and other income, net	5,784	(11,220)	12,308	18,823	25,449	19,789	19,935	21,128
Interest expense	(9,570)	(9,946)	(20,199)	(21,645)	(19,932)	(17,382)	(11,244)	(11,479)
Income (loss) before income taxes, equity in net income (loss) of joint venture and extraordinary item	(21,129)	(250,760)	13,769	164,197	200,543	602,150	258,888	190,318
Provision (benefit) for income taxes	(5,705)	(65,018)	3,717	52,543	30,081	175,009	51,778	—
Income (loss) before equity in net income (loss) of joint venture and extraordinary item	(15,424)	(185,742)	10,052	111,654	170,462	427,141	207,110	190,318
Equity in net income (loss) of joint venture	(417)	(1,187)	7,300	13,183	7,570	4,406	32	(969)
Income (loss) before extraordinary item	(15,841)	(186,929)	17,352	124,837	178,032	431,547	207,142	189,349
Extraordinary item—debt retirement, net of tax benefit	—	—	—	—	(64)	(22,980)	—	—
Net income (loss)	\$ (15,841)	\$ (186,929)	\$ 17,352	\$ 124,837	\$ 177,968	\$ 408,567	\$ 207,142	\$ 189,349
Net income (loss) per share								
Basic—income (loss) before extraordinary item	\$ (0.05)	\$ (0.54)	\$ 0.05	\$ 0.40	\$ 0.57	\$ 1.38	\$ 0.67	\$ 0.63
Diluted—income (loss) before extraordinary item	\$ (0.05)	\$ (0.54)	\$ 0.05	\$ 0.37	\$ 0.53	\$ 1.24	\$ 0.60	\$ 0.57
Basic—income (loss) after extraordinary item	\$ (0.05)	\$ (0.54)	\$ 0.05	\$ 0.40	\$ 0.57	\$ 1.31	\$ 0.67	\$ 0.63
Diluted—income (loss) after extraordinary item	\$ (0.05)	\$ (0.54)	\$ 0.05	\$ 0.37	\$ 0.53	\$ 1.18	\$ 0.60	\$ 0.57
Shares used in per share calculation								
Basic	340,119	345,044	330,120	314,347	313,501	311,943	309,625	302,257
Diluted	340,119	345,044	340,533	351,785	349,782	352,893	352,946	344,381
Common stock market price range								
High	\$ 18.62	\$ 30.20	\$ 34.65	\$ 30.15	\$ 26.00	\$ 47.50	\$ 47.72	\$ 30.00
Low	\$ 7.69	\$ 7.80	\$ 18.73	\$ 14.13	\$ 13.56	\$ 27.00	\$ 25.50	\$ 13.91

Financial Summary

Five Years Ended December 30, 2001 (Thousands except per share amounts)		2001	2000	1999	1998	1997
Net sales	\$3,891,754	\$4,644,187	\$2,857,604	\$2,542,141	\$2,356,375	
Expenses:						
Cost of sales	2,589,747	2,514,637	1,964,434	1,718,703	1,578,438	
Research and development	650,930	641,799	635,786	567,402	467,877	
Marketing, general and administrative	620,030	599,015	540,070	419,678	400,713	
Restructuring and other special charges	89,305	—	38,230	—	—	
	3,950,012	3,755,451	3,178,520	2,705,783	2,447,028	
Operating income (loss)	(58,258)	888,736	(320,916)	(163,642)	(90,653)	
Gain on sale of Vantis	—	—	432,059	—	—	
Gain on sale of Legerity	—	336,899	—	—	—	
Litigation settlement	—	—	—	(11,500)	—	
Interest and other income, net	25,695	86,301	31,735	34,207	35,097	
Interest expense	(61,360)	(60,037)	(69,253)	(66,494)	(45,276)	
Income (loss) before income taxes and equity in net income of joint venture and extraordinary item	(93,923)	1,251,899	73,625	(207,429)	(100,832)	
Provision (benefit) for income taxes	(14,463)	256,868	167,350	(91,878)	(55,155)	
Income (loss) before equity in net income of joint venture and extraordinary item	(79,460)	995,031	(93,725)	(115,551)	(45,677)	
Equity in net income of joint venture	18,879	11,039	4,789	11,591	24,587	
Income (loss) before extraordinary item	(60,581)	1,006,070	(88,936)	(103,960)	(21,090)	
Extraordinary item—debt retirement, net of tax benefit	—	(23,044)	—	—	—	
Net income (loss)	\$ (60,581)	\$ 983,026	\$ (88,936)	\$ (103,960)	\$ (21,090)	
Net income (loss) per share						
Basic—income (loss) before extraordinary item	\$ (0.18)	\$ 3.25	\$ (0.30)	\$ (0.36)	\$ (0.07)	
Diluted—income (loss) before extraordinary item	\$ (0.18)	\$ 2.95	\$ (0.30)	\$ (0.36)	\$ (0.07)	
Basic—income (loss) after extraordinary item	\$ (0.18)	\$ 3.18	\$ (0.30)	\$ (0.36)	\$ (0.07)	
Diluted—income (loss) after extraordinary item	\$ (0.18)	\$ 2.89	\$ (0.30)	\$ (0.36)	\$ (0.07)	
Shares used in per share calculation:						
Basic	332,407	309,331	294,577	287,796	281,319	
Diluted	332,407	350,000	294,577	287,796	281,319	
Long-term debt, capital lease obligations and other, less current portion	\$ 672,945	\$1,167,973	\$1,427,282	\$1,372,416	\$ 662,689	
Total assets	\$5,647,242	\$5,767,735	\$4,377,698	\$4,252,968	\$3,515,271	

The Company's common stock (symbol "AMD") is listed on the New York Stock Exchange. The Company has never paid cash dividends on common stock and may be restricted from doing so. Refer to the notes to consolidated financial statements. The number of stockholders of record at February 25, 2002 was 7,815.

AMD, the AMD Arrow logo, and combinations thereof, Advanced Micro Devices, AMD-K6, AMD Athlon, AMD Duron and MirrorBit are either trademarks or registered trademarks of Advanced Micro Devices, Inc. Vantis is a trademark of Vantis Corporation. Legerity is a trademark of Legerity, Inc. Microsoft and Windows are either trademarks or registered trademarks of Microsoft Corporation. Other terms used to identify companies and products may be trademarks of their respective owners.

Corporate Directory

Board of Directors

W.J. Sanders III

Chairman of the Board and
Chief Executive Officer;
AMD

Dr. Friedrich Baur

President and Managing Partner;
MST Beteiligungs und
Unternehmensberatungs GmbH

Charles M. Blalack

Chairman of the Board and
Chief Executive Officer;
Blalack and Company,
Investment Advisors

Dr. R. Gene Brown

Private Investor and
Financial and Management Consultant

Robert Palmer

Former Chairman and
Chief Executive Officer;
Digital Equipment Corporation

Joe L. Roby

Chairman Emeritus and Senior Advisor
of the Executive Board,
Credit Suisse First Boston

Dr. Hector de J. Ruiz

President and Chief Operating Officer;
AMD

Dr. Leonard M. Silverman

Former Dean of Engineering,
University of Southern California

Corporate Officers

W.J. Sanders III

Chief Executive Officer and
Chairman of the Board

Hector de J. Ruiz

President and Chief Operating Officer

Benjamin M. Anixter

Vice President,
External Affairs

Robert R. Herb

Executive Vice President,
Chief Sales and Marketing Officer

Thomas M. McCoy

Sr. Vice President,
General Counsel and Secretary

Robert J. Rivet

Sr. Vice President,
Chief Financial Officer

William Siegle

Sr. Vice President,
Technology Operations
and Chief Scientist

Stan Winvick

Sr. Vice President,
Human Resources

Stephen Zelencik

Sr. Vice President,
Market Development

Group Vice Presidents

Donald M. Brettner

Group Vice President,
Chairman, AMD Business
Advisory Council for ERP

Bertrand Cambou

Group Vice President,
Memory Group

Tom Eby

Group Vice President,
Strategy and Business Development

Gary O. Heerssen

Group Vice President,
Logic Manufacturing Group

Daryl Ostrander

Group Vice President,
Wafer Fabrication
Technology Implementation

Dirk Meyer

Group Vice President,
Computation Products Group

Vice Presidents

Randy Allen

Vice President,
Design Engineering,
Computation Products Group

James Ashby

Vice President,
Corporate Planning
and Treasury

Randy Blair

Vice President,
Feb 25

Alex Brown

Vice President,
Corporate Supply Base
Management

Chi Chang

Vice President,
Non-Volatile Memory
Technology Development

Melissa Debes

Vice President, Finance,
Computation Products Group

Hans Deppe

Vice President
and General Manager,
AMD Dresden GmbH

James Doran

Vice President,
Manufacturing and Technology
Development

William Edwards

Vice President,
Personal Connectivity Solutions

Ed Ellett

Vice President, Marketing,
Computation Products Group

Gino Giannotti

Vice President,
Business Marketing,
Computation Products Group

Richard Heye

Vice President,
Platform Engineering
and Infrastructure

Gregory Hoepfner

Vice President,
Design Engineering,
Personal Connectivity Solutions

Mike Johnson

Vice President,
Personal Connectivity Solutions
and AMD Senior Fellow

Mike Kubiak

Vice President,
Business Development

Devinder Kumar

Vice President,
Corporate Controller

Raymond Lee

Vice President,
Sales and Marketing,
Asia/Pacific

Jill Lindstedt

Vice President,
Communications

Reid Linney

Vice President,
Human Resources

Kevin Lyman

Vice President,
Manufacturing and Product Line
Human Resources

Fred Mapp

Vice President,
Information Technology and
Chief Information Officer

Ajay Marathe

Vice President,
Manufacturing Services Division,
Computation Products Group

Amir Mashkoori

Vice President,
Operations,
Memory Group

Michael McCourt

Vice President, Sales,
Personal Connectivity Solutions

Giuliano Meroni

Vice President,
Sales and Marketing,
Europe

Patrick Moorhead

Vice President,
Consumer Advocacy for AMD

Hollis O'Brien

Vice President,
Deputy General Counsel

Kevin Plouse

Vice President,
Technical Marketing
and Business Development,
Memory Group

Phillip Pompa

Vice President, Marketing,
Personal Connectivity Solutions

Joe Rauschmayer

Vice President,
Product Engineering,
Memory Group

Kazuo Sakai

Vice President,
Sales and Marketing,
Northern Asia/Pacific

Craig Sander

Vice President,
Technology Development

Kelly Smales

Vice President, Finance,
Manufacturing and
Technology Operations

Danne Smith

Vice President,
Corporate Quality

Preston Snuggs

Vice President,
Feb 30

David Somo

Vice President,
Sales and Marketing,
The Americas

Chuck Stiteler

Vice President,
Memory Group Manufacturing,
Assembly/Test Operations

Michael Van Buskirk

Vice President,
Design Engineering,
Memory Group

Jerry Vogel

Vice President,
Engineering Operations,
Computation Products Group

John Volkmann

Vice President,
Strategic Communications

Fred Weber

Vice President and
Chief Technical Officer,
Computation Products Group

Richard Witek

Corporate AMD Fellow

Harry Wolin

Vice President,
Intellectual Property

Michael Woollems

Vice President,
Tax

About AMD

AMD is a global supplier of integrated circuits for the personal and networked computer and communications markets. AMD is a Fortune 500 and Standard & Poor's 500-company that produces microprocessors, flash memory devices, and support circuitry for communications and networking applications. The Company has sales offices worldwide and has manufacturing facilities in Sunnyvale, California; Austin, Texas; Bangkok, Thailand; Penang, Malaysia; Singapore; Suzhou, China; Aizu-Wakamatsu, Japan and Dresden, Germany.

AMD was founded in 1969. The Company is headquartered in Sunnyvale, California, and employs approximately 14,700 people worldwide. AMD became a publicly held company in 1972 and since 1979 has been listed on the New York Stock Exchange with the trading symbol of "AMD" for its common shares.

Corporate Address

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

Financial Information

The annual report, 10-K, and quarterly financial news releases are available without charge from the Company's literature department at (800) 222-9323.

All documents filed with the SEC may be accessed from the AMD website Investor Relations page at www.amd.com

For other investor-related information, interested parties should contact the Investor Relations Department at (408) 749-3127.

Manufacturing Facilities

Aizu-Wakamatsu, Japan
Austin, Texas
Bangkok, Thailand
Dresden, Germany
Penang, Malaysia
Singapore
Sunnyvale, California
Suzhou, China



One AMD Place P.O. Box 3453 Sunnyvale CA 94088-3453

www.amd.com