FORM 10-K

ADVANCED MICRO DEVICES INC - amd

Filed: March 29, 1999 (period: December 27, 1998)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

(Mark One)

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 27, 1998
OR
[_]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to

Commission File Number 1-7882

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

Delaware	94-1692300
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One AMD Place, Sunnyvale, California	94086
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

Aggregate market value of the voting stock held by non-affiliates as of March 1, 1999.

$2,665,120,199

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

146,161,636 shares as of March 1, 1999.

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DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Annual Report to Stockholders for the fiscal year ended December 27, 1998, are incorporated into Parts II and IV hereof.
(2) Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 1999, are incorporated into Part III hereof.

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AMD, the AMD logo, and combinations thereof, Advanced Micro Devices, Vantis, NexGen, K86, K86 RISC SUPERSCALAR, AMD-K5, AMD-K6, AMD-K6-2, AMD-K6-III, AMD-K7, SLAC, 3DNow!, Nx586 and Nx686 are either our trademarks or our registered trademarks. Microsoft, MS-DOS, Windows, Windows 95, Windows 98 and Windows NT are either registered trademarks or trademarks of Microsoft Corporation. Pentium is a registered trademark and Celeron is a trademark of Intel Corporation. Other terms used to identify companies and products may be trademarks of their respective owners.

PART I

ITEM 1. BUSINESS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report that are forward-looking are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially. The forward-looking statements relate to operating results; anticipated cash flows; realization of net deferred tax assets; capital expenditures; adequacy of resources to fund operations and capital investments; our ability to access external sources of capital; our ability to transition to new process technologies; our ability to increase unit shipments of microprocessors at higher speed grades; anticipated market growth; Year 2000 costs; the effect of foreign currency hedging transactions; the effect of adverse economic conditions in Asia; our new integrated manufacturing and design facility in Dresden, Germany (Dresden Fab 30); and the Fujitsu AMD Semiconductor Limited (FASL) manufacturing facilities. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see "Risk Factors" and such other risks and uncertainties as set forth below in this report or detailed in our other Securities and Exchange Commission reports and filings.

General

Advanced Micro Devices, Inc. was incorporated under the laws of Delaware on May 1, 1969. Our mailing address and executive offices are located at One AMD Place, Sunnyvale, California 94086, and our telephone number is (408) 732-2400. Unless otherwise indicated, references to "AMD," "we" and "us" in this report include our subsidiaries.

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

For segment information with respect to sales, operating results and identifiable assets, refer to the information set forth in Note 9 of the Consolidated Financial Statements contained in our 1998 Annual Report to Stockholders.

For a discussion of the risk factors related to our business operations, please see the "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" sections set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 1998 Annual Report to Stockholders.

The IC Industry

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

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

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

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

The Microprocessor Market

The microprocessor, an IC generally consisting of millions of transistors, serves as the central processing unit, or brain, of a computer system. The microprocessor is typically the most critical component to the performance and efficiency of a PC. The microprocessor controls data flowing through the electronic system and manipulates such data as specified by the hardware or software which controls the system. In 1981, IBM introduced its first PC containing a microprocessor based upon the x86 instruction set developed by Intel Corporation and utilizing the Microsoft(R) Corporation MS-DOS(TM) operating system. As circuit design and very large scale integration process technology have evolved, performance and functionality of each new generation of x86 microprocessors have increased.

The microprocessor business is characterized by short product life cycles, intense price competition and rapid advances in product design and process technology. Today, the greatest demand for microprocessors is from PC manufacturers and, in particular, for microprocessors which are Microsoft Windows(R) compatible and are based on the x86 instruction set. Improvements in the performance characteristics of microprocessors and decreases in production costs resulting from advances in process technology have broadened the market for PCs and increased the demand for microprocessors. The microprocessor market is currently dominated by Intel.

The establishment of hardware and software standards for PCs and the emergence of numerous PC suppliers have caused the PC industry to be extremely competitive, with short product life cycles, limited product differentiation and substantial price competition. To compete more effectively, most PC suppliers have evolved from fully integrated manufacturers with proprietary system designs to vendors focused on building brand recognition and distribution capabilities. Almost all of these suppliers now rely either on Intel or on third-party manufacturers for the major subsystems of their PCs, such as the motherboard. These suppliers are also increasingly outsourcing the design and manufacture of complete systems. The third-party manufacturers of these subsystems, based primarily in Asia, are focused on providing PCs and motherboards that incorporate the latest trends in features and performance at low prices. Increasingly, these third-party manufacturers are also supplying fully configured PC systems through alternative distribution channels.

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

The Memory Market

Memory ICs store data or programs and are characterized as either volatile or non-volatile. Volatile devices lose their stored information after electrical power is shut off, while non-volatile devices retain their stored information. The three most significant categories of semiconductor memory are (1) Dynamic Random Access Memory (DRAM) and (2) Static Random Access Memory (SRAM), both of which are volatile memories, and (3) non-volatile memory, which includes Read-Only Memory (ROM), Flash memory and Erasable Programmable Read-Only Memory (EPROM) devices. DRAM provides large capacity main memory, and SRAM provides specialized high-speed memory. Flash and other non-volatile memory devices are used in applications in which data must be retained after power is turned off. We do not produce any DRAM products, which are the largest segment of the memory market, or SRAM products.

Several factors have contributed to an increasing demand for memory devices in recent years, including:

- the expanding unit sales of PCs in the business and consumer market segments;

- the increasing use of PCs to perform memory-intensive graphics and multimedia functions;

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

We believe that Flash memory devices are being utilized for an expanding range of uses. The ability of Flash memory devices to be electrically rewritten to update parameters or system software provides greater flexibility and ease of use than other non-volatile memory devices, such as ROM or EPROM devices. Flash memory can be used to provide storage of control programs and system-critical data in communication devices such as cellular telephones and routers (devices used to transfer data between local area networks). Another common application for Flash memory is in PC cards, which are inserted into notebook and subnotebook computers or personal digital assistants to provide added data storage.

The Logic Market

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

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

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

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

Unlike ASICs and standard logic ICs, PLDs are standard products, purchased by system manufacturers in an unprogrammed or blank state. Each system manufacturer may then program the PLDs to perform a variety of specific logic functions. Certain PLDs, including ours, are reprogrammable. This means that the logic configuration can be modified after the device is initially programmed, and, sometimes, while the PLD remains in the end-product system. The programmable and reprogrammable characteristics of PLDs reduce the risk of inventory obsolescence for system designers and distributors. The risk is reduced because systems designers and distributors can stock a large number of standard PLDs that may be programmed for a variety of applications. In addition, system designers may make last minute design changes, reduce time to market and accelerate design cycle time. Compared to standard logic ICs and ASICs, PLDs allow system designers to more quickly design and implement custom logic.

The PLD market consists primarily of three product categories, which can generally be distinguished by their density:

. simple programmable logic devices (SPLDs);

. complex programmable logic devices (CPLDs); and

. field programmable gate arrays (FPGAs).

SPLDs, which have less than 1,000 gates, are considered low-density devices. In contrast, CPLDs which have up to 20,000 gates, and FPGAs, which have up to 100,000 gates, are considered high-density devices.

SPLDs are typically based on common architectures that are familiar to most system designers and are supported by standard, widely available software tools. SPLDs are generally used in systems requiring simple logic functions. In contrast, CPLDs and FPGAs are typically based on proprietary architectures and require support from sophisticated software tools. In situations requiring complex logic functions, high-density PLDs can provide important advantages over a large cluster of low-density devices, including improved system speed, lower power requirements and lower cost. As the prices of high-density PLDs become more competitive, customers are increasingly migrating to CPLDs or FPGAs to address complex logic requirements and space constraints and to achieve power savings. We believe that a substantial portion of high-density PLD customers use both CPLD and FPGA architectures within a single system design, partitioning logic functions across multiple devices to optimize overall system performance and cost. PLDs are used in complex electronic systems, including telecommunications and networking systems, high performance computers and peripherals, video graphics and imaging systems, and instrumentation and test systems. PLDs are also used in a variety of consumer electronic devices, and in medical instrumentation and industrial control applications.

Business Groups; Products

We participate in all three technology areas within the digital IC market--memory circuits, logic circuits and microprocessors--through (1) our AMD segment, which consists of our three product groups--Computation Products Group (CPG), Memory Group and Communications Group; and (2) our Vantis segment, which consists of our programmable logic subsidiary, Vantis Corporation.

Computation Products Group

CPG products ($1,257 million, or 50 percent, of our 1998 net sales) include microprocessors and core logic products, with the majority of CPG's net sales being derived from Microsoft Windows compatible microprocessors which are used primarily in PCs.

In 1998, our most significant microprocessor product was the AMD-K6(R)-2 processor with 3DNow!(TM) technology, a sixth-generation microprocessor product and a member of the K86(TM) microprocessor family. The K86 microprocessors are based on Superscalar RISC architecture and are designed to be compatible with operating system software such as MS-DOS, Windows 3.X, Windows 95(R), Windows 98(R), Windows NT(R) and UNIX. We began volume shipments of the AMD-K6 microprocessor in the second quarter of 1997. The AMD-K6 microprocessor was designed to be competitive in performance to Intel's sixth-generation microprocessor, the Pentium(R) II, which was designed by Intel specifically for desktop PCs.

In the first quarter of 1999, we introduced and began volume shipments of the AMD-K6-III processor with 3DNow! technology, our highest performance, sixth-generation K86 microprocessor for desktop PCs. Our introduction of the AMD-K6-III processor with 3DNow! technology also marked the debut of our new TriLevel Cache, an advanced cache memory architecture which improves overall PC performance in Windows compatible desktop PCs. The AMD-K6-III microprocessor was designed to be competitive in performance to the Pentium III, successor to the Intel Pentium II microprocessor.

Our microprocessor business has in the past significantly impacted, and will continue in 1999 and 2000 to significantly impact, our revenues and profit margins and operating results. We plan to continue to make

significant capital expenditures to support our microprocessor products both in the near and long term. Our ability to increase microprocessor product revenues, and benefit fully from the substantial financial investments and commitments that we have made and continue to make related to microprocessors, depends upon the success of the AMD-K6 and AMD-K6-III microprocessors with 3DNow! technology, the AMD-K7(TM) microprocessor, which is our seventh-generation, Microsoft Windows compatible microprocessor planned for introduction by the end of the first half of 1999, and future generations of K86 microprocessors. The microprocessor market is characterized by short product life cycles and migration to ever higher performance microprocessors. To compete successfully against Intel in this market, we must transition to new process technologies at a faster pace than before and offer higher performance microprocessors in significantly greater volumes.

Intel has dominated the market for microprocessors used in PCs for a long time. Because of its dominant market position, Intel can set and control x86 microprocessor standards and, thus, dictate the type of product the market requires of Intel's competitors. In addition, Intel may vary prices on its microprocessors and other products at will and thereby affect the margins and profitability of its competitors due to its financial strength and dominant position. Given Intel's industry dominance and brand strength, Intel's decisions on processor prices can impact and have impacted the average selling prices of the AMD-K6 microprocessors, and consequently can impact and has impacted our margins. As an extension of its dominant microprocessor market share, Intel also now dominates the PC platform. As a result, it is difficult for PC manufacturers to innovate and differentiate their product offerings. We do not have the financial resources to compete with Intel on such a large scale.

As Intel has expanded its dominance over the entirety of the PC system platform, many PC original equipment manufacturers (OEMs) have reduced their system development expenditures and have purchased microprocessors in conjunction with core logic chipsets or in assembled motherboards. PC OEMs are becoming increasingly dependent on Intel, less innovative on their own and more of a distribution channel for Intel technology. In marketing our microprocessors to these OEMs and dealers, we depend upon companies other than Intel for the design and manufacture of chipsets, motherboards, basic input/output system (BIOS) software and other components. In recent years, these third-party designers and manufacturers have lost significant market share to Intel. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors only if Intel makes information about its products available to them in time to address market opportunities. Delay in the availability of such information makes, and will continue to make, it increasingly difficult for these third parties to retain or regain market share. To compete with Intel in this market in the future, we intend to continue to form closer relationships with third-party designers and manufacturers of chipsets, motherboards, BIOS software and other components. Similarly, we intend to expand our chipset and system design capabilities, and to offer OEMs licensed system designs incorporating our processors and companion products. We cannot be certain, however, that our efforts will be successful.

Our AMD K-6 microprocessors are based on the Nx686 microprocessor developed by NexGen, Inc. (NexGen). NexGen was founded in 1986 to design and market high performance microprocessors. In September 1994, NexGen began shipping its Nx586 processor to customers. In October 1995, NexGen announced the Nx686 processor technology. However, NexGen never introduced an Nx686 or other sixth-generation product in the market. On January 17, 1996, we acquired NexGen in a tax-free reorganization in which NexGen was merged directly into AMD and all operations of NexGen were integrated into CPG. The merger was accounted for under the pooling-of-interests method.

Memory Group

Memory Group products ($561 million, or 22 percent, of our 1998 net sales) include Flash memory devices and EPROMs.

Flash Memory. Our Flash memory devices are used in cellular telephones, networking equipment and other applications which require memory to be non-volatile and rewritten. These Flash memory devices may be electrically rewritten. This feature provides greater flexibility and ease of use than EPROMs and other similar integrated circuits which cannot be electrically rewritten. Communications companies use Flash memory devices

in cellular telephones and related equipment to enable users to add and modify frequently called numbers and to allow manufacturers to preprogram firmware and other information. In networking applications, Flash memory devices are used in hubs, switches and routers to enable systems to store firmware and reprogrammed Internet addresses and other routing information.

Competition in the market for Flash memory devices is increasing as existing manufacturers introduce competitive products and industry-wide production capacity increases, and as Intel continues to aggressively price its Flash memory products. Almost all of our Flash memory devices are produced in Aizu-Wakamatsu, Japan through Fujitsu AMD Semiconductor Limited (FASL), our joint venture with Fujitsu Limited.

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

Communications Group

Communications Group products ($519 million, or 20 percent, of our 1998 net sales) include telecommunication products, networking and input/output (I/O) products and embedded processors.

Telecommunication Products. Our telecommunication products are used primarily in public communications infrastructure systems and cordless telephony applications. Specifically, the products are used in equipment such as central office switches, digital loop carriers, wireless local loop systems, private branch exchange (PBX) equipment and voice/data terminals. Among our more significant products for the communications market are our line card products. In modern telephone communications systems, voice communications are generally transmitted between the speaker and the central office switch in analog format, but are switched and transmitted over longer distances in digital format. Our subscriber line interface circuits (SLIC) for line cards connect the user's telephone wire to the telephone company's digital switching equipment. Our subscriber line audio processing circuits (SLAC(TM)) line cards are coder/decoders which convert analog voice signals to a digital format and back. Our non-cellular telephony products are used in digital cordless phones.

Networking and I/0 Products. Our networking and I/O products are used in the data communication and internetworking industry to establish and manage connectivity. The products are used within PCs, workstations and printers as well as in network infrastructure equipment such as hubs, switches and routers.

We supply ICs for business and consumer applications utilizing the 1-megabit-per-second, 10-megabit-per-second, 100-megabit-per-second and gigabit-per-second Ethernet local area network standards. We also offer ICs that work with central processing units to manage selected I/O functions such as small computer system interface disk drive controllers and communications devices. In addition, we supply products specially designed to add additional functions, improve performance and reduce costs in computer peripheral, interface or mass storage applications. These are generally special-purpose products which are designed for a specific application. In the case of some large customers, these products are tailored for specific customers' needs.

Embedded Processors. Embedded processors are general purpose devices, which consist of an instruction control unit and an arithmetic and logic unit, and are used to carry out a single application with limited user interface and programmability. We also offer a line of C186 and C188 processors for use as embedded processors in hard disk drives. We offer an expanding range of embedded processors based upon x86 microprocessor technology for both communications as well as handheld computing applications. These embedded processors are derivative of the microprocessors we sell in PCs.

Vantis Corporation

In 1997, we transferred our operations relating to the design, development and marketing of programmable logic devices (excluding bipolar products) to Vantis, a wholly owned subsidiary of AMD. Vantis does not fabricate any of the silicon wafers used in the production of its products. As a result, Vantis relies on us and others for manufacturing. In addition, Vantis relies on us for certain administrative and other services.

Vantis products ($205 million, or 8 percent, of our 1998 net sales) include both complex and simple, high performance CMOS (complementary metal oxide semiconductor) PLDs.

PLDs are standard products purchased by system manufacturers in an unprogrammed or blank state, which can be programmed by each system manufacturer to perform a variety of specific logic functions. Certain PLDs, including ours, are reprogrammable such that the logic configuration can be modified after the device is initially programmed, and, in many cases, while the PLD remains in the end-product system. PLDs are used by manufacturers of telecommunications and networking systems, computers and industrial and other electronic systems to reduce product development time and costs and to improve system performance and reliability.

Vantis has developed a broad product line of low-density and high-density PLD products, including SPLDs and CPLDs, and is currently developing a new line of FPGA products. PLDs are used in complex electronic systems, including telecommunications and networking systems, high performance computers and peripherals, video graphics and imaging systems, and instrumentation and test systems. PLDs are also used in a variety of consumer electronic devices, and in medical instrumentation and industrial control applications.

Customers utilizing PLDs generally use special software "fitters," usually provided by the suppliers of the PLDs, that allow electrical circuit designs to be implemented using CPLDs for FPGAs. Vantis provides its PLD customers with software fitters which it has developed internally or has licensed from third parties. In 1997, Vantis initiated efforts to internally manage and control the development and maintenance of software fitters for our products. However, Vantis is dependent on third parties for certain software that is bundled with Vantis' software for sale to customers. We cannot give any assurance that our efforts to internally develop and maintain the software needed to sell and support its products will be successful. If Vantis is unable to continue to obtain appropriate software and improvements from third parties, to license alternative software from another third party, or to successfully develop and maintain its own software internally, this could materially and adversely affect Vantis' business, including the timing of new or improved product introductions, which could have a material adverse effect on our business.

In January 1999, we successfully completed a consent solicitation from registered holders of our $400,000,000 aggregate principal amount of 11 Percent Senior Secured Notes due 2003, which were issued pursuant to an indenture dated August 1, 1996 between AMD and United States Trust Company of New York (the Indenture). Upon receipt of the required consents, we adopted amendments to the Indenture which permit Vantis to adopt equity-based incentive plans for its directors, officers and employees. The amendments also modify certain restrictive covenants contained in the Indenture to permit, among other things, an initial public offering of all or any portion of our equity interests in Vantis or an issuance or exchange of Vantis' equity interests for interests in other entities without compliance with certain financial tests previously set forth in the Indenture.

Research and Development; Manufacturing Technology

Our expenses for research and development were $567 million in 1998, $468 million in 1997 and $401 million in 1996. These expenses represented 22 percent of net sales in 1998, 20 percent of net sales in 1997 and 21 percent of net sales in 1996. Our research and development expenses are charged to operations as incurred. Most of our research and development personnel are integrated into the engineering staff.

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

Our efforts concerning process technologies are focused in three major areas: logic technology used by our microprocessors and embedded processors; non-volatile memory technology used by Flash memory products; and programmable logic technology used in the Vantis programmable logic products. Our goals are to increase density and improve product performance, to increase the clock speed for microprocessor products and to reduce the access time for non-volatile memory products.

In order to remain competitive, we must make continuing substantial investments in improving our process technologies. In particular, we have made and continue to make significant research and development investments in the technologies and equipment used in the fabrication of our microprocessor products and in the fabrication of Flash memory devices. If we are not successful in our microprocessor and Flash memory businesses, we will be unable to recover such investments, which could have a material adverse effect on our business. In addition, if we are unable to remain competitive with respect to process technology we could be materially and adversely affected.

Competition

The IC industry is intensely competitive and, historically, has experienced rapid technological advances in product and system technologies. After a product is introduced, prices normally decrease over time as production efficiency and competition increase, and as successive generations of products are developed and introduced for sale. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements. Competition in the sale of ICs is based on:

- performance;
- product quality and reliability;
- price;
- adherence to industry standards;
- software and hardware compatibility;
- marketing and distribution capability;
- brand recognition;
- financial strength; and
- ability to deliver in large volumes on a timely basis.

In each particular market in which we participate, we face competition from different groups of companies. With respect to microprocessors, Intel holds a dominant market position. With respect to the Memory Group, our principal competitors are Intel, Sharp and Atmel. We compete to a lesser degree with Fujitsu, our joint venture partner in FASL. With respect to the Communications Group product lines, our principal competitors are SGS-Thomson Microelectronics N.V., Texas Instruments Incorporated, Siemens Corporation, NEC Corporation, LM Ericsson, Alcatel Alsthom, National Semiconductor, 3Com Corporation, Intel Corporation and Motorola, Inc. In Vantis' market, our principal competitors are Altera Corporation, Lattice Semiconductor Corporation, Xilinx, Inc. and other smaller companies focused on PLD development and production.

Manufacturing Facilities

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

Facility Location	Wafer Size (Diameter in Inches)	Production Technology (in Microns)	Approx. Clean Room (Square Footage)
Austin, TX			
Fab 25	8	0.25	89,700
Fab 15(/1/)	6	0.7	22,000
Fab 14(/1/)	6	0.8 & 0.55	22,000
Fab 10(/2/)	5	0.9	22,000
Aizu-Wakamatsu, Japan			
FASL(/3/)	8	0.35 & 0.5	70,000
FASL II(/3/)	8	0.35	91,000
Sunnyvale, CA			
SDC	6 & 8	0.18 & 0.25	42,500

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(1) We plan to consolidate the operations of Fab 14 and Fab 15 in 1999.
(2) Fab 10 decreased production levels and closed during 1998.
(3) We own 49.992 percent of FASL. Fujitsu owns 50.008 percent of FASL.

In 1997, FASL completed construction of a second manufacturing facility in Aizu-Wakamatsu, Japan (FASL II) at a site contiguous to the existing FASL facility. In 1998, equipment was installed and production was initiated in FASL II. In addition, we commenced construction in the second quarter of 1997 of a manufacturing facility in Dresden, Germany (Dresden Fab 30), through AMD Saxony Manufacturing GmbH (AMD Saxony), an indirect wholly owned German subsidiary of AMD. At the end of 1997, we completed construction of the plant and administration building for Dresden Fab 30, and in 1998 we installed equipment in the building and began testing. We also have foundry arrangements for the production of our products by third parties.

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

Facility Location	Approx. Assembly & Test Square Footage	Activity
Penang, Malaysia	377,000	Assembly & Test
Bangkok, Thailand	78,000	Assembly & Test
Singapore	162,000	Test

In addition to the assembly and test facilities described above, we have constructed an additional assembly and test facility in Suzhou, China. We began operations in Suzhou in the first quarter of 1999. Foreign manufacturing and construction of foreign facilities entails political and economic risks, including political instability, expropriation, currency controls and fluctuations, changes in freight and interest rates, and loss or modification of exemptions for taxes and tariffs. For example, if we were unable to assemble and test our products abroad, or if air transportation between the United States and our overseas facilities were disrupted, there could be a material adverse effect on our business.

Certain Material Agreements. Set forth below are descriptions of certain material contractual relationships we have relating to FASL, Dresden Fab 30 and Motorola.

FASL. In 1993, we formed a joint venture with Fujitsu, FASL, for the development and manufacture of Flash memory devices. Through FASL, the two companies have constructed and are operating an advanced IC manufacturing facility in Aizu-Wakamatsu, Japan, to produce Flash memory devices. The facility began volume production in the first quarter of 1995, and utilizes eight-inch wafer processing technologies capable of producing products with geometrics of 0.5 micron or smaller.

In 1997, FASL completed construction of a second Flash memory device wafer fabrication facility, FASL II, at a site contiguous to the existing FASL facility. In 1998, equipment was installed and production was initiated in FASL II. We expect the facility, including equipment, to cost approximately $1 billion when fully equipped. Capital expenditures for FASL II construction to date have been funded by cash generated from FASL operations and local borrowings by FASL. To the extent that FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL. As of December 27, 1998, we had loan guarantees of $81 million outstanding with respect to these loans. The planned FASL II costs are denominated in yen and are, therefore, subject to change due to foreign exchange rate fluctuations.

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

Dresden Fab 30. AMD Saxony has constructed and is installing equipment in Dresden Fab 30, a 900,000-square-foot submicron integrated circuit manufacturing and design facility located in Dresden, in the State of Saxony, Germany. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are supporting the project. We currently estimate construction and facilitization costs of Dresden Fab 30 to be approximately $1.9 billion. In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG. The Dresden Loan Agreements provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

- equity, subordinated loans and loan guarantees from AMD;
- loans of $989 million (denominated in deutsche marks) from a consortium of banks led by Dresdner Bank AG; and
- capital investment grants and allowances, subsidies and loan guarantees from the Federal Republic of Germany and the State of Saxony.

The Dresden Loan Agreements, which were amended in February 1998 to reflect upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. The Dresden Loan Agreements also provide that we will:

- provide interim funding to AMD Saxony if capital investment allowances or interest subsidies to be received by AMD Saxony are delayed;
- fund shortfalls in government subsidies resulting from any default under the subsidy agreements caused by AMD Saxony or its affiliates;
- guarantee a portion of AMD Saxony's obligations under the Dresden Loan Agreements until Dresden Fab 30 has been completed;
- fund certain contingent obligations, including project cost overruns, if any; and
- make funds available to AMD Saxony, after completion of Dresden Fab 30, if AMD Saxony does not meet its fixed charge coverage ratio covenant.

We completed construction of the plant and administration building for Dresden Fab 30 at the end of 1997. In 1998, we installed equipment in the building and began testing. The planned Dresden Fab 30 costs are denominated in deutsche marks and are, therefore, subject to change based on applicable conversion rates. We entered into foreign currency hedging transactions for Dresden Fab 30 in 1997 and 1998 and anticipate entering into additional such foreign currency hedging transactions in the first quarter of 1999 and in the future.

Motorola. In 1998, we entered into an alliance with Motorola for the development of Flash memory and logic technology. The alliance includes a seven-year technology development and license agreement and a patent cross-license agreement. The agreements provide that we will co-develop with Motorola future generation logic process and embedded Flash technologies. The licenses to each generation of technology vary in scope relative to the contributions to technology development made by both companies. Subject to certain conditions, the companies will share:

- ownership to jointly developed technology and any intellectual property rights relating to such technology;
- development costs for mutually agreed upon facilities, tasks and technologies; and
- foundry support.

In addition, we will gain access to Motorola's semiconductor logic process technology, including copper interconnect technology. In exchange, we will develop and license to Motorola a Flash module design to be used in Motorola's future embedded Flash products. The licenses to logic process technologies granted to AMD may be subject to variable royalty rates, which are dependent on the technology transferred and subject to certain other conditions. Motorola will have additional rights, subject to certain conditions, to make stand-alone Flash devices, and to make and sell certain data networking devices. The rights to data networking devices may be subject to variable royalty payment provisions.

Marketing and Sales

Our products are marketed and sold under the AMD trademark. We employ a direct sales force through our principal facilities in Sunnyvale, California, and field sales offices throughout the United States and abroad (primarily Europe and Asia Pacific). We also sell our products through third-party distributors and independent representatives in both domestic and international markets pursuant to nonexclusive agreements. The distributors also sell products manufactured by our competitors, including those products for which we are an alternate source. One of our OEMs, Compaq Computer Corporation, accounted for approximately 12 percent of 1998 net sales. No other single distributor or OEM customer accounted for 10 percent or more of net sales in 1998.

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

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

Raw Materials

Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. For example, a few foreign companies principally supply several types of the IC packages purchased by us, as well as by the majority of other companies in the semiconductor industry. Interruption of supply or increased demand in the industry could cause shortages in various essential materials. We would have to reduce our manufacturing operations if we were unable to procure certain of these materials. This reduction in our manufacturing operations could have a material adverse effect on us. To date, we have not experienced significant difficulty in obtaining necessary raw materials.

Environmental Regulations

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

Intellectual Property and Licensing

We have been granted over 2,014 United States patents, and over 2,848 patent applications are pending in the United States. In certain cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions as we deem appropriate.

In January of 1995, we reached an agreement with Intel to settle all previously outstanding legal disputes between the two companies. As part of the settlement, in December 1995, we signed a five-year, comprehensive cross-license agreement with Intel which expires on December 31, 2000. The agreement provides that after December 20, 1999, the parties will negotiate in good faith a patent cross-license agreement to be effective on January 1, 2001. The existing cross-license agreement gives AMD and Intel the right to use each others' patents and certain copyrights, including copyrights to the x86 instruction sets but excluding other microprocessor microcode copyrights. The cross-license is royalty-bearing for our products that use certain Intel technologies. We are required to pay Intel minimum non-refundable royalties during the years 1997 through 2000.

In addition, we have entered into numerous cross-licensing and technology exchange agreements with other companies under which they both transfer and receive technology and intellectual property rights. Although we attempt to protect our intellectual property rights through patents, copyrights, trade secrets and other measures, we cannot give any assurance that we will be able to protect our technology or other intellectual property adequately or that competitors will not be able to develop similar technology independently. We cannot give any assurance that any patent applications that we may file will be issued or that foreign intellectual property laws will protect our intellectual property rights. We cannot give any assurance that any patent licensed by or issued to us will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide competitive advantages to us. Furthermore, we cannot give any assurance that others will not independently develop similar products, duplicate our products or design around our patents and other rights.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We could decide, in the alternative, to resort to litigation to challenge these claims. These challenges could be extremely expensive and time-consuming and could materially and adversely affect us. We cannot give any assurance that all necessary licenses can be obtained on satisfactory terms, or that litigation may always be avoided or successfully concluded.

Backlog

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

Employees

On January 24, 1999, we employed approximately 13,800 employees, none of whom are represented by collective bargaining arrangements. We believe that our relationship with our employees is generally good.

ITEM 2. PROPERTIES

Our principal engineering, manufacturing, warehouse and administrative facilities comprise approximately 3.3 million square feet and are located in Sunnyvale, California and Austin, Texas. Over 2.3 million square feet of this space is in buildings we own.

We lease property containing two buildings with an aggregate of approximately 360,000 square feet, located on 45.6 acres of land in Sunnyvale, California (One AMD Place). The lease term ends in December 2018. In 1993, we entered into a lease agreement for approximately 175,000 square feet located adjacent to One AMD Place (known as AMD Square) to be used by the product groups as engineering offices and laboratory facilities. In addition, we entered into lease agreements for approximately 83,950 square feet, also located adjacent to One AMD Place (the Vantis Facility). Vantis relocated to the Vantis Facility in the first half of 1998.

We also own or lease facilities containing approximately 997,429 square feet for our operations in Malaysia, Thailand and Singapore. We lease approximately 15 acres of land in Suzhou, China for our assembly and test facility. In 1996, we acquired approximately 103 acres of land in Dresden, Germany for Dresden Fab 30. Dresden Fab 30 is encumbered by a lien securing borrowings of AMD Saxony. Fab 25 is encumbered by a lien securing our $400 million of Senior Secured Notes and our $400 million syndicated bank loan agreement.

We lease 37 sales offices in North America, 10 sales offices in Asia Pacific, 12 sales offices in Europe and one sales office in South America for our direct sales force. These offices are located in cities in major electronics markets where concentrations of our customers are located.

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

ITEM 3. LEGAL PROCEEDINGS

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

In 1991, we received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region relating to the three sites. One of the orders named us as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. In January 1999, we entered into a settlement agreement with Philips whereby Philips will assume costs allocated to us under this order, although we would be responsible for these costs in the event that Philips does not fulfill its obligations under the settlement agreement. Another of the orders named us as well as National Semiconductor Corporation.

The three sites in Santa Clara County are on the National Priorities List (Superfund). If we fail 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.

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

We 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. We believe that this matter will not have a material adverse effect on our business.

2. McDaid v. Sanders, et al. (Case No. C-95-20750-JW, N.D. Cal.); Kozlowski, et al. v. Sanders, et al. (Case No. C-95-20829-JW, N.D. Cal.). The McDaid and Kozlowski complaints were filed in November 1995. Both actions allege violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 promulgated thereunder, against AMD and certain individual officers and directors of AMD, and purportedly were filed on behalf of all persons who purchased or otherwise acquired our common stock during the period April 11, 1995 through September 25, 1995. We entered into a Memorandum of Understanding, which settled the litigation for $11.5 million. Our Board of Directors approved the settlement on April 30, 1998. The Federal Court approved the settlement on November 2, 1998 and dismissed the case.

3. Advanced Micro Devices, Inc. v. Altera Corporation (Case No. C-94-20567-RMW, N. D. Cal.). This litigation, which began in 1994, involves multiple claims and counterclaims for patent infringement relating to AMD's and Altera Corporation's PLDs. In a trial held in May 1996, a jury found that at least five of the eight AMD patents-in-suit were licensed to Altera. As a result of the bench trial held in August 1997, the Court held that Altera is licensed to the three remaining AMD patents-in-suit. Seven patents were asserted by Altera in its counterclaim against us. The Court determined that we are licensed to five of the seven patents and two remain in suit. Altera filed a motion to recover attorneys' fees in November 1997. We then filed, and the Court granted, a motion to stay determination of the attorneys' fees motion until resolution of its appeal. We have filed an appeal of the rulings of the jury and Court determinations that Altera is licensed to each of our eight patents-in-suit. Both parties filed briefs and the Federal Court of Appeal heard oral argument on our appeal on November 3, 1998. Based upon information presently known to management, we do not believe that the ultimate resolution of this lawsuit will have a material adverse effect on our business.

4. Lemelson Medical, Education & Research Foundation, Limited Partnership. We have been informed that a complaint was filed on July 31, 1998 in the United States District Court for the District of Arizona by Lemelson Medical, Education & Research Foundation, Limited Partnership, as plaintiff, against 26 semiconductor companies, including our subsidiary, Vantis. The complaint alleges infringement of numerous patents held by Mr. Jerome H. Lemelson relating to "machine vision," "automatic identification," "LOCOS" and "beam processing" technology. At this time, Vantis has been dismissed without prejudice. A license agreement between AMD and the Lemelson Foundation was successfully negotiated and signed in the first quarter of 1999 that protects Vantis from this case being refiled against it.

5. Ellis Investment Co., Ltd. v. Advanced Micro Devices, Inc., et al. (Case No. C-99-01102-BZ, N.D. Cal.). This class action complaint was filed against AMD and an individual officer of AMD on March 10, 1999. The complaint alleges that we made misleading statements about the design and production of the AMD-K6 microprocessor in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The plaintiff seeks to represent a class comprised of all persons who purchased our common stock during the period from November 12, 1998 through March 8, 1999. The complaint seeks unspecified damages, costs and fees. Following the filing of this complaint, several law firms published press releases announcing that they also had filed, or intend to file, substantially similar class action complaints. As of March 12, 1999, we had not seen or been served with those complaints. Based upon information presently known to management, we do not believe that the ultimate resolution of these lawsuits will have a material adverse effect on our business.

6. Other Matters. We are 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 our business.

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

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

PART II

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

Our common stock (symbol AMD) is listed on the New York Stock Exchange. The information regarding market price range, dividend information and number of holders of our common stock appearing under the captions "Supplementary Financial Data" and "Financial Summary" on pages 46 and 47 of our 1998 Annual Report to Stockholders is incorporated herein by reference.

During 1998, we did not make any sales of our equity securities which were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The information regarding selected financial data for the fiscal years 1994 through 1998, under the caption "Financial Summary" on page 47 of our 1998 Annual Report to Stockholder is incorporated herein by reference.

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

The information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 5 through 23 of our 1998 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information appearing under the caption "Quantitative and Qualitative Disclosure about Market Risk" on pages 12 and 13 of our 1998 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements at December 27, 1998 and December 28, 1997 and for each of the three years in the period ended December 27, 1998, and the report of independent auditors thereon, and our unaudited quarterly financial data for the two-year period ended December 27, 1998, appearing on pages 24 through 45 of our 1998 Annual Report to Stockholders are incorporated herein by reference.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the captions "Item 1--Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 1999 (1999 Proxy Statement) is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption "Directors' Fees and Expenses" and under the main caption "Committees and Meetings of the Board of Directors," and the information under the captions "Executive Compensation," "Employment Agreements and Compensation Agreements" and "Change in Control Arrangements" in our 1999 Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the captions "Principal Stockholders" and "Stock Owned by Directors, Director Nominees and Named Executive Officers" in our 1999 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption "Certain Relationships and Related Party Transactions" in our 1999 Proxy Statement is incorporated herein by reference.

With the exception of the information specifically incorporated by reference in Part III of this Annual Report on Form 10-K from our 1999 Proxy Statement, our 1999 Proxy Statement shall not be deemed to be filed as part of this report. Without limiting the foregoing, the information under the captions "Board Compensation Committee Report on Executive Compensation" and "Performance Graphs" in our 1999 Proxy Statement is not incorporated by reference in this Annual Report on Form 10-K.

PART IV

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

(a)

1. Financial Statements

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

	Page References	
	1998 Annual Form 10-K	Report to Stockholders
Report of Ernst & Young LLP, Independent Auditors.....	--	45
Consolidated Statements of Operations for the three years in the period ended December 27, 1998.....	--	24
Consolidated Balance Sheets at December 27, 1998 and December 28, 1997.....	--	25
Consolidated Statements of Stockholders' Equity for the three years in the period ended December 27, 1998.....	--	26
Consolidated Statements of Cash Flows for the three years in the period ended December 27, 1998.....	--	27
Notes to Consolidated Financial Statements.....	--	28-44

2. Financial Statement Schedule

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

	Page References	
	1998 Annual Form 10-K	Report to Stockholders
Schedule for the three years in the period ended December 27, 1998:		
Schedule II Valuation and Qualifying Accounts.....	S-1	--

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or Notes thereto. With the exception of the information specifically incorporated by reference into Parts II and IV of this Annual Report on Form 10-K, the 1998 Annual Report to Stockholders is not to be deemed filed as part of this report.

3. Exhibits

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

Exhibit Number	Description Of Exhibits
2.1	Agreement and Plan of Merger dated October 20, 1995, as amended, between AMD and NexGen, Inc., filed as Exhibit 2 to AMD's Quarterly Report for the period ended October 1, 1995, and as Exhibit 2.2 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
2.2	Amendment No. 2 to the Agreement and Plan of Merger, dated January 11, 1996, between AMD and NexGen, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference.
3.1	Certificate of Incorporation, as amended, filed as Exhibit 3.1 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 1995, is hereby incorporated by reference.
3.2	By-Laws, as amended, filed as Exhibit 3.2 to AMD's Quarterly Report on Form 10-Q for the period ended March 29, 1998, is hereby incorporated by reference.
4.1	Form of AMD 11 Percent Senior Secured Notes due August 1, 2003, filed as Exhibit 4.1 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.2(a)	Indenture, dated as of August 1, 1996, between AMD and United States Trust Company of New York, as trustee, filed as Exhibit 4.2 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.2(b)	First Supplemental Indenture, dated as of January 13, 1999, between AMD and United States Trust Company of New York, as trustee.
4.3	Intercreditor and Collateral Agent Agreement, dated as of August 1, 1996, among United States Trust Company of New York, as trustee, Bank of America NT&SA, as agent for the banks under the Credit Agreement of July 19, 1996, and IBJ Schroder Bank & Trust Company, filed as Exhibit 4.3 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.4	Payment, Reimbursement and Indemnity Agreement, dated as of August 1, 1996, between AMD and IBJ Schroder Bank & Trust Company, filed as Exhibit 4.4 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.5	Deed of Trust, Assignment, Security Agreement and Financing Statement, dated as of August 1, 1996, among AMD, as grantor, IBJ Schroder Bank & Trust Company, as grantee, and Shelley W. Austin, as trustee, filed as Exhibit 4.5 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.6	Security Agreement, dated as of August 1, 1996, among AMD and IBJ Schroder Bank & Trust Company, as agent for United States Trust Company of New York, as trustee, and Bank of America NT&SA, as agent for banks, filed as Exhibit 4.6 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.7	Lease, Option to Purchase and Put Option Agreement, dated as of August 1, 1996, between AMD, as lessor, and AMD Texas Properties, LLC, as lessee, filed as Exhibit 4.7 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.8	Reciprocal Easement Agreement, dated as of August 1, 1996, between AMD and AMD Texas Properties, LLC, filed as Exhibit 4.8 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.9	Sublease Agreement, dated as of August 1, 1996, between AMD, as sublessee, and AMD Texas Properties, LLC, as sublessor, filed as Exhibit 4.9 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
4.10	Indenture, dated as of May 8, 1998, by and between AMD and The Bank of New York, as trustee, filed as Exhibit 4.1 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.
4.11	Officers' Certificate, dated as of May 8, 1998, filed as Exhibit 4.2 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
4.12	Form of 6 Percent Convertible Subordinated Note due 2005, filed as Exhibit 4.3 to AMD's Current Report on Form 8-K dated May 8, 1998, is hereby incorporated by reference.
4.13	AMD hereby agrees to file on request of the Commission a copy of all instruments not otherwise filed with respect to AMD's long-term debt or any of its subsidiaries for which the total amount of securities authorized under such instruments does not exceed 10 percent of the total assets of AMD and its subsidiaries on a consolidated basis.
*10.1	AMD 1982 Stock Option Plan, as amended, filed as Exhibit 10.1 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.2	AMD 1986 Stock Option Plan, as amended, filed as Exhibit 10.2 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.3	AMD 1992 Stock Incentive Plan, as amended, filed as Exhibit 10.3 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.4	AMD 1980 Stock Appreciation Rights Plan, as amended, filed as Exhibit 10.4 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.6	Forms of Stock Option Agreements, filed as Exhibit 10.8 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.7	Form of Limited Stock Appreciation Rights Agreement, filed as Exhibit 4.11 to AMD's Registration Statement on Form S-8 (No. 33-26266), is hereby incorporated by reference.
*10.8	AMD 1987 Restricted Stock Award Plan, as amended, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.9	Forms of Restricted Stock Agreements, filed as Exhibit 10.11 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.10	Resolution of Board of Directors on September 9, 1981, regarding acceleration of vesting of all outstanding stock options and associated limited stock appreciation rights held by officers under certain circumstances, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended March 31, 1985, is hereby incorporated by reference.
*10.11	AMD 1996 Stock Incentive Plan, as amended, filed as Exhibit 10.11 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
*10.12	Employment Agreement dated September 29, 1996, between AMD and W. J. Sanders III, filed as Exhibit 10.11(a) to AMD's Quarterly Report on Form 10-Q for the period ended September 29, 1996, is hereby incorporated by reference.
*10.13	Management Continuity Agreement between AMD and W. J. Sanders III, filed as Exhibit 10.14 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, is hereby incorporated by reference.
*10.14	Bonus Agreement between AMD and Richard Previte, filed as Exhibit 10.14 to AMD's Quarterly Report on Form 10-Q for the period ended June 28, 1998, is hereby incorporated by reference.
*10.15	Executive Bonus Plan, as amended, filed as Exhibit 10.16 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
*10.16	AMD Executive Incentive Plan, filed as Exhibit 10.14(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 1996, is hereby incorporated by reference.
*10.17	Form of Bonus Deferral Agreement, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended March 30, 1986, is hereby incorporated by reference.
*10.18	Form of Executive Deferral Agreement, filed as Exhibit 10.17 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.
*10.19	Director Deferral Agreement of R. Gene Brown, filed as Exhibit 10.18 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.
10.20	Intellectual Property Agreements with Intel Corporation, filed as Exhibit 10.21 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.21	Form of Indemnification Agreements with former officers of Monolithic Memories, Inc., filed as Exhibit 10.22 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1987, is hereby incorporated by reference.
*10.22	Form of Management Continuity Agreement, filed as Exhibit 10.25 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, is hereby incorporated by reference.
**10.23(a)	Joint Venture Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(a) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(b)	Technology Cross-License Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(b) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(c)	AMD Investment Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(c) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(d)	Fujitsu Investment Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(d) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(e)	First Amendment to Fujitsu Investment Agreement dated April 28, 1995, filed as Exhibit 10.23(e) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
10.23(f)	Second Amendment to Fujitsu Investment Agreement, dated February 27, 1996, filed as Exhibit 10.23 (f) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
**10.23(g)	Joint Venture License Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(e) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(h)	Joint Development Agreement between AMD and Fujitsu Limited, filed as Exhibit 10.27(f) to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
**10.23(i)	Fujitsu Joint Development Agreement Amendment, filed as Exhibit 10.23(g) to AMD's Quarterly Report on Form 10-Q for the period ended March 31, 1996, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
10.24(a)	Credit Agreement, dated as of July 19, 1996, among AMD, Bank of America NT&SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndication agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 99.1 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
10.24(b)	First Amendment to Credit Agreement, dated as of August 7, 1996, among AMD Bank of America NT&SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndication agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 99.2 to AMD's Current Report on Form 8-K dated August 13, 1996, is hereby incorporated by reference.
10.24(c)	Second Amendment to Credit Agreement, dated as of September 9, 1996, among AMD, Bank of America NT&SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndication agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 10.24(b) to AMD's Quarterly Report on Form 10-Q for the period ended September 29,1996, is hereby incorporated by reference.
10.24(d)	Third Amendment to Credit Agreement, dated as of October 1, 1997, among AMD, Bank of America NT & SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndicated agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 10.24(d) to AMD's Quarterly Report on Form 10-Q for the period ended September 28, 1997, is hereby incorporated by reference.
10.24(e)	Fourth Amendment to Credit Agreement, dated as of January 26, 1998, among AMD, Bank of America NT & SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndicated agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 10.24(e) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.24(f)	Fifth Amendment to Credit Agreement, dated as of February 26, 1998, among AMD, Bank of America NT & SA, as administrative agent and lender, ABN AMRO Bank, N.V., as syndicated agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as Exhibit 10.24(f) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.24(g)	Sixth Amendment to Credit Agreement, dated as of June 30, 1998, among AMD, Bank of America NT & SA, as administrative agent and lender, ABN AMRO Bank N.V., as syndicated agent and lender, and Canadian Imperial Bank of Commerce, as documentation agent and lender, filed as exhibit 10.24(g) to AMD's Current Report on Form 8-K dated July 8, 1998, is hereby incorporated by reference.
***10.25	Technology Development and License Agreement, dated as of October 1, 1998, among AMD and its subsidiaries and Motorola, Inc. and its subsidiaries.
***10.26	Patent License Agreement, dated as of October 1, 1998, between AMD and Motorola, Inc.
10.27	Lease Agreement, dated as of December 22, 1998, between AMD and Delaware Chip LLC.
*10.28(a)	AMD Executive Savings Plan (Amendment and Restatement, effective as of August 1, 1993), filed as Exhibit 10.30 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.28(b)	First Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
*10.28(c)	Second Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
*10.29	Form of Split Dollar Agreement, as amended, filed as Exhibit 10.31 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.30	Form of Collateral Security Assignment Agreement, filed as Exhibit 10.32 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.31	Forms of Stock Option Agreements to the 1992 Stock Incentive Plan, filed as Exhibit 4.3 to AMD's Registration Statement on Form S-8 (No. 33-46577), are hereby incorporated by reference.
*10.32	1992 United Kingdom Share Option Scheme, filed as Exhibit 4.2 to AMD's Registration Statement on Form S-8 (No. 33-46577), is hereby incorporated by reference.
*10.33	AMD 1998 Stock Incentive Plan.
*10.34	Form of indemnification agreements with current officers and directors of AMD, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.35	Agreement to Preserve Goodwill dated January 15, 1996, between AMD and S. Atiq Raza, filed as Exhibit 10.36 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
*10.36	1995 Stock Plan of NexGen, Inc., as amended, filed as Exhibit 10.36 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
**10.37	Patent Cross-License Agreement dated December 20, 1995, between AMD and Intel Corporation, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
10.38	Contract for Transfer of the Right to the Use of Land between AMD (Suzhou) Limited and China-Singapore Suzhou Industrial Park Development Co., Ltd., filed as Exhibit 10.39 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
*10.39	NexGen, Inc. 1987 Employee Stock Plan, filed as Exhibit 99.3 to Post-Effective Amendment No. 1 on Form S-8 to AMD's Registration Statement on Form S-4 (No. 33-64911), is hereby incorporated by reference.
*10.40	1995 Stock Plan of NexGen, Inc. (assumed by AMD), as amended, filed as Exhibit 10.37 to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 1996, is hereby incorporated by reference.
*10.41	Form of indemnity agreement between NexGen, Inc. and its directors and officers, filed as Exhibit 10.5 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
10.42	Series E Preferred Stock Purchase Warrant of NexGen, Inc. issued to PaineWebber Incorporated, filed as Exhibit 10.14 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
10.43	Series F Preferred Stock Purchase Warrant of NexGen, Inc., filed as Exhibit 10.15 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
10.44	Series G Preferred Stock Purchase Warrant of NexGen, Inc., filed as Exhibit 10.16 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
**10.45	Agreement for Purchase of IBM Products between IBM and NexGen, Inc. dated June 2, 1994, filed as Exhibit 10.17 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
*10.46	Letter Agreement dated as of September, 1988, between NexGen, Inc. and S. Atiq Raza, First Promissory Note dated October 17, 1988, and Second Promissory Note dated October 17, 1988, as amended, filed as Exhibit 10.20 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), are hereby incorporated by reference.
10.47	Series B Preferred Stock Purchase Warrant of NexGen, Inc. issued to Kleiner, Perkins, Caufield and Byers IV, as amended, filed as Exhibit 10.23 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
**10.48(a)	C-4 Technology Transfer and Licensing Agreement dated June 11, 1996, between AMD and IBM Corporation, filed as Exhibit 10.48 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended September 29, 1996, is hereby incorporated by reference.
**10.48(b)	Amendment No. 1 to the C-4 Technology Transfer and Licensing Agreement, dated as of February 23, 1997, between AMD and International Business Machine Corporation, filed as Exhibit 10.48(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.49(a)	Design and Build Agreement dated November 15, 1996, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH, filed as Exhibit 10.49(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
10.49(b)	Amendment to Design and Build Agreement dated January 16, 1997, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH filed as Exhibit 10.49(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
**10.50(a-1)	Syndicated Loan Agreement with Schedules 1, 2 and 17, dated as of March 11, 1997, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxemborg S.A., filed as Exhibit 10.50(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(a-2)	Supplemental Agreement to the Syndicated Loan Agreement dated February 6, 1998, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxemborg S.A., filed as Exhibit 10.50(a-2) to AMD's Annual Report on Form 10-K/A (No.1) for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
**10.50(b)	Determination Regarding the Request for a Guarantee by AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(b) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(c)	AMD Subsidy Agreement, between AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(c) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(d)	Subsidy Agreement, dated February 12, 1997, between Sachsische Aufbaubank and Dresdner Bank AG, with Appendices 1, 2a, 2b, 3 and 4, filed as Exhibit 10.50(d) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
10.50(e)	AMD, Inc. Guaranty, dated as of March 11, 1997, among AMD, Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(e) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(f-1)	Sponsors' Support Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(f-2)	First Amendment to Sponsors' Support Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.50(g-1)	Sponsors' Loan Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Saxony Manufacturing GmbH, filed as Exhibit 10.50(g) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(g-2)	First Amendment to Sponsors' Loan Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.50(h)	Sponsors' Subordination Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH, AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(h) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(i)	Sponsors' Guaranty, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(i) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(j)	AMD Holding Wafer Purchase Agreement, dated as of March 11, 1997, among AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(k)	AMD Holding Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD, filed as Exhibit 10.50(k) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(l-1)	AMD Saxonia Wafer Purchase Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(l) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(l-2)	First Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 6, 1998, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50 (l-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
**10.50(m)	AMD Saxonia Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Manufacturing GmbH and AMD Saxony Holding GmbH, filed as Exhibit 10.50(m) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.50(n)	License Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(n) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.

Exhibit Number	Description Of Exhibits
10.50(o)	AMD, Inc. Subordination Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(o) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(p-1)	ISDA Agreement, dated March 11, 1997, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.50(p-2)	Confirmation to ISDA Agreement, dated February 6, 1998, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
13	1998 Annual Report to Stockholders, portions of which have been incorporated by reference into Parts II and IV of this annual report.
21	List of AMD subsidiaries.
23	Consent of Ernst & Young LLP, Independent Auditors, refer to page F-2 herein.
24	Power of Attorney.
27	Financial Data Schedule.

* Management contracts and compensatory plans or arrangements required to be filed as an Exhibit to comply with Item 14(a)(3).

**Confidential treatment has been granted as to certain portions of these Exhibits.

***Confidential treatment has been requested as to certain portions of these Exhibits.

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

(b) Reports on Form 8-K.

A Current Report on Form 8-K dated October 23, 1998 reporting under Item 5--Other Events was filed announcing AMD's third quarter earnings.

SIGNATURES

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

ADVANCED MICRO DEVICES, INC.
Registrant

March 26, 1999

By: /s/ Francis P. Barton
Francis P. Barton
Senior Vice President and
Chief Financial Officer

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

Signature	Title	Date
/s/ W. J. Sanders III* W. J. Sanders III	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 26, 1999
/s/ Francis P. Barton* Francis P. Barton	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 1999
/s/ Friedrich Baur* Friedrich Baur	Director	March 26, 1999
/s/ Charles M. Blalack* Charles M. Blalack	Director	March 26, 1999
/s/ R. Gene Brown* R. Gene Brown	Director	March 26, 1999
/s/ Richard Previte* Richard Previte	Director, President and Co-Chief Operating Officer	March 26, 1999
/s/ S. Atiq Raza* S. Atiq Raza	Director, Co-Chief Operating Officer and Chief Technical Officer	March 26, 1999
/s/ Joe L. Roby* Joe L. Roby	Director	March 26, 1999
/s/ Leonard Silverman* Leonard Silverman	Director	March 26, 1999
*By: /s/ Francis P. Barton (Francis P. Barton, Attorney-in-Fact)		March 26, 1999

ADVANCED MICRO DEVICES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
COVERED BY THE REPORT OF INDEPENDENT AUDITORS

ITEM 14(a) (1) and (2)

The information under the following captions, which is included in AMD's 1998 Annual Report to Stockholders, a copy of which is attached hereto as Exhibit 13, is incorporated herein by reference:

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or Notes thereto. With the exception of the information specifically incorporated by reference into Parts II and IV of this Annual Report on Form 10-K, our 1998 Annual Report to Stockholders is not to be deemed filed as part of this report.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Advanced Micro Devices, Inc. of our report dated January 12, 1999 except for the third paragraph of Note 14, as to which the date is March 12, 1999, included in the 1998 Annual Report to Stockholders of Advanced Micro Devices, Inc.

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

We also consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-16095) pertaining to the Advanced Micro Devices, Inc. 1987 Restricted Stock Award Plan; in the Registration Statement on Form S-8 (No. 33-39747) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan; in the Registration Statements on Form S-8 (Nos. 33-10319, 33-36596 and 33-46578) pertaining to the Advanced Micro Devices, Inc. 1982 and 1986 Stock Option Plans and the 1980 and 1986 Stock Appreciation Rights Plans; in the Registration Statements on Form S-8 (Nos. 33-46577 and 33-55107) pertaining to the Advanced Micro Devices, Inc. 1992 Stock Incentive Plan; in the Registration Statements on Form S-8 (Nos. 333-00969 and 333-33855) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan and to the 1995 Stock Plan of NexGen, Inc.; in the Registration Statements on Form S-8 (Nos. 333-04797 and 333-57525) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan; in the Registration Statement on Form S-8 (No. 333-68005) pertaining to the Advanced Micro Devices, Inc. 1998 Stock Incentive Plan; in the Registration Statement on Form S-3 (No. 333-47243), as amended, pertaining to debt securities, preferred stock, common stock, equity warrants and debt warrants issued or issuable by Advanced Micro Devices, Inc.; in Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-95888) pertaining to the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan; in Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-92688) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc.; in Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc., the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan; and in Post-Effective Amendment No. 2 on Form S-3 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to common stock issuable to certain warrantholders of our report dated January 12, 1999 except for the third paragraph of Note 14, as to which the date is March 12, 1999, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Advanced Micro Devices, Inc.

/s/ Ernst & Young LLP

San Jose, California
March 26, 1999

SCHEDULE II

ADVANCED MICRO DEVICES, INC.

VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 29, 1996, December 28, 1997 and December 27, 1998

	Balance Beginning of Period	Additions Charged (Reductions Credited) to Operations	Deductions(1)	Balance End of Period
Allowance for doubtful accounts:				
Years ended:				
December 29, 1996	$15,618	$2,000	$(7,809)	$ 9,809
December 28, 1997	9,809	1,500	(88)	11,221
December 27, 1998	11,221	1,498	(56)	12,663

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

EXHIBIT 4.2(b)

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ADVANCED MICRO DEVICES, INC.

ISSUER

11% Senior Secured Notes due 2003

FIRST SUPPLEMENTAL INDENTURE

Dated as of January 13, 1999

United States Trust Company of New York

TRUSTEE

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FIRST SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL INDENTURE, dated as of January 13, 1999, by and between Advanced Micro Devices, Inc., a Delaware corporation (the "Company"), and United States Trust Company of New York, as trustee (the "Trustee").

RECITALS

A. Pursuant to that certain Indenture (the "Indenture"), dated as of August 1, 1996 by and between the Company and the Trustee, the Company issued and sold $400,000,000 in aggregate principal amount of its 11% Senior Secured Notes due 2003 (the "Notes").

B. The Company is considering divesting all or a portion of its interest in the programmable logic device ("PLD") business currently operated by Vantis Corporation, a Delaware corporation and wholly owned subsidiary of the Company ("Vantis"), through (i) the issuance of equity interests or other rights representing no more than 15% of the outstanding equity interests of Vantis to certain directors, officers, employees and other individuals providing services to Vantis (the "Potential Employee Issuance") and/or (ii) an initial public offering of Vantis common stock or the issuance or exchange of Vantis common stock in connection with a merger, sale or other disposition of Vantis (collectively with the Potential Employee Issuance, the "Potential PLD Divestment").

C. The Indenture currently prohibits (i) the sale of 35% or less of the Company's equity interests in Vantis in connection with an initial public offering of Vantis, (ii) the Potential Employee Issuance, including the repurchase by the Company or Vantis of equity interests of Vantis issued pursuant thereto, (iii) the issuance or exchange of Vantis common stock in connection with a merger of Vantis without compliance with certain financial covenants set forth in the Indenture, and (iv) in most circumstances, the retention by the Company of equity interests in any former subsidiary without compliance with certain financial limitations set forth in the Indenture. The foregoing prohibitions (collectively, the "Original Divestment Covenants") would, in certain circumstances, prohibit or restrict the Potential PLD Divestment.

D. The Company and the Trustee now desire to amend, modify and supplement the Indenture, in the respects hereinafter set forth, to specifically permit the Potential PLD Divestment without regard to the Original Divestment Covenants.

E. In accordance with Section 9.02 of the Indenture, the holders of at least a majority in principal amount of the outstanding Notes have consented to the amendments to the Indenture set forth in this First Supplemental Indenture.

NOW, THEREFORE, in consideration of the foregoing and in consideration of the mutual covenants herein contained, the parties hereto make this First Supplemental Indenture intending to be legally bound hereby.

Section 1. Incorporation of the Indenture. Except as specifically amended hereby, the terms and conditions of the Indenture remain in full force and effect as if fully rewritten herein.

Section 2. Amendment to Section 1.01 of the Indenture. Section 1.01 of the Indenture is hereby amended by deleting the defined term "PLD Subsidiary" and inserting in lieu thereof the definition provided below:

"PLD Subsidiary" means Vantis Corporation, a Delaware corporation ("Vantis"), any Subsidiary of the Company which holds all of the Equity Interests of Vantis, and any Subsidiary of either of the foregoing which operates the business (other than the bipolar programmable logic device business) operated by the Company's Programmable Logic Division as of the Issue Date.

Section 3. Amendment to Section 4.11 of the Indenture. Section 4.11 of the Indenture is hereby amended by deleting the text of said section in its entirety and inserting in lieu thereof the following text:

The Company (i) will not, and will not permit any Wholly Owned Restricted Subsidiary of the Company to, transfer, convey, sell, lease or otherwise dispose of any Capital Stock of any Wholly Owned Restricted Subsidiary of the Company to any Person (other than the Company or a Wholly Owned Restricted Subsidiary of the Company), unless (a) such transfer, conveyance, sale, lease or other disposition is of all the Capital Stock of such Wholly Owned Restricted Subsidiary and (b) the cash Net Proceeds from such transfer, conveyance, sale, lease or other disposition are applied in accordance with Section 4.10(a) hereof and (ii) will not permit any Wholly Owned Restricted Subsidiary of the Company to issue any of its Equity Interests (other than, if necessary, shares of its Capital Stock constituting directors' qualifying shares) to any Person other than to the Company or a Wholly Owned Restricted Subsidiary of the Company. Notwithstanding the foregoing, nothing in this Section 4.11 or any other provision of this Indenture shall in any way prohibit or restrict (x) the Company from selling more than 35% of its Equity Interest in any Wholly Owned Restricted Subsidiary other than the PLD Subsidiary in connection with the Initial Public Offering of such Wholly Owned Restricted Subsidiary, provided 100% of the net proceeds from such Initial Public Offering received by the Company are in the form of cash and all such proceeds are applied in accordance with Section 4.10(a) hereof, (y) the Company or any of its Wholly Owned Restricted Subsidiaries from selling or issuing Equity Interests or other rights in the PLD Subsidiary (I) in connection with the Initial Public Offering of the PLD Subsidiary, provided that 100% of the net proceeds from such Initial Public Offering received by the Company or any of its Subsidiaries are in the form of cash and all such proceeds are applied in accordance with Section 4.10(a) hereof, or (II) to directors, officers, employees, consultants and advisors of the PLD Subsidiary; provided that, in the case of this clause (y)(II), such Equity Interests or other rights shall represent no more than 15% of the outstanding Equity Interests of the PLD Subsidiary; Equity Interests or other rights issued or sold pursuant to this clause (y)(II) may, at the option of the Company or any of its

Subsidiaries, be repurchased, redeemed, acquired or retired for value by the Company or such Subsidiaries at any time and in any manner (including by means of an exchange for Equity Interests of the Company), or (z) the issuance and exchange of Equity Interests (other than Disqualified Stock) of the Company's PLD Subsidiary (as defined herein) in connection with the merger, sale, transfer, lease or other disposition of the PLD Subsidiary to, with or into any Person, provided the Company and the PLD Subsidiary or the Person surviving such a merger, sale, transfer, lease or other disposition shall enter into a new agreement substantially in the form of, or a written agreement affirming, the Wafer Fabrication Agreement by and between the Company and the PLD Subsidiary in effect during the full fiscal-quarter immediately preceding the announcement of such merger, sale, transfer, lease or other disposition of the PLD Subsidiary. Notwithstanding any other provision of this Indenture, Equity Interests (i) retained by the Company or any of its Subsidiaries in any former Subsidiary after any issuance, sale, exchange or other disposition permitted by this Section 4.11 or (ii) received by the Company or any of its Subsidiaries in connection with a merger, sale, transfer, lease or other disposition permitted by this Section 4.11, shall not be considered Investments under this Indenture.

Section 4. Counterparts. This First Supplemental Indenture may be executed on several counterparts, each of which shall be deemed an original but shall constitute one and the same instrument.

Section 5. Effectiveness. This First Supplemental Indenture shall become effective as of the date first written above.

Section 6. Headings. The Section references herein are for convenience of reference only and shall not affect the construction hereof.

[Remainder of page intentionally left blank]

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed by their duly authorized officers and attested, all as of the day and year first above written.

ADVANCED MICRO DEVICES, INC.

By: /s/ Francis P. Barton

Name: Francis P. Barton

Title: Senior Vice President and Chief Financial Officer

UNITED STATES TRUST COMPANY OF NEW YORK,
as Trustee

By: /s/ Louis P. Young

Name: Louis P. Young

Title: Vice President

TECHNOLOGY DEVELOPMENT AND LICENSE AGREEMENT

This Technology Development and License Agreement ("Agreement") is entered into as of October 1, 1998 (the "Effective Date"), by and between Advanced Micro Devices, Inc. and its Subsidiaries ("AMD"), a Delaware Corporation, with principal offices located at One AMD Place, P.O. Box 3453, Sunnyvale, California 94088-3453, and Motorola, Inc. and its Subsidiaries ("Motorola"), a Delaware corporation, with principal offices located at 1303 East Algonquin Road, Schaumburg, Illinois 60196.

RECITALS

Whereas, AMD and Motorola have complementary strengths in the flash memory, embedded logic, and microprocessor businesses and in supporting technologies and manufacturing capabilities.

Whereas, the companies believe that entering into this Agreement to take advantage of these complementary skills and needs will have value for both companies and their respective customers by accelerating the development of future technologies, increasing the likelihood of success, leveraging the capital costs required, and increasing the quantity and quality of product offerings available from each company.

Now, therefore, in consideration of the rights and obligations set forth in this Agreement, the parties agree as follows:

AGREEMENT

1. Definitions.

   1.1. "Acquired Party" means a party to this Agreement that undergoes a Change of Control.

   1.2. "Acquiring Party" means the person or entity that acquires fifty percent (50%) or more of the outstanding voting securities of a party to this Agreement, such that the party being acquired undergoes a Change of Control.

   1.3. "AMD Technology" means technology developed solely and/or owned solely by AMD and all solely owned intellectual property pertaining thereto.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

1.4. "Change of Control" means the acquisition by a single legal entity or natural person of fifty percent (50%) or more of the outstanding securities of a party entitled to vote for the board of directors of such party.

1.5. "Confidential Information" means any information disclosed by a party (the "Disclosing Party") to the other party (the "Receiving Party") pursuant to this Agreement in a context which would cause a reasonable person to believe the information is intended to be treated as confidential, including but not limited to, documents expressly designated as confidential, and information related to either party's manufacturing processes, products, employees, facilities, equipment, security systems, information systems, finances, product plans, marketing plans, suppliers, or distributors; provided, however that "Confidential Information" shall not include information that: (i) is now available or becomes available to the public without breach of this Agreement; (ii) is explicitly approved for release by written authorization of the Disclosing Party; (iii) is lawfully obtained from a third party or parties without a duty of confidentiality; (iv) is disclosed to a third party by the Disclosing Party without a duty of confidentiality; (v) is known to the Receiving Party prior to disclosure; or (vi) is at any time developed by the Receiving Party independently of any such disclosure(s) from the Disclosing Party.

1.6. "Conforming Deliverable" means a deliverable identified in a Statement of Work that is agreed to by the parties to substantially conform with the acceptance criteria for that deliverable specified in the Statement of Work.

1.7. "Customer" means a company that, as a regular course of business, purchases substantial quantities of semiconductor products from a party to this Agreement.

1.8. ***** means a party to this Agreement providing information, training and support to a ***** of that party regarding a Logic Process Technology, Embedded Flash Technology, or other semiconductor manufacturing process developed and/or licensed under this Agreement, and *****.

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.9. "Data Networking Products" means semiconductor products of AMD designed specifically for data networking applications, that are being shipped to customers as of the Effective Date, and specifically excludes *****, and other AMD devices which cannot be licensed due to agreements with third parties that were signed as of the Effective Date.

1.10. "Derivative Process" means a semiconductor fabrication process, other than a Logic Process Technology or Embedded Flash Technology, which incorporates, modifies or uses steps or elements developed for and utilized in such Technologies.

1.11. "Derivative Product" means a product that incorporates, in whole or in substantial part, a pre-existing design, or a modification of a pre-existing design, and which may add functionality or performance to a pre-existing design.

1.12. "Embedded Flash Technology" means a technology resulting from incorporating a high-density non-volatile flash array process into a logic process while maintaining compatibility with the general design rules of the logic process. Embedded Flash Technology includes CDR1, CDR3, HIP6F and SGEFT as are defined generally below and are defined specifically in documents for each Embedded Flash Technology set forth in Appendix A. Appendix A will be updated as necessary to include documents to specifically describe each new Embedded Flash Technology as it is developed.

(a) "CDR1" means embedded flash technology in which *****.

(b) "CDR3 and future CDR processes" mean embedded flash technologies in which *****.

(c) "HIP6F" means a high performance process for manufacturing stand-alone and embedded flash devices based on HIP6L.

(d) "SGEFT" means subsequent generation embedded flash technologies developed by the parties pursuant to this Agreement, that are successors to HIP6F.

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1.13. "Existing Product" means a product, production units of which were first distributed to customers prior to or no more than six (6) months after a Change of Control.

1.14. "Executive Board of Directors" means the ultimate governance authority for the AMD-Motorola alliance.

1.15. "Foundry" means a company that manufactures semiconductor products for a party other than a party to this Agreement, to be purchased and resold by such party.

1.16. ***** means a party to this Agreement providing information, training and support to a ***** of that party regarding a Logic Process Technology, Embedded Flash Technology, or other semiconductor manufacturing process developed and/or licensed under this Agreement, and *****.

1.17. "Improvement" means a change or addition to a process which improves or modifies it in some manner, including but not limited to increasing manufacturing throughput, increasing the performance, quality or yield of devices manufactured using the process, decreasing the cost of utilizing the process, or enabling the use of different materials but does not include the manufacture of different types of devices utilizing the process unless specifically agreed upon by the parties hereto; provided, however, that a change or addition will constitute an Improvement only if the process after such Improvement still fits within the definition for that process (e.g., HIP5L, HIP6L or HIP7L) set forth in this Agreement.

1.18. "Intellectual Property" means all intellectual property including but not limited to copyrights, trade secrets, and know how but specifically excluding patents.

1.19. "IP Expenses" are fees, costs, or other charges related to securing and maintaining intellectual property rights other than IP Fees and Translation Expenses.

1.20. "IP Fees" are fees or other charges required to be paid to a governmental agency, governmental office, or other governmental entity to secure and maintain intellectual property rights and include filing fees, registration fees, issue fees, maintenance fees, annual taxes, and annuities.

1.21. "Joint Technology" means: (i) with respect to copyrightable material

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or work subject to protection under Chapter 9 of Title 17 of the U.S. Code (Semiconductor Chip Protection Act), such material or work qualifies as a "joint work" under 17 U.S.C. Section 101; (ii) with respect to inventions subject to patent protection, AMD and Motorola were "joint inventors" of such invention under 35 U.S.C. Section 116; and (iii) with respect to matter subject to trade secret protection, AMD and Motorola both made substantial contributions to such matter. Where a product or process consists of multiple parts, elements or steps, each of which is capable of being subject to a claim of ownership, each such part, element or step will be analyzed separately to determine if it constitutes Joint Technology.

1.22. "Logic Process Technologies" means collectively HIP5L, HIP6L, HIP7L, and SGLPT as are defined generally below and are defined specifically in documents for each Logic Process Technology set forth in Appendix B. Appendix B will be updated as necessary to include documents to specifically describe each new Logic Process Technology as it is developed.

(a) "HIP5L" means a high performance copper interconnect logic process for manufacturing logic devices *****.

(b) "HIP6L" means a high performance copper interconnect logic process for manufacturing logic devices *****.

(c) "HIP7L" means a high performance copper interconnect logic process for manufacturing logic devices *****.

(d) "SGLPT" means subsequent generation logic process technologies developed by the parties pursuant to this Agreement, that are successors to HIP7L.

1.23. "Milestone" means an objectively verifiable achievement in a Project, such as the completion of a certain stage of development, the ability of a product or process under development to pass certain tests, or the delivery of a Conforming Deliverable.

1.24. "Motorola Technology" means technology developed solely and/or owned solely by Motorola and all solely owned intellectual property pertaining thereto.

1.25. "Non-Acquired Party" means a party to this Agreement when the other party undergoes a Change of Control.

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1.26. "Personal Computing Environment" means a general purpose personal computer or server including desktop, tower or portable enclosures, intended primarily for use by a single user where the user is allowed to install third party application software and that is designed to operate with data processing applications using personal computer operating systems, such as Windows, Windows NT, Windows CE, and Mac OS, or server operating systems such as AIX, UNIX, or OS/400, or larger operating systems such as VM and MVS; provided, however, that Personal Computing Environment does not include a palmtop or PDA or a device smaller than a palmtop or PDA, nor does it include communications, transportation, set top box or consumer electronics applications.

1.27. "Power PC Microprocessors" means microprocessors designed for the Personal Computing Environment and embedded applications utilizing the industry desktop and embedded Power PC architectures and instruction sets.

1.28. "Program Manager" means a manager who is an employee of a party hereto and is responsible for business and operating issues relating to a specific Project.

1.29. "Project" means a project agreed to by the Executive Board of Directors and undertaken pursuant to this Agreement. The parties have agreed to undertake the Projects described in Sections 5 and 6 of this Agreement and will complete a Statement of Work on each of those Projects ***** of the Effective Date or as otherwise agreed to by the parties. The parties also intend to commence other Projects under this Agreement and will complete Statements of Work on those Projects as provided in Section 3.1 herein.

1.30. "Statement of Work" means a development plan for a Project in the form attached as Exhibit C, that includes a specification of the product or process being developed, a description of Milestones to be achieved (including, when appropriate, deliverables and acceptance criteria), a development schedule specifying when the Milestones are due and when the development is supposed to be completed, a budget estimating expenses to be incurred by each party in connection with the Project, designation of a Program Management Team and those items set forth in Sections 1.8 and 1.9 of Appendix D.

1.31. "Steering Committee" means the governance authority responsible for the day-to-day operation of the AMD-Motorola alliance.

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1.32. "Strategic Party" means a third party with whom a party to this Agreement has a relationship to jointly develop and/or design products or devices or portions of products or devices.

1.33. ***** means a party to this Agreement providing information, training and support to a ***** of such party regarding a Logic Process Technology, Embedded Flash Technology, or other semiconductor manufacturing process developed and/or licensed under this Agreement, and *****.

1.34. "Subsidiary" means a corporation, company, or other entity:

(a) more than forty percent (40%) of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are now or hereafter, owned or controlled, directly or indirectly, by a party hereto, but such corporation, company, or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists;

(b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture or unincorporated association, but more than forty percent (40%) of whose ownership interest representing the right to make the decisions for such corporation, company, or other entity is now or hereafter, owned or controlled, directly or indirectly, by a party hereto, but such corporation, company, or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.

1.35. "Technical Coordinator" means a technical manager who is an employee of a party and is responsible for managing the day-to-day development effort of a Project as set forth in Section 2.4.

1.36. "Test Technology Know How" means the methods and techniques provided to Motorola by AMD used to produce highly reliable flash products at cost effective test times, including: stress modes designed into the product; the characterization techniques used to determine the conditions used in the stress modes and their implementation into the production test routines; the method of characterizing and testing the program distribution and erase distribution in the product and the application of this data in the test program that achieves program and

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erase distributions resulting in very low failure rate program erase cycling; and the test methodology to reduce the effects of manufacturing variability, resulting in improvements in manufacturability and overall productivity. Test Technology Know How does not include any particular production test routines themselves.

1.37. ***** means a party to this Agreement providing information, training and support to a ***** (any party other than Motorola or AMD and who does not qualify as a *****, ***** under this Agreement) regarding a Logic Process Technology, Embedded Flash Technology, or other semiconductor manufacturing process developed and/or licensed under this Agreement, and *****.

1.38. "Translation Expenses" are fees, costs, or other charges related to translating patent applications and copyright registrations.

1.39. "X86 Microprocessors" means microprocessors designed for personal computers and servers compatible with X86 versions of Microsoft Corporation's Windows(R) operating systems, and utilizing the industry standard, X86 architecture and instruction sets.

2. Alliance Governance

2.1. Executive Board of Directors.

The alliance will be governed by an Executive Board of Directors comprised of eight (8) members. Four (4) members will be appointed by AMD with the approval of Motorola and the other four (4) members will be appointed by Motorola with the approval of AMD.

2.1.1. The following matters will require approval by the Executive Board of Directors, in addition to any other matters required to be approved by the Executive Board of Directors by other terms of this Agreement.

2.1.1.1. Appointment of new members to the Executive Board of Directors and the Steering Committee.

2.1.1.2. Approval of Projects proposed by the Steering Committee.

2.1.1.3. Amendments to the Logic Process Technology or Embedded Flash Technology roadmaps.

2.1.2. Meetings: Meetings of the Executive Board of Directors will be held

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at least monthly for the first year and thereafter as mutually agreed. The Executive Board of Directors' meetings may be conducted on either a face-to-face basis or via video or telephone conference call, whichever is mutually agreed to by the Parties at least ten (10) business days in advance of the meeting. Special meetings may be called by any two members of the Executive Board of Directors, one (1) from each party, upon at least (i) ten (10) business days prior notice for a face-to-face meeting or (ii) seventy-two (72) hours prior notice for a telephonic or video conference meeting. The Executive Board of Directors may also act without a meeting upon unanimous written consent of all of the Board members.

2.1.3. Quorum

2.1.3.1. A quorum of the Executive Board of Directors will consist of at least six (6) members, including at least three (3) members representing AMD and three (3) members representing Motorola. No action may be taken at any meeting of the Executive Board of Directors in the absence of a quorum.

2.1.3.2. Notwithstanding Section 2.1.3.1 above, in the event all of the members representing one of the Parties fail to attend a meeting duly noticed and called, the members in attendance at the next duly noticed and called meeting, which may be a special meeting called as provided in Section 2.1.2, may take action regardless of whether a quorum is present.

2.2. The Steering Committee.

The day-to-day operation of the alliance will be directed by the Steering Committee.

2.2.1. Members: The Steering Committee will be comprised of an equal number of representatives from AMD and Motorola, not to be less than three (3) from each party, appointed by their respective companies within ten (10) days of the effective date of this Agreement.

2.2.2. Responsibilities;

2.2.2.1. The Steering Committee will appoint a Program Management Team for each Project.

2.2.2.2. The Program Management Team will submit an operating plan for the Project to the Steering Committee for approval. Once the Steering Committee has approved the plan, the Steering Committee will submit a brief discussion of the Project, including a summary of its major technical milestones and operating budget, to the Executive

Board of Directors. The Executive Board of Directors must approve the Project in accordance with Section 2.1 of this Agreement in the calendar quarter in which cost sharing is to begin.

2.2.2.3. The Steering Committee will oversee the progress of all Projects to ensure that the Projects remain appropriately staffed and resourced; that technical milestones are met and that the Projects are on time and within budget.

2.2.2.4. The Steering Committee will be responsible for approving any amendments to the Logic Process Technology or Embedded Flash Technology roadmaps. Such amendments must also be approved by the Executive Board of Directors.

2.3. Program Management Team:

The Program Management Team will consist of one (1) Program Manager and one (1) Technical Coordinator, or one (1) Program Manager and one (1) Technical Coordinator from each party, as appropriate and agreed to by the parties. Each Project undertaken pursuant to this Agreement will have a Program Management Team assigned to it by the Steering Committee. The Program Management Team will be responsible for creating an operating plan for the Project for managing the day-to-day activities of the Project and for reporting on the progress of the Project to the Steering Committee. The Program Manager will be primarily responsible for all business and operating issues relating to the Project, such as ensuring that the Project is appropriately staffed and resourced and that it is on time and within budget. The Technical Coordinator will be primarily responsible for all technical aspects of the Project, including ensuring that technical milestones are achieved.

3. Development Projects.

3.1. Statement of Work. Prior to commencement of a Project or as soon thereafter as possible, the parties will develop a Statement of Work.

3.2. Development Costs.

AMD and Motorola will accrue shared development costs for mutually agreed upon facilities, tasks and technologies, as set forth more fully in Appendix D.

3.3. Audit. Each party will maintain appropriate books and records necessary to verify its Development Costs. Each party may upon reasonable notice and at its expense during normal business hours and not more than once each year have a Big 6 certified public accounting

firm review the other party's books and records to verify the information contained in the royalty statements. In the event an audit reveals that a party over-reported Development Costs and paid less or received more than it should, such party will promptly pay the other party the amount necessary to correct the error. If the audit reveals that a party underreported Development Costs and paid more or received less than it should, then such party will be entitled to, at such party's election, either a prompt refund of the amount due or a credit towards future Development Cost equalization payments. If the amount of the error is more than 10% of the amount of the Development Costs for the period being audited in favor of the auditing party: (i) the audited party will pay the cost of the audit; (ii) the auditing party will be permitted to conduct an audit each quarter for the next two years, and (iii) the audited party will institute appropriate corrective mechanisms in its reporting process to prevent further errors.

3.4. Schedule. The achievement of Milestones will be the joint responsibility of the parties. Each party will provide appropriate resources, as reflected in the Statement of Work, to complete the Project on schedule. The Program Management Team will be primarily responsible to ensure that the Project proceeds on schedule and will notify the Steering Committee in the event of a significant delay in the development. The parties will take appropriate steps to address such delays, which may include but are not necessarily limited to: increasing the resources on the Project, obtaining assistance from third parties, modifying the scope of the Project, or modifying the schedule. A Project may only be cancelled upon joint agreement by the Executive Board of Directors.

3.5. Deliverables. For each Milestone for which a deliverable is due, the parties will make reasonable efforts to ensure that it is a Conforming Deliverable. The deliverable will be promptly tested using the acceptance criteria identified in the Statement of Work to determine whether it is a Conforming Deliverable and the Technical Coordinator will send a notice to each party describing any non-conformance. Any non-conformities will be corrected as soon as possible and the deliverable will be further tested. The Milestone will be deemed completed only upon deliverance of a Conforming Deliverable.

3.6. Progress Reports. For each Project, the Program Management Team will generate a monthly progress report. Each report shall describe the status of the Project, including but not limited to:

(a) Assessment of current Project schedule outlook in comparison to Milestones;

(b) Short description of technical problems, issues or roadblocks encountered and identification of technical decisions that need to be made;

(c) Recommendations for resolving outstanding issues and making pending decisions; and

(d) Proposed recovery method for addressing any delays in the schedule.

(e) Status of the budget for the current project.

4. Ownership.

4.1. AMD Technology. AMD is the sole and exclusive owner of the AMD Technology. Any Derivative Process developed solely by AMD will be AMD Technology, subject to Motorola's ownership of any Logic Process Technology, Embedded Flash Technology, or other Motorola Technology from which such Derivative Process is derived.

4.2. Motorola Technology. Motorola is the sole and exclusive owner of the Motorola Technology. Any Derivative Process developed solely by Motorola will be Motorola Technology, subject to AMD's ownership of any Logic Process Technology, Embedded Flash Technology, or other AMD Technology from which such Derivative Process is derived.

4.3. Joint Technology. AMD and Motorola each have an undivided ownership interest in Joint Technology and any intellectual property obtained thereon. The parties shall cooperate in executing and reviewing any documents and taking any actions necessary to obtain and maintain intellectual property protection of the Joint Technology. In the case of each discovery, improvement, invention, program or code that is Joint Technology, the parties shall determine whether or not to file patent applications or register copyrights in the United States and other countries. IP Expenses for preparing each joint application or registration shall be borne by the party that prepares and files the application or registration. Prior to filing, the non-filing party will be notified and requested to pay one-half (1/2) of all IP Fees and Translation Expenses. In the event that the non-filing party does not notify the requesting party in sixty (60) days in writing that it will pay one-half (1/2) of such IP Fees and Translation Expenses or if one party desires to obtain intellectual property protection for specific Joint Technology (such as filing for patent protection in a certain country)

and the other party does not wish to obtain such protection for such Joint Technology, then the party seeking such protection will control and pay the cost of such prosecution, but the filing will still reflect both parties as joint owners. In the event of an enforcement action for Joint Technology depending on intellectual property protection the procurement of which was paid for by only one party, any recovery will first go to reimburse the party for the cost of obtaining such protection. Whenever the parties agree that an infringement action should be brought based on Joint Technology, the parties will jointly direct and share in the cost of bringing such action. In the event one party wishes to pursue an infringement action, and the other party does not, the party bearing the cost will control the action and will be allowed to retain any sums recovered in bringing such action. The other party may, at its option, cooperate in appearing as a plaintiff in such action and in providing information and testimony in support of such action. In connection with such support and testimony, the party bearing the costs of the action will pay out-of-pocket expenses of the other party (e.g., travel expenses), but will not be required to compensate the other party for the time of its employees and other incidental costs (e.g., photo-copying charges).

4.4. No Implied Licenses. This Agreement grants no licenses to any intellectual property except as expressly provided herein. It is the intent of the parties that only the Motorola Technology and AMD Technology provided for or developed during Projects is to be expressly licensed.

5. Cooperation on Logic Process Technology.

5.1. Statement of Work. The parties will undertake Projects to complete and develop Logic Process Technologies. The parties intend to complete one or more Statement(s) of Work for HIP5L and HIP6L ***** days of the Effective Date or as otherwise agreed. Such Statement(s) of Work will be consistent with the HIP5L, HIP6L Program Plan-Rev.2.0, attached hereto as Exhibit E.

5.2. Although particular express rights are provided to each of the parties herein, it is the intent of parties to ***** Logic Process Technologies and Embedded Flash Technologies. Accordingly, the parties intend to cooperate with each other in situations necessary to *****.

5.3. In exercising the rights provided hereunder, AMD will ***** the Logic Process Technology to produce Power PC Microprocessors or Motorola

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proprietary processor architectures and Motorola will ***** the Logic Process Technology to produce X86 Microprocessors or AMD proprietary processor architectures.

5.4. HIP5L Licenses.

(a) Any Improvements to HIP5L developed solely by AMD will be deemed AMD Technology, subject to Motorola's rights in HIP5L. Any Improvements to HIP5L developed solely by Motorola will be deemed Motorola Technology, subject to AMD's rights in AMD Improvements to HIP5L.

(b) Motorola hereby grants to AMD under Motorola Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free (except as provided in Sections 6.5 and 6.6) license, without the right to sublicense, to:

(i) practice the methods and processes of HIP5L and Motorola Improvements to HIP5L,

(ii) make, use, import and sell devices manufactured using HIP5L and Motorola Improvements to HIP5L, and

(iii) make Improvements to HIP5L and Derivative Processes using HIP5L technology.

(c) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of HIP5L and AMD Improvements to HIP5L,

(ii) make, have made, use, import and sell devices manufactured using HIP5L and AMD Improvements to HIP5L,

(iii) make further Improvements to HIP5L and AMD Improvements to HIP5L and Derivative Processes using HIP5L and AMD Improvements to HIP5L, and

(iv) undertake ***** with respect to HIP5L and sublicense the rights granted in Section 5.4(c)(i), (ii) and (iii) only as part of such *****,

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(v) undertake ***** with respect to HIP5L and sublicense the rights granted in Section 5.4(c)(i), (ii), and (iii) only as part of such *****,

(vi) undertake ***** with respect to HIP5L and sublicense the rights granted in Section 5.4(c)(i), (ii), and (iii) only as part of such *****,

(vii) undertake ***** with respect to HIP5L and sublicense the rights granted in Section 5.4(c)(i), (ii), and (iii) only as part of such *****.

(d) In the event that Motorola exercises its rights granted by AMD in Section 5.4(c) (iv)-(vii), AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize HIP5L and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize HIP5L against the *****.

(e) AMD will assign engineers to work in agreed-upon wafer fabrication facilities of Motorola in order to gain an understanding of HIP5L. AMD will, *****. Motorola will train and support the AMD engineers with respect to HIP5L including but not limited to, disclosing all necessary information and know-how, and providing all necessary documentation and technical support.

5.5. HIP6L Licenses.

(a) The parties intend to create a Statement of Work on HIP6L and to collaborate on the remaining development of that technology. It is anticipated that each party will make contributions to the development of that technology. Any contributions or Improvements to HIP6L developed solely by AMD will be deemed AMD Technology, subject to Motorola's rights in HIP6L. Any contributions or Improvements to HIP6L developed solely by Motorola will be deemed Motorola Technology, subject to AMD's rights in HIP6L.

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(b) Motorola hereby grants to AMD under Motorola Intellectual Property a non-exclusive, non-transferable, worldwide, royalty-free (except as provided in Sections 6.5 and 6.6) license to:

(i) practice the methods and processes of HIP6L and Motorola Improvements to HIP6L,

(ii) make, have made, use, import and sell devices manufactured using HIP6L and Motorola Improvements to HIP6L,

(iii) make Improvements to HIP6L and Derivative Processes using HIP6L technology,

(iv) only with Motorola approval, such approval not to be unreasonably withheld, undertake ***** within ***** after the first commercial shipment of a product manufactured using HIP6L and without approval, undertake ***** HIP6L ***** thereafter with respect to HIP6L and sublicense the rights granted in Section 5.5 (b)(i), (ii) and (iii) only as part of such *****,

(v) only with Motorola approval, such approval not to be unreasonably withheld, undertake ***** with respect to HIP6L and sublicense the rights granted in Section 5.5 (b)(i), (ii) and (iii) only as part of such *****,

(vi) only with Motorola approval, such approval not to be unreasonably withheld, undertake ***** with respect to HIP6L and sublicense the rights granted in Section 5.5 (b)(i), (ii) and (iii) only as a part of such *****, and

(vii) only with Motorola approval, such approval not to be unreasonably withheld, undertake ***** within ***** after the first commercial shipment of a product manufactured using HIP6L and without approval, undertake ***** thereafter with respect to HIP6L and sublicense the rights granted in Section 5.5 (b)(i), (ii) and (iii) only as a part of such *****.

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(c) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of HIP6L and AMD Improvements to HIP6L,

(ii) make, have made, use, import and sell devices manufactured using HIP6L and AMD Improvements to HIP6L,

(iii) make Improvements to HIP6L and Derivative Processes using HIP6L technology,

(iv) undertake ***** with respect to HIP6L and sublicense the rights granted in Section 5.5 (c)(i), (ii) and (iii) only as part of such *****,

(v) undertake ***** with respect to HIP6L and sublicense the rights granted in Section 5.5 (c)(i), (ii) and (iii) only as part of such *****. Notwithstanding, Motorola agrees to license *****, with whom Motorola is having products made pursuant to Section 5.5(c)(ii), to manufacture and sell only engineering and prototype sample quantities of products manufactured using HIP6L to parties other than Motorola, AMD, ***** within ***** after the first commercial shipment of a product manufactured using HIP6L. Upon the approval of AMD, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to HIP6L within the ***** period. Motorola may undertake ***** period,

(vi) upon prior written approval of AMD, such approval not to be unreasonably withheld, undertake ***** within ***** after the first commercial shipment of a product manufactured using HIP6L and without written approval, undertake ***** HIP6L ***** thereafter with respect to HIP6L and

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sublicense the rights granted in Section 5.5 (c)(i), (ii) and (iii) only as a part of such *****, and

(vii) undertake ***** within ***** after the first commercial shipment of a product manufactured using HIP6L and ***** HIP6L ***** thereafter and sublicense the rights granted in Section 5.5 (c)(i), (ii) and (iii) only as a part of such *****. Upon the approval of AMD, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to HIP6L within the ***** period.

(d) In the event that AMD exercises its rights granted by Motorola in Section 5.5(b) (iv)-(vii) Motorola will negotiate in good faith with such ***** for a license under Motorola patents essential to utilize HIP6L and Improvements thereto on reasonable terms, or, at Motorola's option, will represent and warrant to AMD that it will not assert it's patents essential to utilize HIP6L against the *****. In the event that Motorola enters into a patent license with, or covenants not to assert its patents against, ***** who received a ***** under HIP6L as described in this Section, AMD will ***** such *****, *****.

(e) In the event that Motorola exercises its rights granted by AMD in Section 5.5(c) (iv)-(vii) AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize HIP6L and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize HIP6L against the *****. In the event that AMD enters into a patent license with, or covenants not to assert its patents against, a ***** who received a ***** under HIP6L as described in this Section, Motorola will *****.

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(f) AMD will assign engineers to work in Motorola's Advanced Process Research & Development Lab ("APRDL") facility and other facilities as set forth in the HIP6L Statement of Work.

(g) Motorola may assign engineers to AMD facilities in order to participate in the development of HIP6L.

(h) AMD will install a production process for HIP6L into AMD's Dresden Fab30 facility. Motorola will train and support the AMD engineers with respect to the design and manufacturing processes related to HIP6L as set forth in Appendix E.

5.6. HIP7L Licenses.

(a) The parties intend to create Statements of Work on HIP7L and SGLPT and to collaborate on the development of those technologies. It is anticipated that each party will make substantial contributions to the development of those technologies. Any contributions or Improvements to HIP7L and SGLPT developed solely by AMD will be deemed AMD Technology, subject to Motorola's rights in HIP7L and SGLPT. Any contributions or Improvements to HIP7L and SGLPT developed solely by Motorola will be deemed Motorola Technology, subject to AMD's rights in HIP7L and SGLPT.

(b) Motorola hereby grants to AMD under Motorola Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free (except as provided in Sections 6.5 and 6.6) license to:

(i) practice the methods and processes of HIP7L and SGLPT and Motorola Improvements to HIP7L and SGLPT,

(ii) make, have made, use, import and sell devices manufactured using HIP7L and SGLPT and Motorola Improvements to HIP7L and SGLPT,

(iii) make Improvements to HIP7L and SGLPT and Derivative Processes using HIP7L and SGLPT technology,

(iv) undertake ***** with respect to HIP7L and SGLPT and sublicense the rights granted in Section 5.6 (b)(i), (ii) and (iii) only as part of such *****,

(v) undertake ***** with respect to HIP7L and SGLPT and sublicense the rights granted in

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Section 5.6(b)(i), (ii) and (iii) only as part of such *****. Notwithstanding, AMD agrees to license *****, with whom AMD is having products made pursuant to Section 5.6(b)(ii), to manufacture and sell only engineering and prototype sample quantities of products manufactured using a particular HIP7L or SGLPT to parties other than Motorola, AMD, ***** within ***** after the first commercial shipment of a product manufactured using the particular HIP7L or SGLPT. Upon the approval of Motorola, such approval not to be unreasonably withheld, AMD may undertake further ***** with respect to the particular HIP7L or SGLPT within the ***** period. AMD may undertake ***** after the ***** period,

(vi) ***** after the first commercial shipment of a product utilizing a particular HIP7L or SGLPT, undertake ***** with respect to the particular HIP7L or SGLPT and sublicense the rights granted in Section 5.6 (b)(i), (ii) and (iii) only as a part of such *****, and

(vii) undertake one HIP7L or SGLPT ***** within ***** after the first commercial shipment of a product manufactured using a particular HIP7L or SGLPT and ***** HIP7L or SGLPT ***** thereafter and sublicense the rights granted in Section 5.6 (b)(i), (ii) and (iii) only as a part of such *****. Upon mutual agreement of the parties, such approval not to be unreasonably withheld, AMD may undertake further ***** with respect to HIP7L within the ***** period.

(c) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of HIP7L and SGLPT and AMD Improvements to HIP7L and SGLPT,

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(ii) make, have made, use, import and sell devices manufactured using HIP7L and SGLPT and AMD Improvements to HIP7L and SGLPT,

(iii) make Improvements to HIP7L and SGLPT and Derivative Processes using HIP7L and SGLPT technology,

(iv) undertake ***** with respect to HIP7L and SGLPT and sublicense the rights granted in Section 5.6 (c)(i), (ii) and (iii) only as part of such *****,

(v) undertake ***** with respect to HIP7L and SGLPT and sublicense the rights granted in Section 5.6 (c)(i), (ii) and (iii) only as part of such *****. Notwithstanding, Motorola agrees to license *****, with whom Motorola is having products made pursuant to Section 5.6(c)(ii), to manufacture and sell only engineering and prototype sample quantities of products manufactured using a particular HIP7L or SGLPT to parties other than Motorola, AMD, ***** within ***** after the first commercial shipment of a product manufactured using the particular HIP7L or SGLPT. Upon the approval of AMD, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to the particular HIP7L or SGLPT within the ***** period. Motorola may undertake ***** after the ***** period,

(vi) upon prior written approval of AMD, such approval not to be unreasonably withheld, undertake ***** within ***** of the first commercial shipment of a product manufactured using a particular HIP7L or SGLPT and without written approval, undertake ***** HIP7L or SGLPT ***** thereafter with respect to a particular HIP7L or SGLPT and sublicense the rights granted in Section 5.6 (c)(i), (ii) and (iii) only as a part of such *****, and

(vii) undertake one HIP7L or SGLPT ***** within ***** after the first commercial shipment of a product manufactured using a particular HIP7L or SGLPT

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and ***** HIP7L or SGLPT ***** thereafter and sublicense the rights granted in Section 5.6 (c)(i), (ii) and (iii) only as a part of such *****. Upon mutual agreement of the parties, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to HIP7L within the ***** period.

(d) In the event that AMD exercises its rights granted by Motorola in Section 5.6(b)(iv)-(vii), Motorola will negotiate in good faith with such ***** for a license under Motorola patents essential to utilize HIP7L and SGLPT and Improvements thereto on reasonable terms, or, at Motorola's option, will represent and warrant to AMD that it will not assert it's patents essential to utilize HIP7L against the *****. In the event that Motorola enters into a patent license with, or covenants not to assert its patents against, a ***** who received a ***** under a particular HIP7L or SGLPT as described in this Section, AMD will ***** such ***** for the particular HIP7L or SGPLT.

(e) In the event that Motorola exercises its rights granted by AMD in Section 5.6(c)(iv)-(vii), AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize HIP7L and SGLPT and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize HIP7L and SGLPT against the *****. In the event that AMD enters into a patent license with, or covenants not to assert its patents against a ***** who received a ***** under a particular HIP7L or SGLPT as described in this Section, Motorola will *****

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such ***** for the particular HIP7L or SGLPT.

(f) AMD may assign engineers to Motorola facilities in order to participate in the development of HIP7L and SGLPT, as defined in the HIP7L and SGLPT Statements of Work. Motorola may assign engineers to AMD facilities in order to participate in the development of HIP7L and SGLPT.

(g) In the event that either AMD or Motorola initially contacts, or is initially contacted by, a ***** for a ***** pursuant to Sections 5.6(b)(vi) or 5.6(c)(vi) respectively, that party will provide notice of the contact to the other party and have primary responsibility for concluding negotiations with the ***** for the *****. In the event that the negotiating party does not enter into an agreement for a ***** with a particular ***** in a reasonable period of time or negotiations are ceased by the negotiating party or the *****, the non-negotiating party will then have the right to continue the negotiation with the *****. Notwithstanding, Motorola and AMD intend to cooperate with respect to licensing ***** in order to obtain the maximum benefit for both parties.

5.7. Foundry Support.

(a) In the event that Motorola has the HIP5L or HIP6L process in production earlier than AMD, providing AMD is in good faith attempting to qualify such process in its Dresden Fab 30 facility, at AMD's request, Motorola will manufacture utilizing HIP5L or HIP6L, up to *****, or such greater amount as the parties may agree to, until AMD's Dresden Fab 30 facility is prepared to provide production volume using those processes. The parties will negotiate and execute a separate foundry services agreement which shall include commercially reasonable terms and conditions, including pricing, in connection with the sale of such wafers.

(b) AMD represents and warrants that it has "have made" rights from any necessary third parties for products to be manufactured under Section 5.7(a) to enable Motorola to undertake such manufacturing. In the event a claim is asserted against Motorola relating to AMD's "have made" rights, AMD will indemnify and defend Motorola from and against any such

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claim, provided that Motorola promptly informs AMD of any such claim, permits AMD with counsel of its choosing to control the defense of the action, and provides reasonable cooperation and assistance in connection with the action. ***** Section 5.7(a), AMD will not be liable for any damages resulting from any manufacturing by Motorola occurring after such notice. In the event of a *******, Motorola will have no obligation to reserve any further wafer manufacturing capacity for AMD under this Section and AMD shall pay Motorola reasonable cancellation charges for any reserved capacity.

6. Cooperation on Embedded Flash Technology.

6.1. CDR1 Support. AMD will provide assistance and support to Motorola to assist Motorola in its efforts to meet the current CDR1 qualification schedule. Such assistance and support will consist of: (a) providing information and support in the areas of silicon processing, test flow, and design to support test flow; (b) assigning engineers as appropriate to work at Motorola's facilities as necessary to accomplish the foregoing; and (c) allowing Motorola engineers to perform appropriate tasks at AMD's facilities as necessary to accomplish the foregoing.

6.2. AMD CDR1 Flash Technology License.

(a) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable license to any design, process, and test technology disclosed and provided to Motorola in connection with the support provided pursuant to Section 6.1 or that is incorporated into CDR1, to:

(i) practice the methods and processes of CDR1 and AMD Improvements to CDR1,

(ii) make, have made, use, import, and sell devices manufactured using CDR1 and AMD Improvements to CDR1,

(iii) make Improvements to CDR1 and Derivative Processes using CDR1 technology,

(iv) undertake ***** with respect to CDR1 and sublicense the rights granted in Section 6.2(a)(i)-(iii) only as part of such *****.

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(v) to undertake ***** with respect to CDR1 and sublicense the rights granted in Section 6.2(a)(i)-(iii) only as part of such *****.

(vi) to undertake ***** with respect to CDR1 and sublicense the rights granted in Section 6.2(a)(i)-(iii) only as part of such *****.

(vii) to undertake ***** with respect to CDR1 and sublicense the rights granted in Section 6.2(a)(i)-(iii) only as part of such *****.

(viii) Notwithstanding the licenses set forth in this Section, Motorola may transfer AMD's Test Technology Know How only to ***** pursuant to Sections 6.2(b)(iv) and 6.2(b)(vii), respectively.

(b) Any AMD Improvements to the AMD flash technology will be owned exclusively by AMD, and are hereby licensed to Motorola on the same terms as the AMD flash technology.

(c) In the event that Motorola exercises its rights granted by AMD in Section 6.2(a)(iv)-(vii), AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize CDR1 and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize CDR1 against the *****.

6.3. CDR3 Project. The parties will undertake a CDR3 Project and intend to complete a Statement of Work for such Project within ***** of the Effective Date or as otherwise agreed by the parties. Such Statement of Work will be consistent with the CDR3 Program Plan-Rev 3.0, attached hereto as Exhibit F.

6.4. CDR3 License.

(a) Motorola hereby grants to AMD under Motorola Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free (except as provided in Sections 6.5 and 6.6) license to:

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(i) practice the methods and processes of CDR3 and Motorola Improvements to CDR3,

(ii) make, have made, use, import and sell embedded flash devices manufactured using CDR3 and Motorola Improvements to CDR3 but only for the Personal Computing Environment,

(iii) make, have made, use, import and sell embedded flash devices manufactured using CDR3 and Motorola Improvements to CDR3, but only ***** for applications other than the Personal Computing Environment,

(b) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of CDR3 and future CDR processes and AMD Improvements to CDR3 and future CDR processes,

(ii) make, have made, use, import and sell devices manufactured using CDR3 and future CDR processes and AMD Improvements to CDR3 and future CDR processes,

(iii) make Improvements to CDR3 and future CDR processes and Derivative Processes using CDR3 technology,

(iv) undertake ***** with respect to CDR3 and future CDR processes and sublicense the rights granted in Section 6.4 (b)(i), (ii) and (iii) only as part of such *****,

(v) ***** after the first commercial shipment of a product manufactured by a particular CDR3 or future CDR process, undertake ***** with respect to CDR3 and future CDR processes and sublicense the rights granted in Section 6.4 (b)(i), (ii) and (iii) only as part of such *****,

(vi) ***** after the first commercial shipment of a product manufactured by a particular CDR3 or future CDR process, undertake ***** with respect to CDR3 and future CDR processes and sublicense the rights

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granted in Section 6.4 (b)(i), (ii) and (iii) only as a part of such *****,

(vii) undertake one CDR3 or future CDR process ***** within ***** after the first commercial shipment of a product manufactured using a particular CDR3 or future CDR process and ***** CDR3 or future CDR process ***** thereafter and sublicense the rights granted in Section 6.4 (b)(i), (ii) and (iii) only as a part of such *****. Upon mutual agreement of the parties, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to CDR3 or future CDR processes within the ***** period, and

(viii) Notwithstanding the licenses set forth in this Section, Motorola may transfer AMD's Test Technology Know How only to ***** pursuant to Sections 6.4(b)(iv) and 6.4(b)(vii), respectively.

(c) In the event that Motorola exercises its rights granted by AMD in Section 6.4(b)(iv)-(vii), AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize CDR3 and future CDR processes and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize CDR3 or future CDR processes against the *****.

(d) In connection with the license grant in Section 6.4(b), AMD will indemnify and defend Motorola from and against any claim ***** that any technology provided by AMD with regard to the CDR3 project and/or the license granted to Motorola under Section 6.4(b) violates *****, provided that Motorola promptly informs AMD of any such claim, permits AMD with counsel of its choosing to control the defense of the action, and provides reasonable cooperation and assistance in connection with the action. If AMD is not able to procure the rights necessary for Motorola to maintain its license on reasonable terms, or to modify AMD Flash Technology after reasonable efforts so that it is no longer infringing without substantially impairing its function or performance, then AMD may send a notice of such inability to

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Motorola and AMD will not be liable for any damages resulting from infringing activity occurring after such notice. In the event that AMD *****. The indemnity provided in this Section will not apply in the event the infringement claim is attributable to the combination of CDR3 or AMD Improvements thereto in combination with other technology or processes implemented solely by Motorola or others Notwithstanding, upon the request of AMD, Motorola will be required to assist AMD in developing and implementing a mutually agreeable substitute for any AMD Flash Technology that is infringing. *****

6.5. CDR3 Schedule. The parties' goal is to complete CDR3 product qualification by *****. The parties current schedule is to complete CDR3 flash module tape out by *****. In the event the parties are unable to deliver a complete flash module by ***** in substantial compliance with the acceptance criteria specified in the Statement of Work for the CDR3 Project, then (i) further work on the CRD3 Project will cease, unless the parties agree to continue the Project; *****.

6.6. Royalties. This Section 6.6 applies only in the event the parties are unable to deliver a complete flash module by *****, in substantial compliance with the program plan set forth in Exhibit F.

(a) Definitions. These definitions apply only to this Section 6.6.

(i) "Net Revenue" means the gross receipts received by AMD from the sale of Royalty Bearing Devices less any taxes, freight charges, insurance, discounts, credits, commissions paid to third parties, and returns.

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(ii) "Royalty Bearing Device" means a semiconductor product manufactured using a Logic Process Technology or other logic process utilizing copper metallization and sold by AMD as a production unit ***** of the first commercial shipment of any product using that specific process technology (*****). Royalty Bearing Device will not include any samples, prototypes or other devices distributed for marketing, testing or promotional purposes.

(b) Royalty Payments and Statements. Within thirty (30) days after the close of each quarter during which Net Revenue was received by AMD, AMD will pay to Motorola royalty payments based on the ***** reflected in the table set forth below.

*****
*****
*****
*****
*****
*****

Each payment will be accompanied by a statement reflecting the Net Revenue received during the quarter from Royalty Bearing Devices manufactured under each Logic Process Technology or Derivative Process of a Logic Process Technology.

(c) Audit. AMD will maintain appropriate books and records necessary to verify the information contained in the royalty statements. Motorola may upon reasonable notice and at its expense during normal business hours and not more than once each year have a Big 6 certified public accounting firm review AMD's books and records to verify the information contained in the royalty statements. If the audit reveals a deficiency in any royalty payment, AMD will promptly pay the amount of that deficiency. If the audit reveals that payments were made in excess of the amounts due, AMD will be entitled to, at AMD's election, either a prompt refund of the excess payment or a credit towards future royalty obligations. If the audit reveals a deficiency in excess of ***** of the amount of the

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royalty payments being audited, AMD will pay the reasonable costs of such audit.

6.7. HIP6F.

(a) The parties intend to create a Statement of Work on HIP6F and SGEFT and to collaborate on the development of those technologies. It is anticipated that each party will make substantial contributions to the development of those technologies. Any contributions or Improvements to HIP6F and SGEFT developed solely by AMD will be deemed AMD Technology, subject to Motorola's rights in HIP6F and SGEFT. Any contributions or Improvements to HIP6F and SGEFT developed solely by Motorola will be deemed Motorola Technology, subject to AMD's rights in HIP6F and SGEFT.

(b) Motorola hereby grants to AMD under Motorola Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of HIP6F and SGEFT and Motorola Improvements to HIP6F and SGEFT,

(ii) make, have made, use, import and sell devices manufactured using HIP6F and SGEFT and Motorola Improvements to HIP6F and SGEFT,

(iii) make Improvements to HIP6F and SGEFT and Derivative Processes using HIP6F and SGEFT technology,

(iv) undertake ***** with respect to HIP6F and SGEFT and sublicense the rights granted in Section 6.7 (b)(i), (ii) and (iii) only as part of such *****, and

(v) undertake ***** with respect to HIP6F and SGEFT and sublicense the rights granted in Section 6.7 (b)(i), (ii) and (iii) only as part of such *****. Notwithstanding, AMD agrees to license *****, with whom AMD is having products made pursuant to Section 6.7(b)(ii), to manufacture and sell only engineering and prototype sample quantities of products manufactured using a particular HIP6F or SGEFT to parties other than Motorola, AMD, *****

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within ***** after the first commercial shipment of a product manufactured using the particular HIP6F or SGEFT. Upon the approval of Motorola, such approval not to be unreasonably withheld, AMD may undertake further ***** with respect to the particular HIP6F or SGEFT within the ***** period. AMD may undertake ***** after the ***** period.

(vi) ***** after the first commercial shipment of a product utilizing a particular HIP6F or SGEFT, undertake ***** with respect to the particular HIP6F or SGEFT and sublicense the rights granted in Section 6.7 (b)(i), (ii) and (iii) only as a part of such *****.

(vii) undertake one ***** within ***** after the first commercial shipment of a product manufactured using a particular HIP6F and SGEFT and unlimited HIP6F or SGEFT ***** thereafter and sublicense the rights granted in Section 6.7 (b)(i), (ii) and (iii) only as a part of such *****. Upon mutual agreement of the parties, such approval not to be unreasonably withheld, AMD may undertake further ***** with respect to HIP6F and SGEFT within the ***** period.

(c) AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide, royalty-free license to:

(i) practice the methods and processes of HIP6F and SGEFT and AMD Improvements to HIP6F and SGEFT,

(ii) make, have made, use, import and sell devices manufactured using HIP6F and SGEFT and AMD Improvements to HIP6F and SGEFT,

(iii) make Improvements to HIP6F and SGEFT and Derivative Processes using HIP6F and SGEFT technology,

(iv) undertake ***** with respect to HIP6F and SGEFT and sublicense the rights granted in Section 6.7

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(c)(i), (ii) and (iii) only as part of such *****,

(v) undertake ***** with respect to HIP6F and SGEFT and sublicense the rights granted in Section 6.7 (c)(i), (ii) and (iii) only as part of such *****. Notwithstanding, Motorola agrees to license *****, with whom Motorola is having products made pursuant to Section 6.7(c)(ii), to manufacture and sell only engineering and prototype sample quantities of products manufactured using a particular HIP6F or SGEFT to parties other than Motorola, AMD, ***** within ***** after the first commercial shipment of a product manufactured using the particular HIP6F or SGEFT. Upon the approval of AMD, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to the particular HIP6F or SGEFT within the ***** period. Motorola may undertake ***** after the ***** period,

(vi) upon written approval of AMD, such approval not to be unreasonably withheld, undertake ***** within ***** of the first commercial shipment of a product manufactured using a particular HIP6F or SGEFT and without written approval, undertake ***** HIP6F or SGEFT ***** thereafter with respect to a particular HIP6F or SGEFT and sublicense the rights granted in Section 6.7 (c)(i), (ii) and (iii) only as a part of such *****.

(vii) undertake one ***** within ***** after the first commercial shipment of a product manufactured using a particular HIP6F and SGEFT and ***** HIP6F or SGEFT ***** thereafter and sublicense the rights granted in Section 6.7 (c)(i), (ii) and (iii) only as a part of such *****. Upon mutual agreement of the parties, such approval not to be unreasonably withheld, Motorola may undertake further ***** with respect to HIP6F and SGEFT within the ***** period.

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(d) In the event that AMD exercises its rights granted by Motorola in Section 6.7(b)(iv)-(vii), Motorola will negotiate in good faith with such ***** for a license under Motorola patents essential to utilize HIP6F and SGEFT and Improvements thereto on reasonable terms, or, at Motorola's option, will represent and warrant to AMD that it will not assert it's patents essential to utilize HIP7L against the *****. In the event that Motorola enters into a patent license with, or covenants not to assert its patents against a ***** who received a ***** under a particular HIP6F or SGEFT as described in this Section, AMD will ***** for the particular HIP6F or SGEFT.

(e) In the event that Motorola exercises its rights granted by AMD in Section 6.7 (c)(iv)-(vii), AMD will negotiate in good faith with such ***** for a license under AMD patents essential to utilize HIP6F and SGEFT and Improvements thereto on reasonable terms, or, at AMD's option, will represent and warrant to Motorola that it will not assert it's patents essential to utilize HIP6F and SGEFT against the *****. In the event that AMD enters into a patent license with, or covenants not to assert its patents against, a ***** who received ***** under a particular HIP6F or SGEFT as described in this Section, Motorola will ***** such ***** for the particular HIP6F or SGEFT.

(f) The development of HIP6F and SGEFT may be done in AMD or Motorola facilities, as agreed by the parties, and shall be staffed appropriately as determined by the Executive Board of Directors and/or the Steering Committee.

(g) In connection with the license grant in Section 6.7(c), AMD represents and warrants that it will remove from HIP6F any

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technology subject to a claim of ownership by *********. AMD will indemnify and defend Motorola from and against any claim ***** that any technology provided by AMD with regard to HIP6F and/or the license granted to Motorola under Section 6.7(c) violates *********, provided that Motorola promptly informs AMD of any such claim, permits AMD with counsel of its choosing to control the defense of the action, and provides reasonable cooperation and assistance in connection with the action. If AMD is not able to procure the rights necessary for Motorola to maintain its license on reasonable terms, or to modify HIP6F after reasonable efforts so that it is no longer infringing without substantially impairing its function or performance, then AMD may send a notice of such inability to Motorola and AMD will not be liable for any damages resulting from infringing activity occurring after such notice. *****. The indemnity provided in this Section will not apply in the event the infringement claim is attributable to the combination of HIP6F or AMD Improvements thereto in combination with other technology or processes implemented solely by Motorola or others. Notwithstanding, upon the request of AMD, Motorola will be required to assist AMD in developing and implementing a mutually agreeable substitute for any AMD Flash Technology that is infringing. *****.

(h) In the event that either AMD or Motorola ***** pursuant to Sections 6.7(b)(vi) or 6.7(c)(vi) respectively, that party will provide ***** to the other party and have ***** with the *****. In the event that the ***** with a particular ***** in a reasonable period of time or *****

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*****, the ***** will then have the right *****. Notwithstanding, Motorola and AMD intend to cooperate with respect to *****.

6.8. Foundry Support.

(a) In the event that AMD has the HIP6F process in production earlier than Motorola who is in good faith attempting to qualify such process, at Motorola's request, AMD will manufacture for Motorola up to *****, or such greater amount as the parties may agree to, until Motorola's facility is prepared to provide production volume using that process. The parties will negotiate and execute a separate foundry services agreement which shall include commercially reasonable terms and conditions, including pricing, in connection with the sale of such wafers. At Motorola's request, AMD will manufacture utilizing future processes (including SGEFT), similar low volume and prototype products for Motorola until the Motorola is prepared to manufacture products utilizing such processes at its own facilities.

(b) In the event Motorola requests foundry support as provided in Section 6.8(a) it must represent as a condition of receiving such support that it has obtained the necessary "have made" rights from any third parties involved in the products to be manufactured under Section 6.8(a) to enable AMD to undertake such manufacturing. In the event a claim is asserted against AMD as a result of Motorola's failure to obtain such rights, Motorola will indemnify and defend AMD from and against any such claim, provided that AMD promptly informs Motorola of any such claim, permits Motorola with counsel of its choosing to control the defense of the action, and provides reasonable cooperation and assistance in connection with the action. If Motorola provides AMD with written notice to stop manufacturing pursuant to Section 6.8(a), Motorola will not be liable for any damages resulting from any manufacturing by AMD occurring after such notice. In the event of a stop notice, AMD will have no obligation to reserve any further wafer manufacturing capacity for Motorola under this Section and Motorola shall pay AMD reasonable cancellation charges for any reserved capacity.

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6.9. In exercising the rights provided hereunder, AMD will ***** the Embedded Flash Technology to produce Power PC Microprocessors or Motorola proprietary processor architectures and Motorola will ***** the Embedded Flash Technology to produce X86 Microprocessors or AMD proprietary processor architectures.

7. Stand-Alone Flash Technology Rights.

7.1. For CDR3 and later CDR technologies, AMD hereby grants to Motorola, under AMD Technology and AMD Intellectual Property, a non-exclusive, non-transferable, paid-up license to ***** to purchase such product, in accordance with the ***** will notify AMD within ninety (90) days of notice *****, AMD or AMD ***** will be responsible for the distribution of *****, directly or indirectly, to end user customers. If *****, AMD agrees that Motorola will then have the right to *****.

8. Data Networking Products.

8.1. AMD License. AMD hereby grants to Motorola under AMD Intellectual Property, a non-exclusive, non-transferable, worldwide license to make, have made, use, import, and sell Data Networking Products, to develop Derivative Products thereto, and to make, have made, use, import and sell such Derivative Products.

8.2. Motorola License. Motorola hereby grants to AMD under Motorola Intellectual Property, a non-exclusive, non-transferable, worldwide license to make, have made, use, import, and sell Motorola Derivative Products to Data Networking Products; provided, however, that such license is limited to Motorola modifications to the functional blocks contained in the Data Networking Products, and not to separate blocks providing new functionality.

8.3. Royalties.

(a) Definitions. These definitions apply only to this Section 8.3.

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(i) "AMD Content" means the percent of the die size of a Royalty Bearing Device that consists of a Data Networking Product or an Improvement thereto.

(ii) "Net Revenue" means the gross receipts received by Motorola from the sale of Royalty Bearing Devices less any taxes, freight charges, insurance, discounts, credits, commissions paid to third parties, and returns.

(iii) "Royalty Bearing Device" means a device that incorporates, in whole or in part, a Data Networking Product or an Improvement thereto.

(b) Royalty Payments and Statements. Within thirty (30) days after the close of each quarter during which Net Revenue was received by Motorola, Motorola will pay to AMD royalty payments based on ***** reflected in the table set forth below.

*****	*****
*****	*****
*****	*****
*****	*****
*****	*****
*****	*****
*****	*****

Each payment will be accompanied by a statement reflecting the Net Revenue received during the quarter from Royalty Bearing Devices manufactured.

(c) Once a Data Networking Product is applicable as a licensed Data Networking Product so as to be considered in the table provided in Section 8.3(b) above, that Data Networking Product may not be counted again as another licensed Data Networking Product regardless of the number of different Motorola Derivative Products made.

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(d) In the event that AMD sells a Motorola Derivative Product of a Data Networking Product and that Motorola Derivative Product is royalty bearing, AMD must waive its royalty for any such Motorola Derivative Product.

(e) Audit. Motorola will maintain appropriate books and records necessary to verify the information contained in the royalty statements. AMD may upon reasonable notice and at its expense during normal business hours and not more than once each year have a Big 6 certified public accounting firm review Motorola's books and records to verify the information contained in the royalty statements. If the audit reveals a deficiency in any royalty payment, Motorola will promptly pay the amount of that deficiency. If the audit reveals that payments were made in excess of the amounts due, Motorola will be entitled to, at Motorola's election, either a prompt refund of the excess payment or a credit towards future royalty obligations. If the audit reveals a deficiency in excess of ***** of the amount of the royalty payments being audited, Motorola will pay the reasonable costs of such audit.

8.4. Delivery. In connection with the licenses granted under Section 8.1 and 8.2, each party will deliver to the other net lists and product specifications for the designs being licensed.

9. X86 Microprocessor Purchases. Motorola will have the right to purchase AMD's X86 Microprocessors as a preferred customer.

10. Assumption of Risk.

Each party understands and acknowledges that except as expressly provided herein, it uses any technology delivered or licensed to it "AS IS" and at its own risk, without recourse against the other party.

11. Confidentiality.

11.1. The Receiving Party will for a period of seven (7) years from the date of disclosure (a) not disclose Confidential Information to any third party, (b) restrict dissemination of Confidential Information to only those employees who must be directly involved with Confidential Information, and (c) use the same degree of care as for its own information of like importance, but at least use reasonable care, in safeguarding against disclosure of Confidential Information of the Disclosing party.

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11.2. It is neither party's intent to use the specific information disclosed to it under this Agreement in its own product development, except as expressly authorized or licensed by this Agreement. However, the employees of either party during the term of this Agreement may further develop their general knowledge, skills, and experience in the technical areas to which the Confidential Information relates. The subsequent use by such employees of such general knowledge, skills and experience in the ordinary course of business does not constitute a breach of this Agreement. Further both parties recognize that receipt of Confidential Information under this Agreement shall not create any obligation in any way limiting or restricting the assignment of employees within either Party.

11.3. Notwithstanding Section 11.1 above, the parties agree that certain disclosures of Confidential Information to third parties including but not limited to *****, and vendors will be necessary. Each party hereto may make disclosures of the others' Confidential Information provided that a confidentiality agreement having terms substantially similar to those in Appendix G is entered into between the third party and the disclosing party.

13. Term and Termination.

13.1. Term. This Agreement will commence on the Effective Date and will continue for a period of seven (7) years unless terminated earlier in accordance with this Section 13 or Section 14.

13.2. Termination for Cause by Either Party. Either party will have the right to terminate this Agreement at any time if:

(a) The other party is in material breach of any warranty, term, condition or covenant of this Agreement and fails to cure that breach within sixty (60) days after receiving notice of that breach and the other party's intention to terminate;

(b) The other party (i) becomes insolvent; (ii) admits in writing its insolvency or inability to pay its debts or perform its obligations as they mature; or (iii) becomes the subject of any voluntary or involuntary proceeding in bankruptcy, liquidation, dissolution, receivership, attachment or composition or general assignment for the benefit of creditors; provided that if such condition is assumed involuntarily it has not been dismissed with prejudice within thirty (30) days after it begins.

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13.3. Termination for Convenience. Commencing on January 1, 2001, either party may terminate this Agreement without cause by providing written notice of termination to the other party. Such termination will be effective six months after such notice is given.

13.4. Effect of Termination. Upon any termination of this Agreement, each party will be released from all obligations and liabilities to the other occurring or arising after the date of such termination, except that the following will survive any termination of this Agreement: *****. Neither party will be liable to the other for damages of any sort solely as a result of terminating this Agreement in accordance with its terms. Termination of this Agreement will be without prejudice to any other right or remedy of either party.

14. Change of Control.

14.1. In the event of a Change of Control of a party to this Agreement, the following will occur:

(a) the Non-Acquired Party will have the right to terminate the Agreement;

(b) the ***** may ***** to the ***** the right under the ***** of the ***** to make, have made, use, import, sell and otherwise dispose of ***** of the ***** and ***** to those *****;

(c) with respect to any ***** that the ***** and the ***** do not agree to continue developing, the ***** will be limited to the ***** and ***** that exist as of the time of the Change of Control;

(d) the ***** will negotiate in good faith with ***** for any additional rights sought by the *****; and

(e) in the event the CDR3 Project is not completed and the Non-Acquired Party and the Acquiring Party are unable to reach

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agreement on continuation of that development or in the event the parties are unable to deliver a ***** by ***** in substantial compliance with the program plan set forth in Exhibit F, then the royalty provisions of Section 6.6 will apply, and will be payable by the Acquiring Party.

15. Right to Develop Independently. Nothing in this agreement will impair either party's right to acquire, use, license, develop, manufacture or distribute for itself, or have others develop, manufacture or distribute for it, technology other than the technology being developed and/or licensed under this agreement.

16. Disclaimer of Consequential, Etc. Damages. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER OR ANY OTHER PERSON FOR ANY SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES OF ANY KIND, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS OR DAMAGES TO THE OTHER PARTY'S BUSINESS REPUTATION HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, WHETHER IN AN ACTION FOR CONTRACT, STRICT LIABILITY OR TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, WHETHER OR NOT THE FIRST PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE AND NOTWITHSTANDING THE FAILURE OF ESSENTIAL PURPOSE OF ANY REMEDY.

17. General.

17.1. Relief from Obligations. Neither party will be deemed in default of this Agreement to the extent that performance of its obligations or attempts to cure any breach are delayed or prevented by reason of any act of God, fire, natural disaster, accident, act of government, shortages of material or supplies or any other cause beyond the control of such party ("Force Majeure"), provided that such party gives the other party written notice thereof promptly and, in any event, within fifteen (15) days of discovery thereof and uses good faith efforts to so perform or cure. In the event of such a Force Majeure, the time for performance or cure will be extended for a period equal to the duration of the Force Majeure but not in excess of one hundred eighty (180) days. If the party seeking to be excused from performance of a Substantial Obligation cannot recover from the Force Majeure situation and resume satisfactory performance within one hundred eighty (180) days, of commencement of the Force Majeure situation, the other party may at its option, immediately terminate this Agreement. A Substantial Obligation is defined as a milestone task essential to the completion of a Project undertaken pursuant to this Agreement, as set forth in a particular Statement of Work.

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17.2. Relationship of Parties. Neither party nor their employees, consultants, contractors or agents are agents, employees or joint venturers of the other party, nor do they have any authority whatsoever to bind the other party by contract or otherwise. They will not represent to the contrary, either expressly, implicitly, by appearance or otherwise.

17.2.1. Personnel. When present on the site of the other party, employees of either party shall comply with all the rules applicable to contractor personnel resident at or visiting the premises of the party controlling the premises. Each party shall provide to the other a set of documents setting forth all such rules applicable to the contractor personnel resident at or visiting their facilities. Any waiver of this obligation must be agreed upon by both parties and must be in writing. Each party must sign an appropriate written resident contractor agreement, make employees aware of the requirement, and ensure compliance.

17.2.2. Employee Selection. Each party shall be responsible for the selection and screening of its employees who will be assigned to work on any Project under this Agreement. Each party shall be responsible for the acts of its employees, and agrees to indemnify, defend, and hold the other party, its officers, agents, and employees, harmless from and against any and all claims, costs, attorney fees, fines, or similar expenses of whatsoever kind or character, including specifically, but not limited to, those resulting from injury or death to persons or damage to property, to the extent due to any fault or negligence of the indemnifying party and/or any officer, employee, or agent acting on the indemnifying party's behalf.

17.2.3. Solicitation of Employees. To the extent permitted by law, during the term of this Agreement each party agrees neither to solicit directly for employment purposes the employees of the other party performing services under this Agreement, nor knowingly to solicit such employees via solicitations calling for knowledge and experience predominantly weighted to Projects under this Agreement (although this shall not forbid indirect solicitations for employees having the general knowledge necessary for such Projects). Neither party shall make any payment or gift of any value to any employee of the other party without the employing party's prior concurrence. Neither party shall make any representation that might cause an employee assigned by one party

to believe that an employment relationship exists between such employee and the other party.

17.2.4. Work Place Safety. The work place safety of employees assigned to Projects under this Agreement shall be the sole and full responsibility of the assigning party. If either party should become aware of the existence of any hazardous conditions, property, or equipment which are under the control of the other party it shall so advise the other party; however, it shall remain the first party's responsibility to take all necessary precautions against injury to persons or damage to property from such hazards, property, or equipment until corrected by the other party. Each party agrees to comply with the Occupational Safety and Health Act (OSHA), applicable OSHA standards, applicable state safety and health laws and regulations, any applicable municipal ordinances, and applicable facility safety rules of which the party has notice, regarding the employees it assigns to Projects under this Agreement.

17.4. Employment Taxes and Benefits. It is understood and agreed that nothing in this Agreement is intended to, nor will it result in, an employee of a party becoming an employee of the other party or becoming a joint employee of both parties. Each party remains solely responsible for the payment of all withholding taxes, social security, unemployment insurance, workers' compensation insurance, disability insurance or similar items, including interest and penalties thereon, with respect to its employees. Each party will provide written notice to all employees participating in any Project under this Agreement that they will not by virtue of participating in the Project, working at the other party's facility, interacting with the management of the other party, or otherwise performing services in accordance with this Agreement become an employee of the other party.

17.5. Assignment. The rights and liabilities of the parties under this Agreement will bind and inure to the benefit of the parties' respective successors, executors and administrators, as the case may be; provided that neither party may assign or delegate its obligations under this Agreement, either in whole or in part, except as set forth in Section 14 or to a subsidiary or affiliate of that party, without the other party's written consent. Any attempted assignment or delegation without such consent will be void.

17.6. Notices. All notices, reports, requests, acceptances and other communications required or permitted under this Agreement will be in writing. They will be deemed given

(a) When delivered personally,

(b) When sent by confirmed facsimile,

(c) One day after having been sent by commercial overnight carrier with written verification of receipt, or

(d) Five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or upon actual receipt thereof, whichever first occurs.

All communications will be sent to the receiving party's address as set forth below or to such other address that the receiving party may have provided for purpose of notice as provided in this Section.

General Counsel, MS-150 Advanced Micro Devices, Inc. One AMD Place P.O. Box 3453 Sunnyvale, CA 94088-3453	Vice President and Associate General Counsel for Patents, Trademarks and Licensing Motorola, Inc. 1303 East Algonquin Road Schaumburg, IL 60196

17.7. Disputes.

(a) Dispute Resolution. In the event of a dispute between the parties, the issue will first be escalated to the Executive Board of Directors for attempted resolution within a reasonable period of time. If the Executive Board of Directors cannot resolve the dispute within two (2) weeks of notice, the issue will be escalated to the prospective Presidents or General Managers of the respective Motorola or AMD business sector or group or division, as the case may be. If these individuals are unable to resolve the dispute within two (2) weeks, the issue will be escalated to the CEOs of Motorola and AMD who will have two (2) weeks to resolve the issue.

Either party may initiate dispute resolution by notice to the other party. Such notice will be without prejudice to the invoking party's rights to any other remedy permitted hereunder. The parties will use commercially reasonable efforts to arrange meetings or telephone conferences, as needed at mutually convenient times and places, to facilitate negotiations between the parties.

In the event that the parties fail or are unable to resolve a dispute between them after exhausting the escalation process set forth above, then either party may declare that a deadlock exists.

In the event of a deadlock after undertaking the forgoing steps to resolve the dispute in good faith, the parties shall attempt to resolve the dispute through mediation prior to instituting litigation or other adversary proceeding. Notwithstanding the previous sentence, no disputes pertaining to the intellectual property of either party shall be subject to mediation.

(b) Mediation. A party shall initiate a mediation by serving written notice on the other party by facsimile and overnight mail. The parties may select any mediator mutually agreeable to them. If the parties cannot agree on a mediator within fifteen (15) days, they will, within five (5) days thereafter submit a joint request for mediation to the Austin, Texas office of the American Arbitration Association ("AAA") and request the AAA to select an appropriate mediator with experience in resolving financial and commercial disputes.

The mediation session shall occur within thirty (30) days of the selection of the mediator unless the parties mutually agree to extend this time, and shall be scheduled for not less than one day. Each party agrees to send a representative with full settlement authority to the mediation. The mediation shall be in the English language and shall be conducted exclusively in Austin, Texas, unless otherwise agreed by the parties. The parties agree to hold the content of the mediation in confidence and further agree that the mediator is disqualified as a litigation witness for any party to the mediation. The parties further agree that the mediation shall be considered to be a form of settlement negotiations, the content of which shall not be admissible as evidence of liability in any judicial proceeding. Each party shall bear its own expenses and an equal share of the expenses of the mediator and, where applicable, the AAA. The parties agree that any refusal to mediate under this section is a breach of contract for which damages may be recovered in litigation between the parties. Except as provided in Subsection (e) below, if the party who ultimately prevails in any litigation institutes a court action or other adversary proceeding without first attempting mediation as required hereby, SUCH PREVAILING PARTY SHALL NOT BE ENTITLED TO ATTORNEYS' FEES OR COSTS THAT MIGHT

OTHERWISE BE AVAILABLE TO IT UNDER THIS CONTRACT OR IN COURT ACTION.

(c) Litigation. In the event a dispute is not resolved by such mediation, the parties shall have the right to initiate a suit, action or other adversary proceeding before the appropriate court exclusively within the jurisdiction of the state and federal courts in the state of Texas. In the event of such suit, action or other adversary proceeding, the Parties hereto (a) submit to the exclusive personal jurisdiction of the federal and state courts in the State of Texas and (b) expressly waive any right they may have to a jury trial and agree that any such proceeding shall be tried by a judge without a jury. All defenses based on passage of time shall be tolled pending mediation, unless otherwise prohibited by law.

(d) Applicable Law. This Agreement shall be governed by, construed, enforced and interpreted in accordance with the internal substantive laws of the State of Texas applicable to agreements to be made and to be performed solely within such State, without giving effect to any conflicts or choice of laws principles which otherwise might be applicable and excluding the United Nations Convention on Contracts for the Sale of Goods.

(e) Interim Relief. Nothing in this Section 17.7 shall be construed to preclude any party from seeking injunctive or other provisional relief in order to protect its rights pending mediation, provided however that such relief may only be sought within the appropriate judicial forum as provided in Subsection (c) above. In the event a party seeks interim relief without first attempting mediation, such party shall not forfeit its entitlement to legal fees and costs that would otherwise be available to it only if such party initiates mediation within fifteen (15) days after initiating the action seeking interim relief. A request to a court for interim relief shall not be deemed a waiver of the obligation to mediate.

(f) Legal Fees and Costs. Except as otherwise provided herein, the substantially prevailing party in any proceeding brought by one party against the other shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for the expenses reasonably incurred by it in such proceeding, including but not limited to court costs, reasonable attorneys' fees, expenses of expert witnesses, costs of appeal, and any other reasonable out-of-pocket expenses. For the purposes of

this Subsection (f), the "substantially prevailing party" means the party whose final settlement offer (or other monetary position or claim) prior to the completion of the mediation contemplated by this Section 17.7 is closest to the judgment awarded by the court, regardless of whether such judgment is entered in favor or against such party, or who obtains substantially all of the relief sought by it, all as determined by the court having jurisdiction over the proceeding. Such a prevailing party would include, but is not limited to, a party who offers to dismiss a proceeding upon the other party's payment of the sums allegedly due or performance of the covenants allegedly breached.

17.8. Compliance With Laws. Each party will comply with all applicable laws and regulations governing their activities under this Agreement, including but not limited to the export control laws and regulations of the United States, with respect to any Confidential Information and technical data licensed, delivered, or to which a party is provided access under this Agreement. If requested by one party hereto, the other party hereto agrees to sign written assurances and other export-related documents as may be required for the requesting party to comply with any applicable export regulations.

17.9. Severability. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent be determined by a court of competent jurisdiction to be invalid or enforceable under applicable law, the remaining provisions of this Agreement shall be interpreted so as best to reasonably effect the intent of the parties. The parties further agree to replace any such invalid or unenforceable provisions with valid and enforceable provisions designed to achieve, to the extent possible, the business purposes and intent of such invalid and enforceable provisions.

17.10. Entire Agreement. This Agreement, together with all exhibits and schedules hereto, constitutes the entire understanding and agreement of the parties with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous understandings and agreements, whether written or oral, with respect to such subject matter.

17.11. Amendments, Modifications and Waivers. No delay or failure by either party to exercise or enforce at any time any right or provision of this Agreement will be considered a waiver thereof or of such party's right thereafter to exercise or enforce each and every right and provision of this Agreement. No single waiver will constitute a continuing or subsequent waiver. No waiver, modification or

amendment of any provision of this Agreement will be effective unless it is in writing and signed by the parties, but it need not be supported by consideration.

17.12. Headings and References. The headings and captions used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement. All references in this Agreement to sections, paragraphs, exhibits and schedules shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits and schedules attached hereto, all of which are incorporated herein by this reference.

17.13. Independent Action. The parties affirm that their respective marketing policies or activities, or pricing information, relative to the subject matter of this agreement shall not be discussed or exchanged between them.

17.14. Publicity. Nothing contained in this Agreement shall be construed as conferring any right to use in advertising, publicity, or other promotional activities any name, trade name, trademark, or other designation of either party to this Agreement (including any contraction, abbreviation, or simulation of any of the forgoing) and each party hereto agrees not to disclose to others the terms and conditions of this Agreement, except as may be required by law or governmental regulation, without the express written consent of the other party.

17.15. Construction. This Agreement has been negotiated by the parties and their respective counsel. This Agreement will be fairly interpreted in accordance with its terms and without any strict construction in favor of or against either party. Any ambiguity will not be interpreted against the drafting party.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

ADVANCED MICRO DEVICES, INC.	MOTOROLA, INC.
Signature: /s/ Gene Connor	Signature: /s/ Dr. Bertrand Cambou
Name: Gene Conner	Name: Dr. Bertrand Cambou
Title: Executive VP, Strategic Relations	Title: Senior VP and General Manager
Date:	Date:

APPENDIX A

EMBEDDED FLASH TECHNOLOGY DESCRIPTIONS ((S).1.12)

APPENDIX B

LOGIC PROCESS TECHNOLOGY DESCRIPTIONS ((S).1.22)

APPENDIX C

STATEMENT OF WORK

(vii) SPECIFICATION

8. SCHEDULE

Milestone	Deliverables	Party Responsible	Due Date

(vii) Budget Estimate:

Quarter	Total Budget	Elements
Q199		Employee Expenses:
		Facility Expenses:
		Equipment Expenses:
		Third Party Vendors:
Q299		Employee Expenses:
		Facility Expenses:
		Equipment Expenses:
		Third Party Vendors:

4. TECHNICAL COORDINATORS:

Motorola:

AMD:

APPENDIX D

COST EQUALIZATION ((S) 3.2)

APPENDIX D

AMD/MOTOROLA ALLIANCE - COST EQUALIZATION

1.0 COST EQUALIZATION

1.1. SCOPE. This appendix defines the methods, procedures and reporting requirements as related to Project cost sharing between the two parties.

1.2. ADMINISTRATION. The Steering Committee will appoint a Program Management Team, for each Project, that is accountable for Project planning, budgeting, reporting, and administration.

1.3. CALENDAR. Each party's fiscal calendar, although different from each other, closely resembles the Gregorian calendar quarters and year. The differences in time between each party's fiscal calendar is deemed immaterial and, consequently, each party will use their own fiscal calendar in the Cost Equalization determination to accommodate each party's financial activity close and reporting schedules. In the event that either party's fiscal calendar quarter ends in excess of 15 days of the same Gregorian quarter, the parties will meet and mutually agree to a new time schedule for Cost Equalization determination, reporting, and payment. Prior to the beginning of each calendar year, the parties will exchange fiscal calendars for the coming year.

1.4. APPROVED PROJECTS. The parties agree no Project will be considered in the Cost Equalization determination without prior approval of a Statement of Work by the Executive Board of Directors, except as described below for 1998. The parties agree any change to a Project plan scope or duration or budget variance over the course of a fiscal year in excess of 110% must be approved by the Executive Board of Directors. For quarterly Cost Equalization determination, no party will be able to claim development costs for any Project in any quarter in excess of 120% of the budgeted development costs for that Project in that quarter unless it is determined that the projected costs do not exceed the 110% threshold requiring Executive Board of Directors approval.

1.5. COST EQUALIZATION DETERMINATION, TIMING, AND PAYMENT TERMS.

1.5.1. FOR 1998. Cost Equalization calculations will be determined by each party for 4Q98 (approximating the period October 1, 1998 through December 31, 1998) according to each party's fiscal calendar.

Each party's allowable costs associated with 1998 Projects will be estimated and reported to the other party by December 3, 1998 for fiscal 4Q98. This date is established to accommodate each party's financial reporting for fiscal year-end 1998. 4Q98 actual costs will be determined according to the Cost Equalization determination timelines established for 1999 and subsequent years in section 1.5.2 below and payment of the difference between 4Q98 actual costs and 4Q98 estimated costs will occur according to this schedule.

The determination, estimation, and reporting of allowable costs by both parties will be dependent on Statements of Work for the Projects. These Statements of Work will be

developed retroactive to October 1, 1998 through each party's fiscal year-end 1998, presented by the Program Managers to the Executive Board and approved by the Executive Board by December 3, 1998.

The 4Q98 Cost Equalization payment will be due on December 31, 1998 via electronic funds transfer as defined in section 1.5.2 below. Time is of the essence for the receipt of this payment.

The parties agree to establish a Statement of Work by quarter through its completion for each Project continuing into 1999 and for any Project that will commence in 1999 and gain approval for each Statement of Work prior to the beginning of 1999. The parties agree that this does not preclude the addition of new Projects during 1999.

1.5.2. FOR 1999 AND SUBSEQUENT YEARS. Thirty days after the conclusion of each quarter, each party will provide a statement to the other stating the Cost Equalization determination for each Project then pending, including a summary breakdown of the cost elements.

Processing of device and product test structures or test vehicles, including equal quantities of transfer wafers for each party, are included in the scope of Project requirements and, as such, are intended to be included in the Statements of Work and are subject to Cost Equalization.

Except as set forth in the preceeding paragraph with respect to transfer wafers, each party will bear its own costs in connection with technology transfer and installation into production facilities and such costs will not be subject to the Cost Equalization determination. Costs not subject to Cost Equalization include process documentation, all reasonable personnel expenses, including travel, for personnel assigned to assist in a process transfer, and other similar costs. In the event that one party (first party) requires more transfer wafers than the other (second party), the quantity of transfer wafers required by the first party in excess of that required by the second party will not be subject to Cost Equallization and the cost thereof shall be borne by the first party.

If either party requests the other party to process material either because it requires a quantity of transfer wafers in excess of that required by the other party or for a purpose beyond the scope of a Project such as for the transfer of a technology, verification of designs, additional processing for technology evaluation, or product qualification, the non-requesting party will make commercially reasonable efforts to comply with the request and will charge the requesting party a price not to exceed actual costs.

Pre-production, pilot production, risk starts, or other product specific processing are outside the scope of Projects and are not to be included in the Statements of Work or included in the Cost Equalization determination. This type of processing by one party on behalf of the other party would be considered Foundry.

The parties will compare the Cost Equalization statements and the party with the smaller amount for the quarter will pay the other party fifty percent (50%) of the difference between the two parties' Cost Equalization amounts within forty-five (45) days after the end of the quarter. Payment will be made by electronic funds transfer:

To AMD at:

Bank of America, San Francisco

Bank Routing #: 121000358
Account #: 1233404900

To Motorola at:
1st Nat'l Bank of Chicago
One 1st National Bank Plaza
Chicago, IL 60670
Bank Routing #: 071000013
Account #: 52-65673

1.5.3. HIP5L DELIVERY. In addition to the foregoing, AMD will pay Motorola four equal payments of ***** for HiP5L tool set installation in AMD's Fab30; on ***** for initial Fab30 wafer starts on the HiP5L process; on ***** for qualification of HiP5L in Fab30; and ***** for support by Motorola of HiP5L yield improvements in Fab30. Should AMD unilaterally decide to forego or delay any of the above stated milestones, or be unable to meet the stated milestones, AMD shall still be responsible for and shall make each payment as stated above.

1.6. COST CATEGORIES AND CLASSIFICATIONS. The parties agree that the following cost types and classifications will be used in the development of Project budgets and in the Cost Equalization determination:

1.6.1. PROCESS COSTS. Actual costs incurred in a production facility or research and development facility owned by one of the parties. These costs include, but are not limited to, direct labor and fringes, supervisory labor and fringes, engineering labor and fringes, raw material, chemicals and gases, utilities, building depreciation, equipment depreciation, maintenance, and all other costs associated with the normal operation of such facilities. Normal operation includes equipment utilization at practical capacity. Neither party will bear the costs of under utilization in the other party's facility. Capitalization and depreciation schedules used in the Cost Equalization determination will be consistent with the operating policies and guidelines of each party.

The units of measure to determine these costs for budgeting and Cost Equalization are wafers processed for a fabrication facility and die for an assembly or test facility. Costs assigned to each unit will be determined by the type of processing and number of process steps incurred by each unit. Costs assigned to each Project unit will follow the same and consistent procedures of assigning costs as any non-Project related unit in the same facility.

Unit volumes processed through these facilities are determined via the Statements of Work and represent volumes necessary to complete the development requirements as identified therein. Processing of device and product test structures or test vehicles is included in the scope of Project requirements. Pre-production, pilot production, risk starts, or other product specific processing are outside the scope of Project requirements.

Interest expense is excluded for purposes of determining actual process costs.

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1.6.2. STANDARDIZED COSTS. Non-Process and non-Direct costs associated with Project related engineering development and support. These costs include, but are not limited to:

(a) Process, device, design, reliability, and test engineering, and related personnel labor and fringes, otherwise not comprehended in Process costs above, at a mutually agreed upon standard rate of *****. This rate will be reviewed annually and mutually agreed to by both parties through their respective compensation personnel. Any change to this rate will be presented to the Executive Board of Directors for final approval and incorporated into the Statements of Work.

For budget cost reporting, each Project will be budgeted by individual name and/or number of individuals, and Project time applied by quarter.

For actual cost reporting, each Program Manager will provide an employee participation list each month, in conjunction with the monthly progress reports, by individual name and Project time applied in weekly increments for that individual. Weekly increments may be subdivided to the nearest whole day or 0.2 weeks. The standard rate per quarter will be prorated by the number of Project weeks applied versus total weeks in the quarter.

(b) One party's personnel assigned to a Project, and the other party's assignees to that party's facility where office space is provided, will be assessed by that party at the standard rate of ***** prorated by the time applied to the Project by individual as outlined above for purposes of comprehending items such as comparable rent; facilities upkeep; phone; networking requirements; systems administration support; workstation hardware depreciation and maintenance; software amortization, expense, licenses, and maintenance; internal data processing charges; and general office supplies.

This rate will be reviewed annually and mutually agreed to by both parties' finance personnel. Any changes to this rate will be presented to the Executive Board of Directors for final approval and incorporated into the Statements of Work.

(c) Experiments, tests, and development in device lab, reliability lab, test lab or other facilities otherwise not comprehended in Process costs above will be budgeted at amounts mutually agreed to by the Program Managers, or the parties if the Project has only one Program Manager, in the Statements of Work. These costs will be assigned to the Projects at the budgeted amounts in the quarter actually incurred for Cost Equalization determination.

(d) For individuals in this cost category, including one party's assignees to the other party's facility, the party owning the facility is responsible for the acquisition and cost of individual tool requirements. These costs include, but are not limited to, engineering workstations, software, licenses, and maintenance.

1.6.3. DIRECT COSTS. Actual costs incurred for budgeted activities of Projects that are not comprehended or otherwise covered in the two categories above. These costs include, but are not limited to:

(a) External processing, testing, consulting, or evaluation;

(b) Photomask costs identified to the Project

1.7. SPECIAL CONSIDERATION OF UNIQUE TOOLS. Both parties agree that, given the nature of the Projects, some unique, state-of-the-art, unproved or costly tools will be

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acquired in the course of the Projects. These tools may be process-related in a fabrication facility or evaluation or test-related in a lab. When such tools are identified, they will be specifically highlighted as unique tools with their delivery date and estimated cost noted in the Statements of Work.

Targeted delivery location defines the party responsible for the purchase of these tools. The depreciation schedule will be the same as defined by local operating procedures (currently five-year straight-line method for both parties or as mutually agreed). Application of the depreciation expense will be consistent with the above and will be included at 100% for budgeting and Cost Equalization determination.

In the event of tool obsolescence and subsequent decomissioning, process development incompatibility, or lack of functional performance within the depreciable scheduled life, both parties agree to share equally in the write-off of the remaining book value plus decommission and disposal costs net of any fair market or disposal value. Such cost sharing will not occur if a tool is removed from a Project and is placed into use for a non-project activity. Actual disposal of the tool is left to the discretion of the owning party. Payment for this type of cost will occur according to the standard quarterly Cost Equalization determination and payment due dates in the quarter following the cost determination.

1.8. PROJECT PLANS, TIMING, BUDGETING, APPROVAL, REVIEW, AND REVISION. At a minimum, Statements of Work will include:

(1) A timeline of activities in quarterly segments, with major milestones identified, from the date of inception to Project target completion,

(2) Best estimates of unit processing requirements, targeted processing facility, and photomask requirements by quarter,

(3) Best estimates of standardized personnel requirements by individual name and/or number of individuals and time applied by quarter,

(4) Best estimates of device, reliability, test and related lab experimentation, evaluation, development, and testing requirements by quarter,

(5) Identification of unique tools, anticipated delivery dates, estimated cost, and targeted delivery location,

(6) Best estimates of outside processing, evaluation, and consultation requirements by quarter,

(7) Identification of each party's portion and participation in the project by quarter,

(8) Signatures of the Program Manager(s) and Technical Coordinator(s) signifying review of the Statement of Work milestones, completion date, and budgeted resources and expenses.

Statements of Work should be developed, budgeted, and approved during the year preceding Project commencement. All Statements of Work must be developed, budgeted, and approved by the Executive Board of Directors prior to commencement.

Project budgets and Cost Equalization determinations must be reviewed and approved quarterly by the Program Manager(s) prior to delivery of Cost Equalization statements to the other party.

In the event of a material change in circumstances, estimates, or Project scope which makes the Project budget inaccurate, the Program Manager(s) must request a modification of the budget for that Project and present the revised plan to the Executive Board of Directors for approval of the modification. The existing Project budget shall remain in effect unless and until amended by approval of the Executive Board of Directors.

APPENDIX E

HIP5L, HIP6L PROGRAM PLAN - REV. 2.0

PROPOSAL FOR AMD PARTICIPATION

IN LOGIC TECHNOLOGY PROGRAM (see attachment)

APPENDIX E

HiP5L, HiP6L Program Plan - Rev. 2.0

Proposal for AMD Participation in Logic Technology Program

AMD proposes to participate in the joint Logic Technology proposal as described below. The goal of the program is to complete production qualification of the ***** technology in Fab30 by the *****. The critical assumptions and milestones proposed to achieve this are summarized as follows:

1) Motorola will provide AMD with all technology targets for HIP5L and HIP6L. These are to include the ***** Motorola for HiP5L. This transfer should be completed before *****. Motorola will provide the necessary information early enough to allow AMD design engineers to meet the maskset tape out dates for the HIP5L ***** and HIP6L ***** product vehicles.

2) A core management team will be defined with responsibility to ensure the success of the joint technology programs. The team will be responsible for understanding HIP5L progress to date and further defining a detailed transfer methodology. The team will be also be responsible for identifying shared development and transfer activities for HiP6L and insuring a successful technology transfer to both MOS13 and Fab30. It is estimated that the participation of four to six people from each company will be required.

3) AMD will provide Motorola with ***** technology to allow processing to begin at Motorola by *****. This ***** will be one ***** AMD but ***** and will include a ***** Motorola *****. Motorola will provide all necessary ***** to enable measurement of ***** as included in this *****. This ***** will establish a Fab30 startup vehicle and demonstrate the capability of ***** technology.

4) HIP5L transfer schedule will be such as to allow ***** in Fab30 by *****. AMD and Motorola engineers will meet prior to ***** to define ***** and facility requirements, and the ***** together with the identification of ***** HiP6L. AMD will assign integration and process engineers in Austin as part of the technology transfer plan. These engineers will work together with Motorola engineers to allow AMD to begin ***** Fab30 by *****.

5) AMD will provide Motorola with a ***** for HIP6L technology to allow *****. This ***** will be one ***** AMD but ***** above. In addition, a joint agreement on ***** HIP6L will be completed during ***** to allow for AMD to begin Fab30 ***** and a ***** begin in *****. AMD and Motorola will work towards developing a strategy and the creation of a ***** that will achieve *****

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***** on HIP6L in Fab30 by *****. The joint core team will agree on development steps and guidelines together with roles & responsibilities.

6) During the transfer of HIP5L and HIP6L Motorola will provide limited engineering support onsite in Fab30 provided that resources for such support are available and their criticality to Motorola in the particular timeframe does not prevent assignment at Fab30. This should include specialists in device engineering and process integration, as well as key module engineers for the *****. The number, timing and duration of Motorola assignments in Dresden will be mutually agreed upon. It is estimated that 4-5 Motorola engineers will be needed in Dresden for 1-2 weeks per process transfer. Motorola will also provide jointly agreed ***** in ARPDL or MOS13 to complete ***** to facilitate both technology transfers.

7) Motorola and AMD acknowledge that the dates set forth in this Appendix 2 are aggressive and that there is risk associated with achieving the particular goals by such dates. Although Motorola and AMD have agreed to attempt to meet the schedules set forth herein, *****.

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APPENDIX F

CDR3 PROGRAM PLAN - REV. 3.0

PROPOSAL FOR AMD PARTICIPATION IN CDR3 PROGRAM (see attachment)

APPENDIX F

CDR3 Program Plan - Rev. 3.0

Proposal for AMD Participation in CDR3 Program

AMD Proposes to participate in the CDR3 development proposal as described on the attached chart. The goal of the program is to complete the ***** of ***** in a Motorola fab by *****, with ***** to follow. The critical assumptions and milestones proposed to achieve this are summarized as follows:

1) A major checkpoint of ***** is defined (based on a ***** program start) to make an *****, and define a ***** on that selection, consistent with the logic platform already defined for CDR3. (In order to accomplish this, AMD will need to complete ***** - as well as sample silicon wafers [for AMD] to build ***** models for the ***** by *****. AMD will ***** recommendation on information gathered from the CDR1 support program, from information from AMD test chips [that exist] that are pertinent to the decision, and from Motorola's input.)

2) Coincident with item #1 is the publication of ***** module by *****. This will be based on, and compatible with the logic design rules defined by Motorola on *****. Motorola will control and manage design rule documentation.

3) A test array will be designed and completed by *****. It will contain a ***** test structures. It will be consistent with the defined design rules, and will utilize the *****. These ***** should be selected from existing AMD and Motorola ***** used in their logic programs. *****.

4) The ***** will be fabricated in SDC and a Motorola fab during *****. AMD will establish a support team of device and process integration specialists, three to four people, during ***** (with consultation support prior to that) to work jointly with Motorola in directing *****. An additional team will be established in SDC during ***** supporting ***** SDC. Process integration engineering support in a Motorola fab will be provided by Motorola. As appropriate, process module development resources from AMD will support unique process development requirements that may be necessary to achieve successful process integration. Motorola may assign process integration engineers as required for process transfer and training.

5) An AMD design team will be assembled in Austin to support the generation of the *****, and the design of the *****. AMD will take the lead role for the ***** Motorola for *****. Based on this assumption, a team of six AMD design and layout

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engineers will be assembled in AMD Austin for this task. The ***** will be completed in time to tape out by ***** with the ***** by Motorola completed by *****. Technical specifications and requirements for the *****, particularly performance parameters, need to be specified by *****. Motorola will have primary responsibility for the design of the *****. AMD will assign engineers to support accomplishment of these tasks. Support will consist of establishing feasibility of the design parameters of the ***** by approximately ***** and making available the results of AMD's experience and expertise in *****, with the goal of enabling demonstration of a functional ***** by *****.

6) AMD product engineering, with support from Motorola, will support ***** and characterization, conduct ***** studies, participate in the design of the ***** for the product, as well as participate in the characterization and qualification of the *****. Approximately three people will be assigned to this task out of Sunnyvale and Austin. AMD will host some Motorola engineering staff to learn this area.

7) SDC will provide silicon process support in two stages; ***** work to understand ***** unique to AMD flash experience, and ***** parallel with ***** by Motorola for initial evaluation of full flow structures. *****.

8) A ***** should be support by the *****, with completion by *****. A ***** should be completed by ***** based on product reliability testing and characterization. Qualification criteria and specifications are to be defined at the appropriate time by a team consisting of members form technology, product, fab, reliability and quality, etc.

9) MOS12 will carry the product silicon processing, qualification material processing and subsequent manufacture. MOS13 will support transfer to MOS12. AMD will provide selected technical support necessary to help assure successful qualification.

10) Product execution metrics are preliminary defined as set forth below. The final definitions of the following metrics will be set forth in the Comprehensive Agreement.

1. *****
2. *****
3. *****
4. *****
5. *****
6. *****
7. *****
8. *****
9. *****
10. *****

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Relationship to other projects: AMD's consultation involvement on CDR1 will also serve to acquaint AMD with details and status of the *****, and will support the ***** task in item #1 above. It is also expected that during 1998-1999, the HIP6F effort will be mounted, building on and augmenting the resource team assembled for CDR3.

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APPENDIX G

FORM OF CONFIDENTIALITY AGREEMENT ((S) 11.3) (see attachment)

APPENDIX G: FORM OF CONFIDENTIALITY AGREEMENT ((S)11.3)

In order to protect certain confidential information which may be disclosed by the Disclosing Party, with offices at _____ to Recipient, with offices at _____, Disclosing Party and Recipient agree that:

1. The Disclosing Party representative responsible for disclosing the confidential information is:

2. The Confidential Information (hereinafter Confidential Information) to be disclosed under this Agreement is described as:

3. Recipient shall use the Confidential Information only for the purpose of: evaluation.

4. This Agreement controls only Confidential Information which is disclosed for a period of three (3) years from the later date shown below.

5. Recipient's duty to protect the Confidential Information under this Agreement expires _____ from the receipt of information.

6. Recipient shall protect the disclosed Confidential Information by using the same degree of care, but no less than a reasonable degree of care, to prevent the unauthorized use, dissemination or publication of the Confidential Information as the Recipient uses to protect its own confidential information of a like nature. Recipient shall not disclose any Confidential Information disclosed hereunder to any third party and shall limit disclosure of information to only those of its employees with a need to know.

7. Recipient shall have a duty to protect only Confidential Information which is (a) disclosed by Disclosing Party in writing and is marked as confidential at the time of disclosure, or which is (b) disclosed by Disclosing Party in any other manner, is identified as confidential at the time of disclosure and is also summarized and designated as confidential in a written memorandum delivered to the Recipient within thirty (30) days of the disclosure.

8. This Agreement imposes no obligation upon Recipient with respect to Confidential Information which (a) was in the Recipient's possession on or before the receipt from Disclosing Party; (b) is or becomes a matter of public knowledge through no fault of the Recipient; (c) is rightfully received by the Recipient from a third party without a duty of confidentiality; (d) is independently developed by the Recipient; or (e) is disclosed pursuant to a valid order of a court or authorized government agency provided that Recipient has given Disclosing Party an opportunity to defend, limit or protect such disclosure.

9. All confidential information shall remain the property of Disclosing Party or (AMD or Motorola), as applicable, and shall be returned, with all copies that have been made, upon written request of Disclosing Party or (AMD or Motorola), respectively, with the exception of one copy which may be kept by the Receiving Party for archival purposes.

10. Disclosing Party warrants that it has the right to make the disclosure of the Confidential Information contemplated by this Agreement. Recipient does not acquire any intellectual property rights under this Agreement except the limited right to the use and copy the Confidential Information set out in paragraph 3 above.

11. Neither party has an obligation under this Agreement to purchase any service or item from the other party.

12. Neither party has an obligation under this Agreement to offer for sale products using or incorporating the confidential information.

13. Recipient shall adhere to the US Export Administration Regulations (EAR), currently found at 15 CFR Parts 730 through 744, and shall not export or re-export or release the technology, software, or any source code to a national of a country in Country Groups D:1, E:2 or Syria, or export to country Groups D:1 or E:2 the direct product of such technology, if such foreign produced direct product is subject to national security controls as identified on the Commerce Control List (currently found in Supplement 1 to Part 774 of EAR), unless properly authorized by the US Government. These export requirements shall survive any termination of this Agreement.

14. The parties do not intend that any agency or partnership relationship be created between them by this Agreement.

15. All additions or modifications to this Agreement must be made in writing and must be signed by both parties.

16. In the event of a breach by Recipient of the terms of this Agreement related to _____ (AMD's or Motorola's) Confidential Information, _____ (AMD or Motorola) will be a third party beneficiary of any claims Disclosing Party has against Recipient for such breach.

17. This Agreement is made under and shall be construed according to the laws of the State of Texas.

DISCLOSING PARTY	RECIPIENT
By:	By:
Name:	Name:
Title:	Title:
Date:	Date:

PATENT LICENSE AGREEMENT

THIS AGREEMENT is entered into by and between Motorola, Inc., a Delaware corporation having an office at 1303 E. Algonquin Road, Schaumburg, Illinois 60196, (hereinafter called "MOTOROLA"), and Advanced Micro Devices, Inc., a Delaware corporation having an office at One AMD Place, P.O. Box 3453, Sunnyvale, California 94088-3453 (hereinafter called "AMD").

WHEREAS, MOTOROLA owns and has, or may have, rights in various patents issued, and applications for patents pending, in various countries of the world as to which AMD desires to acquire licenses as hereinafter provided, and

WHEREAS, AMD owns and has, or may have, rights in various patents issued, and applications for patents pending, in various countries of the world as to which MOTOROLA desires to acquire licenses as hereinafter provided, and

WHEREAS, AMD and MOTOROLA are engaged in continuing research, development and engineering in regard to LICENSED PRODUCTS (as hereinafter defined) and have programs for the patenting of inventions resulting therefrom,

NOW THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, it is agreed as follows:

Section 1. - DEFINITIONS

The capitalized terms used herein shall have the definitions assigned to them in this Section 1, and shall include the singular as well as the plural.

1.1. SUBSIDIARY means a corporation, company, or other entity, fifty percent (50%) or more of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly by a party hereto, but such corporation, company, or other entity shall be deemed to be a SUBSIDIARY only so long as such ownership or control exists.

1.2. SEMICONDUCTIVE MATERIAL means any material whose conductivity is intermediate to that of metals and insulators at room temperature and whose conductivity, over some temperature range, increases with increases in temperature. Such material shall include but not be limited to refined products, reaction products, reduced products, mixtures and compounds.

1.3. SEMICONDUCTOR ELEMENT means a device consisting primarily of one or more active and/or passive circuit elements formed on, or in, a unitary body of SEMICONDUCTIVE MATERIAL for performing electrical or electronic functions, which device may include a plurality of electrodes and/or means for contacting or interconnecting such elements, and whether or not said body consists of a single SEMICONDUCTIVE MATERIAL or of a multiplicity of such materials, and whether or not said body includes one or more layers or other regions (constituting substantially less than the whole of said body) of a material or materials which are

of a type other than SEMICONDUCTIVE MATERIAL and, if provided therewith, such device includes housing and/or supporting means therefor. SEMICONDUCTOR ELEMENT shall not include magnetoresistive devices or devices formed of materials having a permanent magnetic effect.

1.4. MANUFACTURING APPARATUS means as to each party hereto, any instrumentality or aggregate of instrumentalities primarily designed for use in the fabrication of that party's LICENSED PRODUCTS (as hereinafter defined).

1.5. FUNCTIONAL ASSEMBLY means (i) a single SEMICONDUCTOR ELEMENT or (ii) two or more SEMICONDUCTOR ELEMENTS mechanically and functionally interconnected in an inseparable and irreplaceable manner within a single housing therefor for generating, receiving, transmitting, storing, transforming or acting in response to a signal.

1.6. MICROPROCESSOR means a FUNCTIONAL ASSEMBLY having a central processing unit which includes registers, control logic, decision logic, and input-output circuitry appropriately coupled to interconnections and has a capability of executing temporarily or permanently stored instructions or microinstructions and which central processing unit may also include internal buses such as data buses, address buses, or control buses; and which FUNCTIONAL ASSEMBLY may also include memory, clocks, input-output interface circuitry, or other electronic functions ordinarily associated with or connected to central processing units.

1.7. INPUT-OUTPUT ADAPTOR means a FUNCTIONAL ASSEMBLY which is adapted to provide an interface between a MICROPROCESSOR and any instrumentality or aggregate of instrumentalities adapted to compute, classify, process, transmit, receive, retrieve, originate, switch, store, display, manifest, measure, detect, record, reproduce, handle, or utilize any form of information, intelligence or data for business, scientific, control or other purposes, but shall not include such instrumentality or aggregate of instrumentalities, per se.

1.8. SYSTEM means one or more FUNCTIONAL ASSEMBLIES whether or not combined with one or more active and/or passive elements for performing electrical or electronic functions, whether or not a housing and/or supporting means for said circuitry is included.

1.9. ELECTRICAL METHOD means a method or steps for using FUNCTIONAL ASSEMBLIES, whether or not combined with one or more active and/or passive elements, for performing electrical or electronic functions.

1.10. MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR means a MOTOROLA existing business unit: (i) now consisting of a Consumer Systems Group, a Networking & Computing Systems Group, a Semiconductor Components Group, a Transportation Systems Group, and a Wireless Subscriber Systems Group, (ii) having major manufacturing facilities located in Phoenix, Mesa, Chandler and Tempe, Arizona; Austin, Texas; Raleigh, North Carolina; Irvine, California; Toulouse, France; Aizu and Sendai, Japan; Tianjin, China; East Kilbride and South Queensferry, Scotland; Guadalajara, Mexico; and Seremban, Malaysia; and (iii) making and/or developing products falling within the definition of LICENSED PRODUCTS (as hereinafter defined). This definition of the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR shall also include any predecessor MOTOROLA business unit of said business units

taken singularly or in combination and any future business unit of MOTOROLA which is acquired or derived from, by separation or merger, irrespective of appellation, said business units taken singularly or in combination, or which is formed for making and/or developing LICENSED PRODUCTS (as hereinafter defined).

1.11. MOTOROLA PATENTS means all classes or types of patents, utility models, design patents and applications for the aforementioned of all countries of the world which, prior to the date of expiration or termination of this Agreement are:

(i) issued, published or filed, or which properly claim priority from a patent or application issued, published, or filed, and which arise out of inventions made solely by one or more employees of the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR, or

(ii) are acquired by the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR:

and under which and to the extent to which and subject to the conditions under which the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR may have, as of the EFFECTIVE DATE of this Agreement, or may thereafter during the term of this Agreement acquire, the right to grant licenses or rights of the scope granted herein without the payment of royalties or other consideration to third persons, except for payments to third persons (a) for inventions made by said third persons while engaged by the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR, or (b) as consideration for the acquisition of such patents, utility models, design patents and applications. In no event shall the term MOTOROLA PATENTS include or encompass patents on inventions made by employees of MOTOROLA while in the employ of groups or operations of MOTOROLA other than the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR, except in accordance with Section 3.12.

1.12. AMD PATENTS means all classes or types of patents, utility models, design patents and applications for the aforementioned of all countries of the world which, prior to the date of expiration or termination of this Agreement are:

(i) issued, published or filed, or which properly claim priority from a patent or application issued, published, or filed, and which arise out of inventions made solely by one or more employees of AMD, or

(ii) are acquired by AMD;

and under which and to the extent to which and subject to the conditions under which AMD may have, as of the EFFECTIVE DATE of this Agreement, or may thereafter during the term of this Agreement acquire, the right to grant licenses or rights of the scope granted herein without the payment of royalties or other consideration to third persons, except for payments to third persons (a) for inventions made by said third persons while engaged by AMD or (b) as consideration for the acquisition of such patents, utility models, design patents and applications.

1.13. PROCESS AND STRUCTURE PATENT means those claims of a MOTOROLA PATENT or AMD PATENT, as the case may be, that claim a SEMICONDUCTIVE

MATERIAL or that claim an invention that is useful in the process of or apparatus for making SEMICONDUCTIVE MATERIAL or a FUNCTIONAL ASSEMBLY or that claim the arrangement or structural interrelationship in or on a SEMICONDUCTOR ELEMENT of regions, layers, electrodes, or contacts thereof. PROCESS OR STRUCTURE PATENT further means any claim of a MOTOROLA PATENT or AMD PATENT that claims a FUNCTIONAL ASSEMBLY package or the process of packaging a FUNCTIONAL ASSEMBLY.

1.14. CIRCUIT PATENT means those claims of a MOTOROLA PATENT or AMD PATENT, as the case may be, that claim, separately or in combination, a circuit, a complex of circuits and/or a system arrangement of circuits for generating, receiving, transmitting, storing, transforming or acting in response to an electrical signal or that claims a method or steps for using such a plurality of elements.

1.15. LICENSED PRODUCTS means any one or more of the following items, whether or not an item is incorporated in more comprehensive equipment:

1.15.1. SEMICONDUCTIVE MATERIALS;

1.15.2. SEMICONDUCTOR ELEMENTS;

1.15.3. FUNCTIONAL ASSEMBLIES;

1.15.4. SYSTEMS;

1.15.5. SYSTEMS employing an ELECTRICAL METHOD;

1.15.6. MICROPROCESSORS; and

1.15.7. INPUT-OUTPUT ADAPTORS.

1.16. EFFECTIVE DATE shall mean October 1, 1998.

Section 2. - MUTUAL RELEASES

2.1. *****
*****
*****
*****
*****

2.2. *****
*****
*****
*****
*****

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Section 3. - GRANTS

3.1. AMD hereby grants to MOTOROLA, for the lives of the AMD PATENTS, a world wide, non-exclusive, non-transferable license under AMD PATENTS without the right to sub-license:

3.1.1. to make, *****, LICENSED PRODUCTS and for LICENSED PRODUCTS so made, to import, use, lease, sell, offer for sale, or otherwise dispose of LICENSED PRODUCTS

(i) *****
(ii) *****
(iii) *****

and to practice any process or method involved in the manufacture or use thereof, and

3.1.2. to make, use and have made MANUFACTURING APPARATUS and to practice any process or method involved in the use thereof.

3.2. AMD hereby grants to MOTOROLA, for the lives of the AMD PATENTS, a world wide, non-exclusive, non-transferable covenant not to assert AMD PATENTS against MOTOROLA as a result of the purchase, importation, use, lease, resale, offer for sale, or other disposal of LICENSED PRODUCTS designed solely or jointly by or for a third party and manufactured by a third party. *****

.

3.3. AMD hereby grants to MOTOROLA, for the lives of the AMD PATENTS, a world wide, non-exclusive, non-transferable license under ***** of AMD, without the right to sub-license, to make, but not to have made, and to sell or otherwise dispose of exclusively to a third party LICENSED PRODUCTS designed solely (other than by Motorola) or jointly by or for that third party. AMD hereby further grants to MOTOROLA, for the lives of the AMD PATENTS, a world wide, non-exclusive, non-transferable covenant not to assert ***** of AMD against MOTOROLA for the manufacture, sale, or other disposal of such LICENSED PRODUCTS.

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3.4. AMD hereby grants to MOTOROLA, for the lives of the AMD PATENTS, a non-exclusive, world wide, non-transferable license under ***** of AMD, without the right to sub-license, to have made LICENSED PRODUCTS designed solely or jointly by or for MOTOROLA, and to import, use, lease, sell, offer for sale, or otherwise dispose of such LICENSED PRODUCTS. AMD hereby further grants to MOTOROLA, for the lives of the AMD PATENTS, a world wide, non-exclusive, non-transferable covenant not to assert ***** of AMD against MOTOROLA for having such LICENSED PRODUCTS made. *****

3.5. MOTOROLA hereby grants to AMD, for the lives of the MOTOROLA PATENTS, a world wide, non-exclusive, non-transferable license under MOTOROLA PATENTS without the right to sub-license:

3.5.1. to make, ***** LICENSED PRODUCTS, and for LICENSED PRODUCTS so made, to import, use, lease, sell, offer for sale, or otherwise dispose of LICENSED PRODUCTS

(i) *****
(ii) *****
(iii) *****

and to practice any process or method involved in the manufacture or use thereof, and

3.5.2. to make, use and have made MANUFACTURING APPARATUS and to practice any process or method involved in the use thereof.

3.6. MOTOROLA hereby grants to AMD, for the lives of the MOTOROLA PATENTS, a world wide, non-exclusive, non-transferable covenant not to assert MOTOROLA PATENTS against AMD as a result of the purchase, importation, use, lease, resale, offer for sale, or other disposal of LICENSED PRODUCTS designed solely or jointly by or for a third party and manufactured by a third party. *****
.

3.7. MOTOROLA hereby grants to AMD, for the lives of the MOTOROLA PATENTS, a world wide, non-exclusive, non-transferable license under ***** of MOTOROLA, without the right to sub-license, to make, but not to have made, and to sell or otherwise dispose of exclusively to a third party LICENSED PRODUCTS designed solely (other than by AMD) or jointly by or for that third party. MOTOROLA hereby further grants to AMD, for the lives of the MOTOROLA PATENTS, a world wide, non-exclusive, non-

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transferable covenant not to assert ***** of MOTOROLA against AMD for the manufacture, sale, or other disposal of such LICENSED PRODUCTS. *****

3.8. MOTOROLA hereby grants to AMD, for the lives of the MOTOROLA PATENTS, a non-exclusive, world wide, non-transferable license under ***** of MOTOROLA, without the right to sub-license, to have made LICENSED PRODUCTS designed solely or jointly by or for AMD and to import, use, lease, sell, offer for sale, or otherwise dispose of such LICENSED PRODUCTS. MOTOROLA hereby further grants to AMD, for the lives of the MOTOROLA PATENTS, a world wide, non-exclusive, non-transferable covenant not to assert ***** of MOTOROLA against AMD for having such LICENSED PRODUCTS made. *****

3.9. (a) Notwithstanding the provisions of Sections 3.5 - 3.8, in no event shall the license or rights granted to AMD include the right to make, have made, use, or sell

(i) any MICROPROCESSOR which is able to execute the object code of, or which substantially utilizes the instruction set of, or which has a programmer's model which is substantially compatible with the programmer's model of, any MICROPROCESSOR designed by or for MOTOROLA and sold by MOTOROLA, including but not limited to the products of the MCFXXX, 65XX, M68XX, M68XXX, M1468XX, M68HCXX, M683XX, M88XXX, DSP56XXX, or DSP96XXX families of MICROPROCESSORS, or MICROPROCESSORS based on the POWER(TM), PowerPC(TM), ColdFire(TM), or MoCORE(TM) architectures, or any new family of MICROPROCESSORS created by MOTOROLA prior to the termination of this Agreement, or

(ii) any INPUT-OUTPUT ADAPTOR which has a register set that is substantially compatible with the register set of any INPUT-OUTPUT ADAPTOR sold by MOTOROLA and specifically designed by or for MOTOROLA to interface with a MICROPROCESSOR designed by or for MOTOROLA and sold by MOTOROLA, or

(iii) any product that incorporates such MICROPROCESSOR or INPUT-OUTPUT ADAPTOR as elements of their structure.

However, AMD shall have the right, subject to all copyright and mask work rights owned or controlled by MOTOROLA and subject to the above limitations of this Section, to develop and manufacture original designs of products performing substantially the same functions as any MOTOROLA MICROPROCESSOR or INPUT-OUTPUT ADAPTOR.

(b) Notwithstanding the provisions of Sections 3.1 - 3.4, in no event shall the license or rights granted to MOTOROLA include the right to make, have made, use, or sell

(i) any MICROPROCESSOR having an internal architecture proprietary to AMD and which is able to execute the object code of, or which substantially utilizes the AMD

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specific instructions of, or which has AMD specific portions of a programmer's model which is substantially compatible with the AMD specific portions of a programmer's model of, any MICROPROCESSOR designed by or for AMD and sold by AMD, including but not limited to the products of the Kx families of MICROPROCESSORS, or any new family of MICROPROCESSORS created by AMD prior to the termination of this Agreement, or

(ii) any INPUT-OUTPUT ADAPTOR which has a register set that is substantially compatible with the register set of any INPUT-OUTPUT ADAPTOR sold by MOTOROLA and specifically designed by or for MOTOROLA to interface with a MICROPROCESSOR designed by or for MOTOROLA and sold by MOTOROLA, or

(iii) any product that incorporates such MICROPROCESSOR or INPUT-OUTPUT ADAPTOR as elements of their structure.

However, MOTOROLA shall have the right, subject to all copyright and mask work rights owned or controlled by AMD and subject to the above limitations of this Section, to develop and manufacture original designs of products performing substantially the same functions as any AMD MICROPROCESSOR or INPUT-OUTPUT ADAPTOR.

3.10. During the term of this Agreement, MOTOROLA agrees *****, based upon any claim of any MOTOROLA PATENT under which such LICENSED PRODUCTS are licensed hereunder, for the use of any LICENSED PRODUCTS which are made, imported, sold, leased or otherwise disposed of by AMD.

3.11. During the term of this Agreement, AMD agrees ***** based upon any claim of any AMD PATENT under which such LICENSED PRODUCTS are licensed hereunder, for the use of any LICENSED PRODUCTS which are made, imported, sold, leased or otherwise disposed of by MOTOROLA.

3.12. MOTOROLA shall have the right to extend the provisions of Sections 2.2, 3.1-3.4, and 3.11, respectively, to any MOTOROLA SUBSIDIARY if such SUBSIDIARY consents to extend the definition of MOTOROLA PATENTS in Section 1.11 to include inventions made solely by employees of that SUBSIDIARY and/or solely by employees of the MOTOROLA SEMICONDUCTOR PRODUCTS SECTOR and such SUBSIDIARY. Notwithstanding the foregoing, if a third party holding at least twenty percent (20%) ownership interest in any such SUBSIDIARY asserts a patent against the LICENSED PRODUCTS of AMD or their use or refuses to grant a license to AMD under such patent on fair, reasonable and non-discriminatory conditions or otherwise seeks legal redress, licenses granted hereunder to that SUBSIDIARY shall terminate as of the date of such assertion or refusal.

3.13. AMD shall have the right to extend the provisions of Sections 2.1 and 3.5- 3.10, respectively, to any AMD SUBSIDIARY if such SUBSIDIARY consents to extend the definition of AMD PATENTS in Section 1.12 to include inventions made solely by employees of that SUBSIDIARY and/or solely by employees of AMD and such SUBSIDIARY.

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Notwithstanding the foregoing, if a third party holding at least twenty percent (20%) ownership interest in any such SUBSIDIARY asserts a patent against the LICENSED PRODUCTS of MOTOROLA or their use or refuses to grant a license to MOTOROLA under such patent on fair, reasonable and non-discriminatory conditions or otherwise seeks legal redress, licenses granted hereunder to that SUBSIDIARY shall terminate as of the date of such assertion or refusal. In the event that AMD's Vantis SUBSIDIARY ceases to be a SUBSIDIARY as defined herein, AMD shall retain the right to extend the provisions of this Section 3.13 thereto but only for those products and volumes manufactured and sold at the time of divestiture.

3.14. No licenses under any copyrights or mask work rights of either MOTOROLA or AMD are granted under this Agreement.

Section 4. PAYMENTS

4.1. The releases, rights, nonassertions, and licenses granted by MOTOROLA to AMD and by AMD to MOTOROLA *****.

Section 5. TERM ,TERMINATION, AND ASSIGNABILITY

5.1. The term of this Agreement shall be from the EFFECTIVE DATE and shall extend for a period of seven (7) years unless earlier terminated as elsewhere provided in this Agreement.

5.2. In the event of any material breach of this Agreement by either party hereto, if such breach is not corrected within forty-five (45) days after written notice describing such breach, this Agreement may be terminated forthwith by further written notice to that effect from the party noticing the breach.

5.3. Either party hereto shall also have the right to terminate this Agreement forthwith by giving written notice of termination to the other party at any time, except in the event of, and only during, a reorganization under Chapter 11 of the United States Bankruptcy Code, upon or after:

5.3.1. the filing by such other party of a petition in bankruptcy or insolvency; or

5.3.2. any adjudication that such other party is bankrupt or insolvent; or

5.3.3. the filing by such other party of any legal action or document seeking reorganization, readjustment or arrangement of its business under any law relating to bankruptcy or insolvency; or

5.3.4. the appointment of a receiver for all or substantially all of the property of such other party; or

5.3.5. the making by such other party of any assignment for the benefit of creditors; or

5.3.6. the institution of any proceedings for the liquidation or winding up of such other party's business or for the termination of its corporate charter.

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5.4. In the event of termination of this Agreement by one party pursuant to Section 5.2, the licenses and rights granted to or for the benefit of that one party hereto and its SUBSIDIARIES under MOTOROLA PATENTS or AMD PATENTS, as the case may be, depending upon who is the party doing the terminating, shall *****.

5.5. At such time as is mutually agreeable, at the written request of either party hereto to the other party hereto, but in no event less than six (6) months prior to the expiration of this Agreement, the parties hereto shall discuss the possible extension of or the renewal of the term of this Agreement, including the possible amendment of the provisions thereof.

5.6. The rights or privileges provided for in this Agreement may be assigned or transferred by either party only with the prior written consent of the other party and with the authorization or approval of any governmental authority as then may be required, except to a successor in ownership of all or substantially all of the assets of the assigning party, but such successor, before such assignment or transfer is effective, shall expressly assume in writing to the other party the performance of all of the terms and conditions of the assigning party.

Section 6. MISCELLANEOUS PROVISIONS

6.1. Each of the parties hereto represents and warrants that it has the right to grant to or for the benefit of the other the rights and licenses granted hereunder in Sections 2 and 3.

6.2. Nothing contained in this Agreement shall be construed as:

6.2.1. restricting the right of MOTOROLA or any of its SUBSIDIARIES to make, use, sell, lease or otherwise dispose of any particular product or products not herein licensed;

6.2.2. restricting the right of AMD or any of its SUBSIDIARIES to make, use, sell, lease or otherwise dispose of any particular product or products not herein licensed;

6.2.3. an admission by AMD of, or a warranty or representation by MOTOROLA as to, the validity and/or scope of the MOTOROLA PATENTS, or a limitation on AMD to contest, in any proceeding, the validity and/or scope thereof;

6.2.4. an admission by MOTOROLA of, or a warranty or representation by AMD as to, the validity and/or scope of the AMD PATENTS, or a limitation on MOTOROLA to contest, in any proceeding, the validity and/or scope thereof;

6.2.5. conferring any license or other right, by implication, estoppel or otherwise, under any patent application, patent or patent right, except as herein expressly granted under the MOTOROLA PATENTS, and the AMD PATENTS;

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6.2.6. conferring any license or right with respect to any trademark, trade or brand name, a corporate name of either party or any of their respective SUBSIDIARIES, or any other name or mark, or contraction, abbreviation or simulation thereof;

6.2.7. imposing on MOTOROLA any obligation to institute any suit or action for infringement of any MOTOROLA PATENTS, or to defend any suit or action brought by a third party which challenges or concerns the validity of any MOTOROLA PATENTS licensed under this Agreement;

6.2.8. imposing upon AMD any obligation to institute any suit or action for infringement of any AMD PATENTS, or to defend any suit or action brought by a third party which challenges or concerns the validity of any AMD PATENTS licensed under this Agreement;

6.2.9. a warranty or representation by MOTOROLA that any manufacture, use, sale, lease or other disposition of LICENSED PRODUCTS of AMD will be free from infringement of any patent other than the MOTOROLA PATENTS licensed herein;

6.2.10. a warranty or representation by AMD that any manufacture, use, sale, lease or other disposition of LICENSED PRODUCTS of MOTOROLA will be free from infringement of any patent other than the AMD PATENTS licensed herein;

6.2.11. imposing on either party any obligation to file any patent application or to secure any patent or maintain any patent in force; or

6.2.12. an obligation on either party to furnish any manufacturing or technical information under this Agreement.

6.3. No express or implied waiver by either of the parties to this Agreement of any breach of any term, condition or obligation of this Agreement by the other party shall be construed as a waiver of any subsequent breach of that term, condition or obligation or of any other term, condition or obligation of this Agreement of the same or of a different nature.

6.4. Anything contained in this Agreement to the contrary notwithstanding, the obligations of the parties hereto shall be subject to all laws, both present and future, of any Government having jurisdiction over either party hereto, and to orders or regulations of any such Government, or any department, agency, or court thereof, and to acts of war, acts of public enemies, strikes, or other labor disturbances, fires, floods, acts of God, or any causes of like or different kind beyond the control of the parties, and the parties hereto shall be excused from any failure to perform any obligation hereunder to the extent such failure is caused by any such law, order, regulation, or contingency but only so long as said law, order, regulation or contingency continues.

6.5. The captions used in this Agreement are for convenience only, and are not to be used in interpreting the obligations of the parties under this Agreement.

6.6. This Agreement and the performance of the parties hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

6.7. If any term, clause, or provision of this Agreement shall be judged to be invalid, the validity of any other term, clause, or provision shall not be affected; and such invalid term, clause, or provision shall be deemed deleted from this Agreement.

6.8. This Agreement is the result of negotiation between the parties, which parties acknowledge that they have been represented by counsel during such negotiation; accordingly, this Agreement shall not be construed for or against either party regardless of which party drafted this Agreement or any portion thereof.

6.9. In no event shall either party be liable to the other party by reason of this Agreement or any breach or termination of this Agreement for any loss of prospective profits or incidental or special or consequential damages.

6.10. This Agreement sets forth the entire Agreement and understanding between the parties as to the subject matter hereof and merges all prior discussions between them, and neither of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein or as duly set forth on or subsequent to the date hereof in writing and signed by a proper and duly authorized officer or representative of the party to be bound thereby.

6.11. The parties shall have the right to disclose the existence of this Agreement. The parties hereto, however, shall keep the terms of this Agreement confidential and shall not now or hereafter divulge any part thereof to any third party except:

6.11.1. with the prior written consent of the other party; or

6.11.2. to any governmental body having jurisdiction to request and to read the same; or

6.11.3. as otherwise may be required by law or legal processes; or

6.11.4. to legal counsel representing either party.

6.11.5. Notwithstanding the above, no disclosure of this Agreement shall be made pursuant to Section 6.11.2 or 6.11.3 without the disclosing party first giving the other party reasonable prior notice of such intended disclosure so as to allow the other party sufficient time to seek a protective order or otherwise assure the confidentiality of this Agreement as that other party shall deem appropriate.

6.11.6. Notwithstanding anything to the contrary herein, the provisions of this Section 6.11 shall survive termination of this Agreement and continue in perpetuity.

6.12. All notices required or permitted to be given hereunder shall be in writing and shall be valid and sufficient if dispatched by registered airmail, postage prepaid, in any post office in the United States, addressed as follows:

6.12.1. If to MOTOROLA:

Motorola Inc.
1303 East Algonquin Road
Schaumburg, Illinois 60196

Attention: Vice President for
Patents, Trademarks & Licensing

6.12.2. If to AMD:

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

Attention: General Counsel
M/S 150

6.12.3. The date of receipt of such a notice shall be the date for the commencement of the running of the period provided for in such notice, or the date at which such notice takes effect, as the case may be.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

ADVANCED MICRO DEVICES, INC.	MOTOROLA, INC.
Signature: /s/ Gene Conner	Signature: /s/ Bertrand Cambou
Name: Gene Conner	Name: Dr. Bertrand Cambou
Title: Executive VP, Strategic Relations	Title: Senior VP and General Manager
Date:	Date:

EXHIBIT 10.27

LEASE AGREEMENT

by and between

DELAWARE CHIP LLC,

a Delaware limited liability company

as LANDLORD

and

ADVANCED MICRO DEVICES, INC.,

a Delaware corporation,

as TENANT

Premises: One AMD Place
Sunnyvale, California

Dated as of: December 22, 1998

TABLE OF CONTENTS

EXHIBITS

LEASE AGREEMENT, made as of the 22nd day of December, 1998, between DELAWARE CHIP LLC, a Delaware limited liability company ("Landlord"), with an address c/o W. P. Carey & Co., Inc., 50 Rockefeller Plaza, 2nd Floor, New York, New York 10020, and ADVANCED MICRO DEVICES, INC., a Delaware corporation ("Tenant"), with an address at One AMD Place, Sunnyvale, California 94088.

In consideration of the rents and provisions herein stipulated to be paid and performed, Landlord and Tenant hereby covenant and agree as follows:

1. Demise of Premises. Landlord hereby demises and lets to Tenant, and Tenant hereby takes and leases from Landlord, for the term and upon the provisions hereinafter specified, the following described property (collectively, the "Leased Premises"): (a) the premises described in Exhibit "A" hereto, together with the Appurtenances (collectively, the "Land"); (b) the buildings, structures and other improvements now or hereafter constructed on the Land (collectively, the "Improvements"); and (c) the fixtures, machinery, equipment and other property described in Exhibit "B" hereto (collectively, the "Equipment").

2. Certain Definitions.

"Additional Rent" shall mean Additional Rent as defined in Paragraph 7.

"Adjoining Property" shall mean all sidewalks, driveways, curbs, gores and vault spaces adjoining any of the Leased Premises.

"Alterations" shall mean all changes, additions, improvements or repairs to, all alterations, reconstructions, renewals, replacements or removals of and all substitutions or replacements for any of the Improvements or Equipment, both interior and exterior, structural and non-structural, and ordinary and extraordinary.

"Appurtenances" shall mean all tenements, hereditaments, easements, rights-of-way, rights, privileges in and to the Land, including (a) easements over other lands granted by any Easement Agreement and (b) any streets, ways, alleys, vaults, gores or strips of land adjoining the Land.

"Assignment" shall mean any assignment of rents and leases from Landlord to a Lender which (a) encumbers any of the Leased Premises and (b) secures Landlord's obligation to repay a Loan, as the same may be amended, supplemented or modified from time to time.

"Basic Rent" shall mean Basic Rent as defined in Paragraph 6.

"Basic Rent Payment Dates" shall mean the Basic Rent Payment Dates as defined in Paragraph 6.

"Casualty" shall mean any loss of or damage to any property (including the Leased Premises) included within or related to the Leased Premises or arising from the Adjoining Property.

"Commencement Date" shall mean Commencement Date as defined in Paragraph 5.

"Condemnation" shall mean a Taking and/or a Requisition.

"Condemnation Notice" shall mean notice or knowledge of the institution of or intention to institute any proceeding for Condemnation.

"Costs" of a Person or associated with a specified transaction shall mean all reasonable costs and expenses incurred by such Person or associated with such transaction, including, without limitation, reasonable attorneys' fees and expenses, court costs, brokerage fees, escrow fees, title insurance premiums, mortgage commitment fees, mortgage points, recording fees and transfer taxes, as the circumstances require.

"CPI" shall mean CPI as defined in Exhibit "D" hereto.

"Default Rate" shall mean the Default Rate as defined in Paragraph 7(a)(iv).

"Easement Agreement" shall mean any conditions, covenants, restrictions, easements, declarations, licenses and other agreements, including any site access agreements, listed as Permitted Encumbrances or as may hereafter affect the Leased Premises.

"Environmental Law" shall mean (i) whenever enacted or promulgated, any applicable federal, state, and local law, statute, ordinance, rule, regulation, license, permit, authorization, approval, consent, court order, judgment, decree, injunction, code, requirement or agreement with any governmental entity, (x) relating to pollution (or the cleanup thereof), or the protection of air, water vapor, surface water, groundwater, drinking water supply, land (including land surface or subsurface), plant, aquatic and animal life from injury caused by a Hazardous Substance or (y) concerning exposure to, or the use, containment, storage, recycling, reclamation, reuse, treatment, generation, discharge, transportation, processing, handling, labeling, production, disposal or remediation of Hazardous Substances, Hazardous Conditions or Hazardous Activities, in each case as amended and as now or hereafter in effect, and (ii) any common law or equitable doctrine (including, without limitation, injunctive relief and tort doctrines such as negligence, nuisance, trespass and strict liability) that may impose liability or obligations or injuries or damages due to or threatened as a result of the presence of, exposure to, or ingestion of, any Hazardous Substance. The term Environmental Law includes, without limitation, the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act, the federal Water Pollution Control Act, the federal Clean Air Act, the federal Clean Water Act, the federal Resources Conservation and Recovery Act of 1976 (including the Hazardous and Solid Waste Amendments to RCRA), the federal Solid Waste Disposal Act, the federal Toxic Substance Control Act, the federal Insecticide, Fungicide and Rodenticide Act, the federal Occupational Safety and Health Act of 1970, the federal National Environmental Policy Act and the federal Hazardous Materials Transportation Act, each as amended and as now or hereafter in effect and any similar state or local Law.

"Environmental Violation" shall mean (a) any direct or indirect discharge, disposal, spillage, emission, escape, pumping, pouring, injection, leaching, release, seepage, filtration or transporting of any Hazardous Substance at, upon, under, onto or within the Leased Premises, or from the Leased Premises to the environment, in violation of any Environmental Law which results, directly or indirectly, in any liability to Landlord, Tenant or Lender, any Federal, state or local government or any other Person for the costs of any removal or remedial action or natural resources damage or for bodily injury or property damage, (b) any transport to or from or deposit, storage, dumping, placement or use of any Hazardous Substance at, upon, under or within the Leased Premises or which extends to any Adjoining Property in violation of any Environmental Law which results in any liability to any Federal, state or local government or to any other Person for the costs of any removal or remedial action or natural resources damage or for bodily injury or property damage, (c) the abandonment or discarding of any barrels,

containers or other receptacles containing any Hazardous Substances in violation of any Environmental Laws, (d) any environmental activity, occurrence or condition at, on, under or from the Leased Premises which results in any liability, cost or expense to Landlord or Lender or any other owner or occupier of the Leased Premises, or which results in a creation of a lien on the Leased Premises under any Environmental Law, or (e) any violation of or noncompliance with any Environmental Law.

"Equipment" shall mean the Equipment as defined in Paragraph 1.

"Event of Default" shall mean an Event of Default as defined in Paragraph 22(a).

"Excess Land" shall mean that portion of the Land described in Exhibit "A-2".
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"Federal Funds" shall mean federal or other immediately available funds which at the time of payment are legal tender for the payment of public and private debts in the United States of America.

"Hazardous Activity" means any activity, process, procedure or undertaking which directly or indirectly (i) procures, generates or creates any Hazardous Substance; (ii) causes or results in (or threatens to cause or result in) the release, seepage, spill, leak, flow, discharge or emission of any Hazardous Substance into the environment (including the air, ground water, watercourses or water systems), (iii) involves the containment or storage of any Hazardous Substance; or (iv) would cause the Leased Premises or any portion thereof to become a hazardous waste treatment, recycling, reclamation, processing, storage or disposal facility within the meaning of any Environmental Law.

"Hazardous Condition" means any condition which would support any claim or liability under any Environmental Law, including the presence of underground storage tanks.

"Hazardous Substance" means (i) any substance, material, product, petroleum, petroleum product, derivative, compound or mixture, mineral (including asbestos), chemical, gas, medical waste, or other pollutant, in each case whether naturally occurring, man-made or the by-product of any process, that is toxic, harmful or hazardous or acutely hazardous to the environment or public health or safety or (ii) any substance supporting a claim under any Environmental Law, whether or not defined as hazardous as such under any Environmental Law. Hazardous Substances include, without limitation, any toxic or hazardous waste, pollutant, contaminant, industrial waste, petroleum or petroleum-derived substances or waste, radon, radioactive materials, asbestos, asbestos containing materials, urea formaldehyde foam insulation, lead and polychlorinated biphenyls.

"Impositions" shall mean the Impositions as defined in Paragraph 9(a).

"Improvements" shall mean the Improvements as defined in Paragraph 1.

"Indemnitee" shall mean an Indemnitee as defined in Paragraph 15.

"Initial Lender" shall mean GMAC Commercial Mortgage Corporation, its successors and assigns.

"Initial Loan" shall mean the $68,250,000 loan from Initial Lender to Landlord.

"Insurance Requirements" shall mean the requirements of all insurance policies required to be maintained in accordance with this Lease.

"Land" shall mean the Land as defined in Paragraph 1.

"Law(s)" shall mean any constitution, statute, rule of law, code, ordinance, order, judgment, decree, injunction, rule, regulation, policy, requirement or administrative or judicial determination, even if unforeseen or extraordinary, of every duly constituted governmental authority, court or agency, now or hereafter enacted or in effect.

"Lease" shall mean this Lease Agreement.

"Lease Year" shall mean, with respect to the first Lease Year, the period commencing on the Commencement Date and ending at midnight on the last day of the twelfth (12th) consecutive calendar month following the month in which the Commencement Date occurred, and each succeeding twelve (12) month period during the Term.

"Leased Premises" shall mean the Leased Premises as defined in Paragraph 1.

"Legal Requirements" shall mean the requirements of all present and future Laws (including but not limited to Environmental Laws and Laws relating to accessibility to, usability by, and discrimination against, disabled individuals) and all covenants, restrictions and conditions now or hereafter of record which may be applicable to Tenant or to any of the Leased Premises, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or restoration of any of the Leased Premises, even if compliance therewith necessitates structural changes or improvements or results in interference with the use or enjoyment of any of the Leased Premises.

"Lender" shall mean (a) Initial Lender, its successors and assigns, and (b) any person or entity (and their respective successors and assigns) which may, after the date hereof, make a Loan to Landlord or is the holder of any Note.

"Loan" shall mean the Initial Loan and any other loan made by one or more Lenders to Landlord, which loan is secured by a Mortgage and an Assignment and evidenced by a Note.

"Monetary Obligations" shall mean Rent and all other sums payable or reimbursable by Tenant under this Lease to Landlord, to any third party on behalf of Landlord or to any Indemnitee.

"Moody's" shall mean Moody's Investors Services, Inc.

"Mortgage" shall mean any mortgage or deed of trust from Landlord to a Lender which (a) encumbers any of the Leased Premises and (b) secures Landlord's obligation to repay a Loan, as the same may be amended, supplemented or modified.

"Net Award" shall mean (a) the entire award payable to Landlord or Lender by reason of a Condemnation whether pursuant to a judgment or by agreement or otherwise, or (b) the entire proceeds of any insurance required under clauses (i), (ii) (to the extent payable to Landlord or Lender), (iv), (v) (to the extent of the Rent) or (vi) of Paragraph 16(a), as the case may be, less any expenses incurred by Landlord and Lender in collecting such award or proceeds.

"Note" shall mean any promissory note evidencing Landlord's obligation to repay a Loan, as the same may be amended, supplemented or modified.

"Partial Condemnation" shall mean any Condemnation which does not constitute a Termination Event.

"Permitted Encumbrances" shall mean those covenants, restrictions, reservations, liens, conditions and easements and other encumbrances, other than any Mortgage or Assignment, listed on Exhibit "C" hereto (but such listing shall not be deemed to revive any such encumbrances that have expired or terminated or are otherwise invalid or unenforceable).

"Person" shall mean an individual, partnership, association, corporation or other entity.

"Prepayment Premium" shall mean any payment (other than a payment of principal and/or interest which Landlord is required to make under a Note or a Mortgage) by reason of any prepayment by Landlord of any principal due under a Note or Mortgage, and which may be (in lieu of such prepayment premium or prepayment penalty) a "make whole" or yield maintenance clause requiring a prepayment premium or a defeasance premium (such defeasance premium to be an amount equal to the positive difference between (a) the total amount required to defease a Loan and (b) the outstanding principal balance of the Loan as of the date of such defeasance, in either case in an amount sufficient to compensate the Lender for the loss of the benefit of the Loan due to a prepayment.

"Prime Rate" shall mean the annual interest rate as published, from time to time, in The Wall Street Journal as the "Prime Rate" in its column entitled "Money Rate". The Prime Rate may not be the lowest rate of interest charged by any "large U.S. money center commercial banks" and Landlord makes no representations or warranties to that effect. In the event The Wall Street Journal ceases publication or ceases to publish the "Prime Rate" as described above, the Prime Rate shall be the average per annum discount rate (the "Discount Rate") on ninety-one (91) day bills ("Treasury Bills") issued from time to time by the United States Treasury at its most recent auction, plus three hundred (300) basis points. If no such 91-day Treasury Bills are then being issued, the Discount Rate shall be the discount rate on Treasury Bills then being issued for the period of time closest to ninety-one (91) days.

"Renewal Period" shall mean Renewal Period as defined in Paragraph 5.

"Rent" shall mean, collectively, Basic Rent and Additional Rent.

"Requisition" shall mean any temporary requisition or confiscation of the use or occupancy of any of the Leased Premises by any governmental authority, civil or military, whether pursuant to an agreement with such governmental authority in settlement of or under threat of any such requisition or confiscation, or otherwise.

"S&P" shall mean Standard & Poors Corporation.

"Site Assessment" shall mean a Site Assessment as defined in Paragraph 10(c).

"State" shall mean the State of California.

"Surviving Obligations" shall mean any obligations of Tenant under this Lease, actual or contingent, which arise on or prior to the expiration or prior termination of this Lease or which survive such expiration or termination by their own terms.

"Taking" shall mean (a) any taking or damaging of all or a portion of any of the Leased Premises (i) in or by condemnation or other eminent domain proceedings pursuant to any Law, general or special, or (ii) by reason of any agreement with any condemnor in settlement of or under threat of any such condemnation or other eminent domain proceeding, or (iii) by any other means, or (b) any de facto condemnation. The Taking shall be considered to have taken place as of the later of the date actual physical possession is taken by the condemnor, or the date on which the right to compensation and damages accrues under the law applicable to the Leased Premises.

"Term" shall mean the Term as defined in Paragraph 5.

"Termination Amount" shall mean the amount specified in Exhibit "G" for the applicable Lease Year.

"Termination Date" shall mean Termination Date as defined in Paragraph 18.

"Termination Event" shall mean a Termination Event as defined in Paragraph 18.

"Termination Notice" shall mean Termination Notice as defined in Paragraph 18(a).

"Third Party Purchaser" shall mean Third Party Purchaser as defined in Paragraph 21(g).

3. Title and Condition.

(a) The Leased Premises are demised and let subject to (i) the Mortgage and Assignment presently in effect, (ii) the rights of any Persons in possession of the Leased Premises, (iii) the existing state of title of any of the Leased Premises, including any Permitted Encumbrances, (iv) any state of facts which an accurate survey or physical inspection of the Leased Premises might show, (v) all Legal Requirements, including any existing violation of any thereof, and (vi) the condition of the Leased Premises as of the commencement of the Term, without representation or warranty by Landlord.

(b) Tenant acknowledges that the Leased Premises is in good condition and repair at the inception of this Lease. LANDLORD LEASES AND WILL LEASE AND TENANT TAKES AND WILL TAKE THE LEASED PREMISES AS IS. TENANT ACKNOWLEDGES THAT LANDLORD (WHETHER ACTING AS LANDLORD HEREUNDER OR IN ANY OTHER CAPACITY) HAS NOT MADE AND WILL NOT MAKE, NOR SHALL LANDLORD BE DEEMED TO HAVE MADE, ANY WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO ANY OF THE LEASED PREMISES, INCLUDING ANY WARRANTY OR REPRESENTATION AS TO (i) ITS FITNESS, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE, (ii) THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, (iii) THE EXISTENCE OF ANY DEFECT, LATENT OR PATENT, (iv) LANDLORD'S TITLE THERETO, (v) VALUE, (vi) COMPLIANCE WITH SPECIFICATIONS, (vii) LOCATION, (viii) USE, (ix) CONDITION, (x) MERCHANTABILITY, (xi) QUALITY, (xii) DESCRIPTION, (xiii) DURABILITY, (xiv) OPERATION, (xv) THE EXISTENCE OF ANY HAZARDOUS SUBSTANCE, HAZARDOUS CONDITION OR HAZARDOUS ACTIVITY OR (xvi) COMPLIANCE OF THE LEASED PREMISES WITH ANY LAW OR LEGAL REQUIREMENT; AND ALL RISKS INCIDENT THERETO ARE TO BE BORNE BY TENANT. TENANT ACKNOWLEDGES THAT THE LEASED PREMISES IS OF ITS

SELECTION AND TO ITS SPECIFICATIONS AND THAT THE LEASED PREMISES HAS BEEN INSPECTED BY TENANT AND IS SATISFACTORY TO IT. IN THE EVENT OF ANY DEFECT OR DEFICIENCY IN ANY OF THE LEASED PREMISES OF ANY NATURE, WHETHER LATENT OR PATENT, LANDLORD SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY WITH RESPECT THERETO OR FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING STRICT LIABILITY IN TORT). THE PROVISIONS OF THIS PARAGRAPH 3(b) HAVE BEEN NEGOTIATED, AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY WARRANTIES BY LANDLORD, EXPRESS OR IMPLIED, WITH RESPECT TO ANY OF THE LEASED PREMISES, ARISING PURSUANT TO THE UNIFORM COMMERCIAL CODE OR ANY OTHER LAW NOW OR HEREAFTER IN EFFECT OR ARISING OTHERWISE.

(c) Tenant represents to Landlord that Tenant has examined the title to the Leased Premises prior to the execution and delivery of this Lease and has found the same to be satisfactory for the purposes contemplated hereby. Tenant acknowledges that (i) fee simple insurable title (both legal and equitable) is in Landlord and that Tenant has only the leasehold right of possession and use of the Leased Premises as provided herein, (ii) to the knowledge of Tenant, the Improvements conform to all material Legal Requirements and all Insurance Requirements, (iii) to the knowledge of Tenant, all easements necessary or appropriate for the use or operation of the Leased Premises have been obtained, (iv) all contractors and subcontractors who have performed work on or supplied materials to the Leased Premises have been or will have been fully paid, and all materials and supplies have been or will have been fully paid for, and no dispute currently exists with respect to any such contractor, subcontractor or materials and supplies, (v) the Improvements have been fully completed in all material respects in a workmanlike manner of first class quality, and (vi) all Equipment necessary or appropriate for the use or operation of the Leased Premises has been installed and is presently fully operative in all material respects.

(d) Landlord hereby assigns to Tenant, without recourse or warranty whatsoever, all assignable warranties, guaranties, indemnities and similar rights (collectively, "Warranties") which Landlord may have against any
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manufacturer, seller, engineer, contractor or builder in respect of any of the Leased Premises. Such assignment shall remain in effect until an Event of Default occurs or until the expiration or earlier termination of this Lease, whereupon such assignment shall cease and all such Warranties shall automatically revert to Landlord. Tenant shall enforce the Warranties in accordance with their respective terms. Landlord agrees, at Tenant's expense, to cooperate with Tenant and take all other action necessary as specifically requested by Tenant to enable Tenant to enforce all of Tenant's rights under any of the Warranties, such rights of enforcement to be exclusive to Tenant, and Landlord will not, during the Term, amend, modify or waive, or take any action under, any of the Warranties without Tenant's prior written consent.

4. Use of Leased Premises; Quiet Enjoyment.

(a) Tenant may occupy and use the Leased Premises for office and administrative functions, including those functions typically occurring in Tenant's headquarters complex, and uses incidental thereto, including, without limitation, auditoriums, conference facilities, classrooms, computer and data centers, engineering labs, product showrooms and sales centers, technical support centers, employee cafeterias and dining facilities, fitness facilities and similar amenities, and for no other purpose. Tenant shall not use or occupy or permit any of the Leased Premises to be used or occupied, nor do or permit anything to be done in or on any of the Leased Premises, in a manner which would or might (i) violate any Law or Legal Requirement applicable to the Leased Premises or occupancy thereof, (ii) make void or voidable or cause any insurer to cancel any insurance required by this Lease, or make it impossible to obtain any such

insurance at commercially reasonable rates, (iii) cause structural injury to any of the Improvements or (iv) constitute a public or private nuisance or waste.

(b) Subject to the provisions hereof, so long as no Event of Default has occurred and is continuing, Tenant shall quietly hold, occupy and enjoy the Leased Premises throughout the Term, without any hindrance, ejection or molestation by Landlord with respect to matters that arise after the date hereof; provided that Landlord, Lender or their respective agents may enter upon and examine any of the Leased Premises at such reasonable times as Landlord or Lender may select and upon reasonable notice to Tenant (except in the case of an emergency, in which no notice shall be required) for the purpose of inspecting the Leased Premises, verifying compliance or non-compliance by Tenant with its obligations hereunder and the existence or non-existence of an Event of Default or event which with the passage of time and/or notice would constitute an Event of Default, showing the Leased Premises to prospective Lenders and purchasers and taking such other action with respect to the Leased Premises as is permitted by any provision hereof, and any such entry by Landlord or Lender or their agents onto the Leased Premises shall be subject to Tenant's security requirements and restrictions, and, if required by Tenant, a representative of Tenant shall accompany Landlord during any such entry onto the Leased Premises.

(c) Tenant may from time to time own or hold under lease or license from Persons other than Landlord furniture, equipment, trade fixtures and personal property located on or about the Leased Premises, which shall not be subject to this Lease. Landlord shall from time to time, promptly upon Tenant's request, execute such instruments or agreements as Tenant or any equipment lessor, supplier, vendor, lender or creditor may reasonably require acknowledging that Landlord does not own or have any other right or interest in or to such furniture, equipment, trade fixtures or personal property, and Landlord hereby waives any right, title, lien or interest therein.

5. Term.

(a) Subject to the provisions hereof, Tenant shall have and hold the Leased Premises for an initial term (as extended or renewed in accordance with the provisions hereof, being called the "Term") commencing on
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the date hereof (the "Commencement Date") and ending on the last day of the two
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hundred fortieth (240th) calendar month next following the date hereof (the "Expiration Date").
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(b) Provided that if, on or prior to the Expiration Date or any other Renewal Date (as hereinafter defined) this Lease shall not have been terminated pursuant to any provision hereof, then on the Expiration Date and on the tenth (10th) anniversary of the Expiration Date (the Expiration Date and such anniversary being a "Renewal Date"), the Term shall be deemed to have
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been automatically extended for an additional period of ten (10) years (each such period a "Renewal Period"), unless Tenant shall notify Landlord
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in writing in recordable form at least eighteen (18) months prior to such upcoming Renewal Date that Tenant is terminating this Lease as of such upcoming Renewal Date. Any such extension of the Term shall be subject to all of the provisions of this Lease, as the same may be amended, supplemented or modified. If a Casualty occurs within the period that is between eighteen (18) and twelve (12) months prior to the expiration of the then current Term, the Leased Premises cannot be restored by the expiration of the then current Term and Tenant has elected not to extend the Term pursuant to Paragraph 5(b) for a Renewal Period then, within the thirty (30) day period following the Casualty, Tenant shall have the option by written notice to Landlord to further extend the Term for such Renewal Period. Any such additional extension shall be subject to the terms of this Lease, as the same may be amended.

(c) If Tenant exercises its option not to extend or further extend the Term, or if an Event of Default occurs, then Landlord shall have the right during the remainder of the Term then in effect and, in any event, Landlord shall have the right during the last year of the Term, to (i) advertise the availability of the Leased Premises for sale or reletting and to erect upon the Leased Premises signs indicating such availability and (ii) show the Leased Premises to prospective purchasers or tenants or their agents at such reasonable times as Landlord may select (and subject to the security provisions of Tenant as provided for in Paragraph 4(b)).

6. Basic Rent. Tenant shall pay to Landlord, as basic rent for the Leased Premises during the Term, the amounts determined in accordance with Exhibit "D" hereto ("Basic Rent"), commencing on the first day of the first month following the date hereof and continuing on the same day of each month thereafter during the Term (each such day being a "Basic Rent Payment Date"). Each such rental payment shall be made during the term of the Initial Loan by wire transfer of Federal Funds to the following account: First Union National Bank, Philadelphia, PA; ABA: 031-2014-67; Account Name: GMAC Commercial Mortgage Clearing House; Account No. 21000125-3771-5; Reference: GMACCM Loan # 18931 - One AMD Place; Attn: Customer Service or such other address as Initial Lender, in its sole discretion shall direct (with notice of each such payment to Landlord concurrent with the making thereof). After payment of the Initial Loan in full, each such rental payment shall be made at Landlord's sole discretion, (a) to Landlord at its address set forth above and/or to not more than one Person in addition to Landlord, at such address and in such proportions as Landlord may direct by thirty (30) days' prior written notice to Tenant (in which event Tenant shall give Landlord notice of each such payment concurrent with the making thereof), or (b) by wire transfer of Federal Funds to such account(s) as Landlord may direct by thirty (30) days' prior notice to Tenant. Pro rata Basic Rent for the period from the date hereof through the last day of the month hereof shall be paid on the date hereof.

7. Additional Rent.

(a) Tenant shall pay and discharge, as additional rent (collectively, "Additional Rent"):

(i) except as otherwise specifically provided herein, all costs and expenses of Tenant, Landlord and any other Persons specifically referenced herein which are incurred in connection or associated with (A) the ownership, use, non-use, occupancy, possession, operation, condition, design, construction, maintenance, alteration, repair or restoration of any of the Leased Premises, (B) the performance of any of Tenant's obligations under this Lease, (C) any sale or other transfer of any of the Leased Premises to Tenant under this Lease, (D) any Condemnation proceedings, (E) the adjustment, settlement or compromise of any insurance claims involving or arising from any of the Leased Premises, (F) the prosecution, defense or settlement of any litigation involving or arising from any of the Leased Premises, this Lease, or the sale of the Leased Premises to Landlord, (G) the exercise or enforcement by Landlord, its successors and assigns, of any of its rights under this Lease, (H) any amendment to or modification or termination of this Lease made at the request of Tenant, (I) Costs of Landlord's counsel and reasonable internal Costs of Landlord incurred in connection with any act undertaken by Landlord (or its counsel) at the request of Tenant, or incurred in connection with any act of Landlord performed on behalf of Tenant, (J) the reasonable internal Costs of Landlord incurred in connection with Tenant's failure to act promptly in an emergency situation, and (K) any other items specifically required to be paid by Tenant under this Lease;

(ii) after the date all or any portion of any installment of Basic Rent is due and not paid, an amount equal to two percent (2%) of the amount of such unpaid installment or portion thereof ("Late Charge"), provided, however, that with respect to the first two late payments of all or any portion of any installment of Basic Rent in any consecutive

twelve (12) month period, the Late Charge shall not be due and payable unless the Basic Rent has not been paid within five (5) days following the due date thereof;

(iii) a sum equal to any additional sums that are payable by Landlord to a Lender under a Note by reason of Tenant's late payment or non-payment of Basic Rent or by reason of an Event of Default (including any late charge, default penalties, interest and fees of Lender's counsel), (A) which are payable under the documents evidencing and securing the Initial Loan and (B) which are payable under the documents evidencing and securing any subsequent Loan (after payment in full of the Initial Loan), to the extent typically charged by a lender;

(iv) interest at the rate (the "Default Rate") of two percent (2%) over the Prime Rate per annum on the following sums until paid in full: (A) all overdue installments of Basic Rent from the respective due dates thereof, (B) all overdue amounts of Additional Rent relating to obligations which Landlord shall have paid on behalf of Tenant, from the date of payment thereof by Landlord, and (C) all other overdue amounts of Additional Rent that are payable to Landlord, from the date when any such amount becomes overdue;

(v) typical and customary charges of a lender in the administration and servicing of a Loan and oversight of Lender's collateral (e.g., escrow costs, property inspections, lockbox fees, trustee fees, tax service costs, fees and expenses related to the resale of the Initial Loan by Initial Lender, appraisal costs); and

(vi) costs required to maintain an independent director for the managing member of Landlord.

(b) Tenant shall pay and discharge (i) any Additional Rent referred to in Paragraph 7(a)(i) when the same shall become due, provided that amounts which are billed to Landlord or any third party, but not to Tenant, shall be paid within thirty (30) days after Landlord's demand for payment thereof or, if later, when the same are due, and (ii) any other Additional Rent, within thirty (30) days after Landlord's demand for payment thereof.

(c) In no event shall amounts payable under Paragraph 7(a)(ii), (iii) and (iv) exceed the maximum amount permitted by applicable Law. Further, in no event shall Tenant be required to pay to Landlord any item of Additional Rent that Tenant is obligated to pay to any third party pursuant to any provision of this Lease.

(d) Tenant shall have no obligation to pay for costs arising as a result of Landlord's actions or decisions as long as such actions or decisions do not arise as a result of Tenant's failure to perform its obligations under this Lease (e.g., defeasance or assumption charges or costs in connection with loan modifications requested by Landlord), costs associated with Landlord's required reporting to Lender (e.g., financial statements), costs of refinancing any Loan (e.g., commitment fees, loan fees, due diligence and transaction costs) or costs arising as a consequence of a dispute between Landlord and Lender or a default by Landlord under any Loan not, in either event, caused by a corresponding default by Tenant under this Lease.

8. Net Lease; Non-Terminability.

(a) This is a net lease and all Monetary Obligations shall be paid without notice or demand (except as otherwise provided herein) and without set-off, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense (collectively, a "Set-Off").

(b) Except as otherwise expressly provided herein, this Lease and the rights of Landlord and the obligations of Tenant hereunder shall not be affected by any event or for any reason, including the following: (i) any damage to or theft, loss or destruction of any of the Leased Premises, (ii) any Condemnation, (iii) any default on the part of Landlord hereunder or under any Note, Mortgage, Assignment or any other agreement, (iv) any latent or other defect in any of the Leased Premises, (v) the breach of any warranty of any seller or manufacturer of any of the Equipment, (vi) any violation of any provision of this Lease by Landlord, (vii) the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution or winding-up of, or other proceeding affecting, Landlord, (viii) the exercise of any remedy, including foreclosure, under any Mortgage or Assignment, (ix) any action with respect to this Lease (including the disaffirmance hereof) which may be taken by Landlord, any trustee, receiver or liquidator of Landlord or any court under the Federal Bankruptcy Code or otherwise, (x) any interference with Tenant's use of the Leased Premises, (xi) market or economic changes or (xii) any other cause, whether similar or dissimilar to the foregoing, any present or future Law to the contrary notwithstanding; provided, however that the foregoing is not intended to release Landlord of liability in the event of any breach or default by Landlord under this Lease.

(c) The obligations of Tenant hereunder shall be separate and independent covenants and agreements, all Monetary Obligations shall continue to be payable in all events (or, in lieu thereof, Tenant shall pay amounts equal thereto), and the obligations of Tenant hereunder shall continue unaffected unless the requirement to pay or perform the same shall have been terminated pursuant to an express provision of this Lease. All Rent payable by Tenant hereunder shall constitute "rent" for all purposes (including Section 502(b)(6) of the Federal Bankruptcy Code).

(d) Except as otherwise expressly provided herein, Tenant shall have no right and hereby waives all rights which it may have under any Law (i) to quit, terminate or surrender this Lease or any of the Leased Premises, or (ii) to any Set-Off of any Monetary Obligations.

9. Payment of Impositions.

(a) Tenant shall, before interest or penalties are due thereon, pay and discharge all taxes (including real and personal property, franchise, sales and rent taxes), all charges for any easement or agreement maintained for the benefit of any of the Leased Premises, all assessments and levies, all permit, inspection and license fees, all rents and charges for water, sewer, utility and communication services relating to any of the Leased Premises, and all other public charges whether of a like or different nature, even if unforeseen or extraordinary, which arise during the Term and are imposed upon or assessed against (i) Tenant, (ii) Tenant's leasehold interest in the Leased Premises, (iii) any of the Leased Premises, (iv) Landlord as a result of or arising in respect of the acquisition, ownership, occupancy, leasing, use or possession of any of the Leased Premises, any activity conducted on any of the Leased Premises, or the Rent, or (v) any Lender by reason of any Note, Mortgage, Assignment or other document evidencing or securing a Loan and which (as to this clause (v)) a borrower would customarily agree to pay (collectively, the "Impositions"); provided, that nothing herein shall obligate Tenant to pay
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(A) income, excess profits or other taxes of Landlord (or Lender) which are determined on the basis of Landlord's (or Lender's) net income or net worth (unless such taxes are in lieu of or a substitute for any other tax, assessment or other charge upon or with respect to the Leased Premises which, if it were in effect, would be payable by Tenant under the provisions hereof or by the terms of such tax, assessment or other charge), (B) any estate, inheritance, succession, gift or similar tax imposed on Landlord or (C) any capital gains, transfer or deed tax imposed on Landlord in connection with the sale, exchange or other disposition of the Leased Premises to any Person, except that Tenant shall be responsible to pay any increase in real estate taxes and assessments that are imposed as a result of a change of ownership of the Leased Premises

occurring after the tenth (10th) Lease Year, but not with respect to any change of ownership occurring prior thereto. If any Imposition may be paid in installments without interest or penalty, Tenant shall have the option to pay such Imposition in installments; in such event, Tenant shall be liable only for those installments which accrue or become due and payable during the Term. Tenant shall prepare and file all tax reports required by governmental authorities which relate to the Impositions. Tenant shall deliver to Landlord (1) copies of all settlements and notices pertaining to the Impositions which may be issued by any governmental authority within twenty (20) days after Tenant's receipt thereof, (2) satisfactory evidence (which may be written notice from a tax service acceptable to Landlord and Lender) of payment of all taxes required to be paid by Tenant hereunder no later than thirty (30) days following the date the same would become delinquent, showing the same to have been paid prior to delinquency and (3) receipts for payment of all other Impositions promptly following Landlord's request therefor.

(b) Landlord shall have the right, (i) following the occurrence of an Event of Default with respect to Escrow Charges described in clause (A) of the following sentence and (ii) if Landlord or Lender determines that the Leased Premises are not being maintained in accordance with current standards for similarly situated office buildings prudently managed so that the condition of the Leased Premises is not as required by Paragraph 12 (a) hereof, to require Tenant to pay to Landlord, or to Lender if directed by Landlord, an additional monthly sum (each an "Escrow Payment") sufficient to pay the Escrow Charges (as
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hereinafter defined) as they become due. As used herein, "Escrow Charges" shall
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mean (A) real estate taxes on the Leased Premises or payments in lieu thereof and premiums on any insurance required by this Lease, and (B) amounts required by a Lender on the basis of an inspection of the Leased Premises or as otherwise reasonably determined by Lender which shall be deposited in a reserve or reserves such as a capital improvement reserve, a replacement reserve and/or a repair reserve (such amounts in this clause (B) collectively referred to as "Reserve Funds"). Landlord shall determine the amount of the Escrow Charges and of each Escrow Payment. As long as the Escrow Payments are being held by Landlord the Escrow Payments shall not be commingled with other funds of Landlord or other Persons and interest thereon shall accrue for the benefit of Tenant from the date such monies are received and invested until the date such monies are disbursed to pay Escrow Charges. If the Escrow Payments are held by the Lender, they shall be held and administered in accordance with Lender's customary procedures for similar accounts. Landlord shall apply the Escrow Payments to the payment of the Escrow Charges in such order or priority as Landlord shall determine or as required by law; provided, however, that any Reserve Funds shall only be used for improvements or repairs for which such Reserve Funds have been deposited, and any remaining balance of any such Reserve Funds shall be disbursed to Tenant at such time as such improvements or repairs have been completed so long as no Event of Default then exists. If at any time the Escrow Payments theretofore paid to Landlord shall be insufficient for the payment of the Escrow Charges, Tenant, within fifteen (15) days after Landlord's demand therefor, shall pay the amount of the deficiency to Landlord.

10. Compliance with Laws and Easement Agreements; Environmental Matters.

(a) Tenant shall, at its expense, comply with and conform to, and cause the Leased Premises and any other Person occupying any part of the Leased Premises to comply with and conform to, all Insurance Requirements and Legal Requirements (including all applicable Environmental Laws). Tenant shall not at any time (i) cause, permit or suffer to occur any Environmental Violation. or (ii) permit any sublessee, assignee or other Person occupying the Leased Premises under or through Tenant to cause, permit or suffer to occur any Environmental Violation and, at the request of Landlord or Lender, Tenant shall promptly remediate or undertake any other appropriate response action to correct any existing Environmental Violation. Tenant shall permit Persons who are potentially responsible (any such Person, a "PRP") for existing Environmental
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Violations on upgradient properties and their agents

access to the Leased Premises for the purpose of conducting Site Assessments upon and remediation to the Leased Premises . Tenant shall upon Landlord's or Lender's request provide Landlord and Lender with copies of all filings which Tenant is required to submit to governmental agencies and all permits, licenses and certificates which Tenant is required to obtain from governmental agencies, in both cases with respect to the Leased Premises. Tenant shall give prompt notice to Landlord and Lender of receipt by Tenant of any notice related to any Legal Requirements and of the commencement of any proceedings or investigations which relate to compliance with Legal Requirements. Any and all reports prepared for or by Landlord with respect to the Leased Premises shall be for the sole benefit of Landlord and Lender and no other Person shall have the right to rely on any such reports.

(b) Tenant, at its sole cost and expense, will at all times promptly and faithfully abide by, discharge and perform all of the covenants, conditions and agreements contained in any Easement Agreement on the part of Landlord or the occupier to be kept and performed thereunder and shall enter into access agreements for the purposes described in the foregoing Paragraph 10(a), such agreements to be subject to the reasonable approval of Landlord. Tenant will not alter, modify, amend or terminate any Easement Agreement, give any consent or approval thereunder, or enter into any new Easement Agreement without, in each case, the prior written consent of Landlord, which consent shall not be unreasonably withheld (provided, however, that Landlord hereby consents to the Site Access Agreement dated March 21, 1997 between AMD International Sales & Service, Ltd., and Advanced Micro Devices, Inc. and 999 Arques Corporation and consents to the Site Access Agreement dated March 17, 1997 between AMD International Sales & Service, Ltd. and Advanced Micro Devices, Inc. and CAE Electronics Inc.). Landlord shall cooperate with Tenant with respect to the creation of easements and/or rights of way for ingress and egress to and from the Leased Premises or in favor of municipal or other governmental authorities or public service or utility companies for the installation of water lines, sewers, electricity, telephone, gas, steam or easements for other facilities and utilities reasonably required for the use and occupancy of the Leased Premises.

(c) Upon prior written notice from Landlord, Tenant shall permit such persons as Landlord may designate (who shall be a regional or national environmental audit firm designated by Lender and who shall be Eckland Consulting or another firm reasonably acceptable to Tenant) ("Site Reviewers") to visit the Leased Premises and perform environmental site investigations, audits and assessments ("Site Assessments") on the Leased Premises for the purpose of determining whether there exists on the Leased Premises any Environmental Violation or any condition which could result in any Environmental Violation. Such Site Assessments may include both above and below the ground testing for Environmental Violations and such other tests as may be necessary, in the reasonable opinion of the Site Reviewers, to conduct the Site Assessments; provided, however, that any such testing to be undertaken in connection with any Site Assessment shall be conducted in such a manner as to minimize any interference with Tenant's business operations at the Leased Premises; and provided, further, that such Site Assessments shall not be conducted more frequently than once every 24 months unless Landlord is required to undertake a Site Assessment as a condition of obtaining financing or refinancing, or in connection with a sale of the Leased Premises or if required by a Lender. In such cases, the Site Assessment may be conducted by Landlord at any time. The Site Assessment shall be limited to a visual inspection and review of records unless (i) Landlord or Lender has reasonable cause to believe that an Environmental Violation exists at the Leased Premises; (ii) intrusive testing is required to be undertaken as a condition of Landlord obtaining financing or refinancing or of a proposed sale of the Leased Premises or if required by a Lender; or (iii) such testing is conducted within nine (9) months of the expiration of the Lease Term, in which case such Site Assessment may include the testing described above. Tenant shall supply to the Site Reviewers such historical and operational information regarding the Leased Premises as may be reasonably requested by the Site Reviewers to facilitate the Site Assessments, and shall make available for meetings with the Site Reviewers appropriate personnel having

knowledge of such matters. The reasonable cost of performing and reporting Site Assessments shall be paid by Tenant, except that Tenant shall not be responsible to pay the cost of performing and reporting Site Assessments required in connection with any sale of the Leased Premises.

(d) If an Environmental Violation (other than ground water contamination which has migrated to the Leased Premises from off-site sources unless Tenant is or has been required by a governmental authority to remediate such contamination) occurs or is found to exist and, in Landlord's reasonable judgment, the cost of remediation of, or other response action with respect to, the same is likely to exceed $1,000,000 and at the time of such remediation Tenant does not have a publicly traded, unsecured senior debt rating of "Baa2" or better from Moody's or a rating of "BBB" or better from S&P, Tenant shall provide to Landlord, within thirty (30) days after Landlord's request therefor, adequate financial assurances that Tenant will effect such remediation in accordance with applicable Environmental Laws. Such financial assurances shall be a bond or letter of credit reasonably satisfactory to Landlord in form and substance and in an amount equal to or greater than Landlord's reasonable estimate, based upon a Site Assessment performed pursuant to Paragraph 10(c), of the anticipated cost of such remedial action.

(e) Notwithstanding any other provision of this Lease, if an Environmental Violation occurs (other than ground water contamination which has migrated to the Leased Premises from off-site sources unless Tenant is or has been required by a governmental authority to remediate such contamination) or is found to exist and the Term would otherwise terminate or expire, then, at the option of Landlord, the Term shall be automatically extended beyond the date of termination or expiration and this Lease shall remain in full force and effect beyond such date until the earlier to occur of (i) the completion of all remedial action in accordance with applicable Environmental Laws or (ii) one (1) year from the date on which this Lease would otherwise terminate or expire so long as on or before such date Tenant deposits with Landlord an amount determined by the Site Reviewer to be reasonably required to complete such remediation.

(f) If Tenant fails to correct any Environmental Violation which occurs or is found to exist, Landlord shall have the right (but no obligation) to take any and all actions as Landlord shall deem reasonably necessary or advisable in order to cure such Environmental Violation.

(g) Tenant shall notify Landlord promptly after becoming aware of any Environmental Violation (or alleged Environmental Violation) or noncompliance with any of the covenants contained in this Paragraph 10 and shall forward to Landlord immediately upon receipt thereof copies of all orders, reports, notices, permits, applications or other communications relating to any such violation or noncompliance.

(h) All future leases, subleases or concession agreements relating to the Leased Premises entered into by Tenant shall contain covenants of the other party not to at any time (i) cause any Environmental Violation to occur or (ii) permit any Person occupying the Leased Premises through said subtenant or concessionaire to cause any Environmental Violation to occur.

11. Liens; Recording.

(a) Tenant shall not, directly or indirectly whether by any act or omission, create or permit to be created or to remain and shall promptly discharge or remove any lien, levy or encumbrance on any of the Leased Premises or on any Rent or any other sums payable by Tenant under this Lease, other than any Mortgage or Assignment, the Permitted Encumbrances and any mortgage, lien, encumbrance or other charge created by or resulting from

any act or omission of Landlord. NOTICE IS HEREBY GIVEN THAT LANDLORD SHALL NOT BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO TENANT OR TO ANYONE HOLDING OR OCCUPYING ANY OF THE LEASED PREMISES THROUGH OR UNDER TENANT, AND THAT NO MECHANICS' OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF LANDLORD IN AND TO ANY OF THE LEASED PREMISES. LANDLORD MAY AT ANY TIME, AND AT LANDLORD'S REQUEST TENANT SHALL PROMPTLY, POST ANY NOTICES ON THE LEASED PREMISES REGARDING SUCH NON-LIABILITY OF LANDLORD.

(b) Landlord and Tenant shall execute, acknowledge, deliver and record, file or register (collectively, "record") all such instruments as may be
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required or permitted by any present or future Law in order to evidence the respective interests of Landlord and Tenant in the Leased Premises, and shall cause a memorandum of this Lease (or, if such a memorandum cannot be recorded, this Lease), and any supplement hereto or thereto, to be recorded in such manner and in such places as may be required or permitted by any present or future Law in order to protect the validity and priority of this Lease.

12. Maintenance and Repair.

(a) Tenant shall at all times maintain the Leased Premises and the Adjoining Property in as good repair and appearance as they are in on the date hereof and after completion of any deferred maintenance items required by Initial Lender and fit to be used for their intended use in accordance with the better of the practices generally recognized as then acceptable by other companies in its industry or the then current standards for similarly situated office buildings prudently managed, and, in the case of the Equipment, in as good mechanical condition as it was on the later of the date hereof or the date of its installation, except for ordinary wear and tear. Tenant shall take every other action necessary or appropriate for the preservation and safety of the Leased Premises. Tenant shall make all Alterations of every kind and nature, whether foreseen or unforeseen, which may be required to comply with the foregoing requirements of this Paragraph 12(a) whether disclosed by Landlord or Tenant or as a consequence of any inspection by Lender promptly after the need for such Alterations becomes known to Landlord or Tenant. Any Alterations required to be made as a result of any inspection by Lender shall be commenced within thirty (30) days from receipt of notice from Landlord or Lender and thereafter diligently pursued to completion. Landlord shall not be required to make any Alteration, whether foreseen or unforeseen, or to maintain any of the Leased Premises or Adjoining Property in any way, and Tenant hereby expressly waives any right which may be provided for in any Law now or hereafter in effect to make Alterations at the expense of Landlord or to require Landlord to make Alterations. Any Alteration made by Tenant pursuant to this Paragraph 12 shall be made in conformity with the provisions of Paragraph 13 and the requirements of any Lender.

(b) If any Improvement, now or hereafter constructed, shall (i) encroach upon any setback or any property, street or right-of-way adjoining the Leased Premises, (ii) violate the provisions of any restrictive covenant affecting the Leased Premises, (iii) hinder or obstruct any easement or right-of-way to which any of the Leased Premises is subject or (iv) impair the rights of others in, to or under any of the foregoing, Tenant shall, promptly after receiving notice or otherwise acquiring knowledge thereof, either (A) obtain from all necessary parties waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation, hindrance, obstruction or impairment, whether the same shall affect Landlord, Tenant or both, or (B) take such action as shall be necessary to remove all such encroachments, hindrances or obstructions and to end all such violations or impairments, including, if necessary, making Alterations.

(c) No later than June 30, 1999, Tenant shall repair the roof membrane in the Improvements, and no later than June 30, 2000 shall remove the tree roots in the parking lot or otherwise repair the damage to the parking lot caused by tree roots, both as specified in that certain report prepared by Eckland Consulting, Inc. and dated October 28, 1998.

13. Alterations and Improvements.

(a) Tenant shall have the right, without having obtained the prior written consent of Landlord and Lender and provided that no Event of Default then exists, to make (i) non-structural Alterations that do not affect the structural integrity of the Improvements, or adversely affect any of the mechanical or electrical systems of the Improvements, (ii) Alterations that are required in order to comply with Law, (iii) structural Alterations or a series of related structural Alterations that, as to any such structural Alterations or series of related structural Alterations, do not cost in excess of $500,000 and that do not affect the structural integrity of the Improvements or adversely affect any of the mechanical or electrical systems in the Improvements and (iv) to install Equipment in the Improvements or accessions to the Equipment that, as to such Equipment or accessions, do not cost in excess of $500,000, so long as at the time of construction or installation of any such Equipment or Alterations no Event of Default exists and the value and utility of the Leased Premises is not diminished thereby. If the cost of any structural Alterations, series of related structural Alterations, Equipment or accessions thereto is in excess of $500,000, the prior written approval of Landlord and Lender shall be required, such approval not to be unreasonably withheld or delayed. Tenant shall not construct upon the Land any additional buildings without having first obtained the prior written consent of Landlord and Lender.

(b) If Tenant makes any Alterations pursuant to this Paragraph 13 or Paragraph 36 or as required by Paragraph 12 or 17 (such Alterations and actions being hereinafter collectively referred to as "Work"), whether or not Landlord's consent is required, then (i) the market value of the Leased Premises shall not be lessened by any such Work or its usefulness impaired, (ii) all such Work shall be performed by Tenant in a good and workmanlike manner, (iii) all such Work shall be expeditiously completed in compliance with all Legal Requirements, (iv) all such Work shall comply with the Insurance Requirements, (v) if any such Work involves the replacement of Equipment or parts thereto, all replacement Equipment or parts shall have a value and useful life equal to the greater of (A) the value and useful life on the date hereof of the Equipment being replaced or (B) the value and useful life of the Equipment being replaced immediately prior to the occurrence of the event which required its replacement, (vi) Tenant shall promptly discharge or remove all liens filed against any of the Leased Premises arising out of such Work, (vii) Tenant shall procure and pay for all permits and licenses required in connection with any such Work, (viii) all such Work shall be the property of Landlord and shall be subject to this Lease, and Tenant shall execute and deliver to Landlord any document requested by Landlord evidencing the assignment to Landlord of all estate, right, title and interest (other than the leasehold estate created hereby) of Tenant or any other Person thereto or therein, and (ix) with respect to Alterations or a series of related Alterations that cost in excess of $500,000, Tenant shall comply, to the extent reasonably requested by Landlord or required by this Lease, with the provisions of Paragraph 19(a), whether or not such Work involves restoration of the Leased Premises.

14. Permitted Contests. Notwithstanding any other provision of this Lease, Tenant shall not be required to (a) pay any Imposition, (b) discharge or remove any lien referred to in Paragraph 11 or 13 or (c) take any action with respect to any encroachment, violation, hindrance, obstruction or impairment referred to in Paragraph 12(b) (such non-compliance with the terms hereof being hereinafter referred to collectively as "Permitted Violations"), so long as at the time of such contest no Event of Default exists and so long as Tenant shall contest, in good faith, the existence, amount or validity thereof, the amount of the damages caused thereby, or the

extent of its or Landlord's liability therefor by appropriate proceedings which shall operate during the pendency thereof to prevent or stay (i) the collection of, or other realization upon, the Permitted Violation so contested, (ii) the sale, forfeiture or loss of any of the Leased Premises or any Rent to satisfy or to pay any damages caused by any Permitted Violation, (iii) any interference with the use or occupancy of any of the Leased Premises, (iv) any interference with the payment of any Rent, or (v) the cancellation or increase in the rate of any insurance policy or a statement by the carrier that coverage will be denied. Tenant shall provide Landlord security which is satisfactory, in Landlord's reasonable judgment, to assure that such Permitted Violation is corrected, including all Costs, interest and penalties that may be incurred or become due in connection therewith. While any proceedings which comply with the requirements of this Paragraph 14 are pending and the required security is held by Landlord, Landlord shall not have the right to correct any Permitted Violation thereby being contested unless Landlord is required by law to correct such Permitted Violation and Tenant's contest does not prevent or stay such requirement as to Landlord. Each such contest shall be promptly and diligently prosecuted by Tenant to a final conclusion, except that Tenant, so long as the conditions of this Paragraph 14 are at all times complied with, has the right to attempt to settle or compromise such contest through negotiations. Tenant shall pay any and all losses, judgments, decrees and Costs in connection with any such contest and shall, promptly after the final determination of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interest and Costs thereof or in connection therewith, and perform all acts the performance of which shall be ordered or decreed as a result thereof. No such contest shall subject Landlord to the risk of any civil or criminal liability.

15. Indemnification.

(a) With respect to any action or event which arises or occurs prior to the expiration of the Term or any earlier termination of this Lease and/or any consequences thereof, whether ascertainable prior to or at any time after such expiration of the Term or earlier termination of the Lease, Tenant shall pay, protect, indemnify, defend, save and hold harmless Landlord, Lender and all other Persons described in Paragraph 30 (each an "Indemnitee") from and
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against any and all liabilities, losses, damages (including punitive damages), penalties, Costs (including reasonable attorneys' fees and costs), causes of action, suits, claims, demands or judgments of any nature whatsoever, howsoever caused, unless caused by the gross negligence or willful misconduct of the Landlord or any other Indemnitee, without regard to the form of action and whether based on strict liability, negligence or any other theory of recovery at law or in equity, arising from (i) any matter pertaining to the acquisition (or the negotiations leading thereto), ownership, use, non-use, occupancy, operation, condition, design, construction, maintenance, repair or restoration of the Leased Premises or Adjoining Property, (ii) any casualty in any manner arising from the Leased Premises or Adjoining Property, whether or not Indemnitee has or should have knowledge or notice of any defect or condition causing or contributing to said casualty, (iii) any violation by Tenant of any provision of this Lease, any contract or agreement relating to the Leased Premises to which Tenant is a party, any Legal Requirement or any Permitted Encumbrance or any encumbrance Tenant consented to or any provision of the Mortgage or Assignment that is binding upon Tenant or (iv) any alleged, threatened or actual Environmental Violation, including (A) liability for response costs and for costs of removal and remedial action incurred by the United States Government, any state or local governmental unit or any other Person, or damages from injury to or destruction or loss of natural resources, including the reasonable costs of assessing such injury, destruction or loss, incurred pursuant to Section 107 of CERCLA, or any successor section or act or provision of any similar state or local Law, (B) liability for costs and expenses of abatement, correction or clean-up, fines, damages, response costs or penalties which arise from the provisions of any of the other Environmental Laws and (C) liability for personal injury or property damage arising under

any statutory or common-law tort theory, including damages assessed for the maintenance of a public or private nuisance or for carrying on of a dangerous activity.

(b) In case any action or proceeding is brought against any Indemnitee by reason of any such claim, (i) Tenant may, except in the event of a conflict of interest or a dispute between Tenant and any such Indemnitee or during the continuance of an Event of Default, retain its own counsel and defend such action (it being understood that Landlord may, at its own cost, employ counsel of its choice to monitor the defense of any such action) and (ii) such Indemnitee shall notify Tenant to resist or defend such action or proceeding by retaining counsel reasonably satisfactory to such Indemnitee, and such Indemnitee will cooperate and assist in the defense of such action or proceeding if reasonably requested so to do by Tenant. In the event of a conflict of interest or dispute or during the continuance of an Event of Default, Landlord shall have the right to select counsel, and the reasonable cost of such counsel shall by paid by Tenant.

(c) The obligations of Tenant under this Paragraph 15 with respect to any action or event which arises or occurs prior to the expiration of the Term or any earlier termination of this Lease and/or the consequences thereof, shall survive any termination, expiration or rejection in bankruptcy of this Lease.

16. Insurance.

(a) Tenant shall maintain the following insurance on or in connection with the Leased Premises:

(i) Insurance against physical loss or damage to the Improvements and Equipment as provided under a standard "All Risk" property policy including but not limited to flood (if the Leased Premises is in a flood zone) in amounts not less than the actual replacement cost of the Improvements and Equipment. Such policies shall contain Replacement Cost and Agreed Amount Endorsements and shall contain deductibles as may be recommended by Tenant's insurance broker and approved by Landlord and Lender, such approval not to be unreasonably withheld and in any event not less than $100,000. In addition, Tenant shall maintain earthquake coverage (which may include California real estate in addition to the Leased Premises) of not less than $25,000,000 with a deductible equal to the lesser of $10,000,000 or 5% of the casualty loss, provided that proceeds received from any earthquake casualty in an amount equal to the product of the probable maximum loss factor for the Improvements multiplied by the replacement cost of the Improvements (but in no event more than the cost of the restoration of the Improvements) shall be allocated by Tenant for restoration of the Leased Premises prior to allocation of such proceeds to restoration of any other improvements insured under such policy.

(ii) Commercial General Liability Insurance (including but not limited to Incidental Medical Malpractice and Host Liquor Liability) and Business Automobile Liability Insurance (including Non-Owned and Hired Automobile Liability) against claims for personal and bodily injury, death or property damage occurring on, in or as a result of the use of the Leased Premises, in an amount not less than $15,000,000 per occurrence/annual aggregate and all other coverage extensions that are usual and customary for properties of this size and type provided, however, that the Landlord shall have the right to require such higher limits as may be reasonable and customary for properties of this size and type.

(iii) Workers' compensation insurance covering employees of Tenant in connection with their employment on or about any of the Leased Premises for which claims for death, disease or bodily injury may be asserted against Landlord, Tenant or any of the Leased Premises or, in lieu of such Workers' Compensation Insurance, a program of

self-insurance complying with the rules, regulations and requirements of the appropriate agency of the State.

(iv) Comprehensive Boiler and Machinery Insurance on any of the Equipment or any other equipment on or in the Leased Premises, in an amount not less than $5,000,000 per accident for damage to property. Such policies shall include at least $5,000,000 per accident for Off-Premises Service Interruption, "System Breakdowns" and Expediting Expenses.

(v) Business Income/Extra Expense Insurance at limits sufficient to cover 100% of the period of indemnity not less than eighteen (18) months from time of loss. Such insurance shall name Landlord as loss payee solely with respect to Rent payable to or for the benefit of Landlord as its interest appears under this Lease.

(vi) During any period in which substantial Alterations at the Leased Premises are being undertaken, builder's risk insurance covering the total completed value including any "soft costs" with respect to the Improvements being altered or repaired (on a completed value, non-reporting basis), replacement cost of work performed and equipment, supplies and materials furnished in connection with such construction or repair of Improvements or Equipment, together with such "soft cost" endorsements and such other endorsements as Landlord may reasonably require and general liability, worker's compensation and automobile liability insurance with respect to the Improvements being constructed, altered or repaired.

(vii) Such other insurance (or other terms with respect to any insurance required pursuant to this Paragraph 16, including without limitation amounts of coverage, deductibles, form of mortgagee clause) on or in connection with any of the Leased Premises as Landlord or Lender may reasonably require, which at the time is usual and commonly obtained in connection with properties similar in type of building size, use and location to the Leased Premises.

(b) The insurance required by Paragraph 16(a) shall be written by one or more (i) domestic primary insurer(s) having an investment grade rating of "AA" or a comparable claims paying ability assigned by S&P or equivalent credit rating agency approved by Landlord and Lender, and approved to write insurance policies by the State Insurance Department for the State or (ii) such other insurer(s) as may be otherwise approved by Landlord and Lender, such approval not to be unreasonably withheld. The insurance policies (i) shall be for such terms as Landlord may reasonably approve and (ii) shall be in amounts sufficient at all times to satisfy any coinsurance requirements thereof. The insurance referred to in Paragraphs 16(a)(i), 16(a)(iv) and 16(a)(vi) shall name Landlord as Owner and Lender as loss payee and Tenant as its interest may appear. The insurance referred to in Paragraph 16(a)(ii) shall name Landlord and Lender as additional insureds, and the insurance referred to in Paragraph 16(a)(v) shall name Landlord (or Lender, if requested by Landlord) as loss payee to the extent provided in Paragraph 16(a)(v). If said insurance or any part thereof shall expire, be withdrawn, become void, voidable, unreliable or unsafe for any reason, including a breach of any condition thereof by Tenant or the failure or impairment of the capital of any insurer, or if for any other reason whatsoever said insurance shall become reasonably unsatisfactory to Landlord, Tenant shall immediately obtain new or additional insurance reasonably satisfactory to Landlord.

(c) Each insurance policy referred to in clauses (i), (iv), (v) and (vi) of Paragraph 16(a) shall contain standard non-contributory mortgagee clauses in favor of and acceptable to Lender. Each policy required by any provision of Paragraph 16(a), except clause (iii) thereof, shall provide that it may not be cancelled or terminated, substantially modified or allowed to lapse on any renewal date except after thirty (30) days' prior notice to Landlord and Lender. Each such policy shall also provide that any loss otherwise payable thereunder shall be

payable notwithstanding (i) any act or omission of Landlord or Tenant which might, absent such provision, result in a forfeiture of all or a part of such insurance payment, (ii) the occupation or use of any of the Leased Premises for purposes more hazardous than those permitted by the provisions of such policy, (iii) any foreclosure or other action or proceeding taken by Lender pursuant to any provision of the Mortgage, Note, Assignment or other document evidencing or securing the Loan upon the happening of an event of default therein or (iv) any change in title to or ownership of any of the Leased Premises.

(d) Tenant shall pay as they become due all premiums for the insurance required by Paragraph 16(a) (and in any event not less than 30 days prior to cancellation for non-payment), shall renew or replace each policy and deliver to Landlord evidence of the renewal or replacement of each such policy prior to the stated expiration thereof (which evidence may consist of a binder, certificate or replacement policy) and, upon receipt shall promptly deliver to Landlord all original certificates of insurance.

(e) Anything in this Paragraph 16 to the contrary notwithstanding, any insurance which Tenant is required to obtain pursuant to Paragraph 16(a) may be carried under a "blanket" or umbrella policy or policies covering other properties or liabilities of Tenant, provided that such "blanket" or umbrella policy or policies otherwise comply with the provisions of this Paragraph 16 and provided further that Tenant shall provide to Landlord a Statement of Values which shall be reviewed annually and amended as necessary based on Replacement Cost Valuations. A certified copy of each such "blanket" or umbrella policy shall promptly be delivered to Landlord, or if requested by Landlord, to Lender.

(f) Tenant shall promptly comply with and conform to (i) all provisions of each insurance policy required by this Paragraph 16 and (ii) all requirements of the insurers thereunder applicable to Landlord, Tenant or any of the Leased Premises or to the use, manner of use, occupancy, possession, operation, maintenance, alteration or repair of any of the Leased Premises, even if such compliance necessitates Alterations or results in interference with the use or enjoyment of any of the Leased Premises.

(g) Tenant shall not carry separate insurance concurrent in form or contributing in the event of a Casualty with that required in this Paragraph 16 unless (i) Landlord and Lender are included therein as named insureds, with loss payable as provided herein, and (ii) such separate insurance complies with the other provisions of this Paragraph 16. Tenant shall promptly notify Landlord of such separate insurance and shall deliver to Landlord a certified copy of policies thereof.

(h) All policies shall contain effective waivers by the carrier against all claims for insurance premiums against Landlord and Lender and shall contain full waivers of subrogation against the Landlord and Lender.

(i) All proceeds of insurance payable under clause (v) with respect to the Rent shall be payable to Landlord or, if required by the Mortgage, to Lender. Proceeds of insurance required under clauses (i) and (iv) of Paragraph 16(a) and proceeds attributable to Builder's Risk insurance (other than its general liability coverage provisions) under clause (vi) of Paragraph 16(a) shall be payable to Landlord (or Lender) and applied as set forth in Paragraph 17. Tenant shall apply the Net Award to restoration of the Leased Premises in accordance with the applicable provisions of this Lease.

17. Casualty and Condemnation.

(a) If any Casualty to the Leased Premises occurs, Tenant shall give Landlord and Lender immediate notice thereof. So long as no Event of Default exists Tenant is

hereby authorized to adjust, collect and compromise all claims under any of the insurance policies required by Paragraph 16(a) and to execute and deliver on behalf of Landlord all necessary proofs of loss, receipts, vouchers and releases required by the insurers and Landlord shall have the right to join with Tenant therein. Any final adjustment, settlement or compromise of any such claim shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld. If an Event of Default exists, Tenant shall not be entitled to adjust, collect or compromise any such claim or to participate with Landlord in any adjustment, collection and compromise of the Net Award payable in connection with a Casualty. Tenant agrees to sign, upon the request of Landlord, all such proofs of loss, receipts, vouchers and releases. Each insurer is hereby authorized and directed to make payment under said policies directly to Landlord or, if required by the Mortgage, to Lender instead of to Landlord and Tenant jointly, and Tenant hereby appoints each of Landlord and Lender as Tenant's attorneys-in-fact to endorse any draft therefor. The rights of Landlord under this Paragraph 17(a) shall be extended to Lender if and to the extent that any Mortgage so provides.

(b) Tenant, immediately upon receiving a Condemnation Notice, shall notify Landlord and Lender thereof and will promptly deliver to Landlord and Lender copies of any and all served papers it receives in connection therewith. So long as no Event of Default exists, Tenant is authorized to collect, settle and compromise the amount of any Net Award and Landlord shall have the right to join with Tenant therein. If an Event of Default exists, Landlord shall be authorized to collect, settle and compromise the amount of any Net Award and Tenant shall not be entitled to participate with Landlord in any Condemnation proceeding or negotiations under threat thereof or to contest the Condemnation or the amount of the Net Award therefor. No agreement with any condemnor in settlement or under threat of any Condemnation shall be made by Tenant without the written consent of Landlord, which consent shall not be unreasonably withheld. Subject to the provisions of this Paragraph 17(b), Tenant hereby irrevocably assigns to Landlord any award or payment to which Tenant is or may be entitled by reason of any Condemnation, whether the same shall be paid or payable for Tenant's leasehold interest hereunder or otherwise; but nothing in this Lease shall impair Tenant's right to any award or payment on account of Tenant's trade fixtures, equipment or other tangible property which is not part of the Equipment, moving expenses or loss of business, if available, to the extent that and so long as (i) Tenant shall have the right to make, and does make, a separate claim therefor against the condemnor and (ii) such claim does not in any way reduce either the amount of the award otherwise payable to Landlord for the Condemnation of Landlord's fee interest in the Leased Premises or the amount of the award (if any) otherwise payable for the Condemnation of Tenant's leasehold interest hereunder. The rights of Landlord under this Paragraph 17(b) shall also be extended to Lender if and to the extent that any Mortgage so provides.

(c) If any Casualty (whether or not insured against) or Partial Condemnation shall occur, this Lease shall continue, notwithstanding such event, and there shall be no abatement or reduction of any Monetary Obligations, except as provided in Paragraph 17(d). Promptly after such Casualty or Partial Condemnation, Tenant, as required in Paragraphs 12(a) and 13(b), shall commence and diligently continue to restore the Leased Premises as nearly as possible to their value, condition and character immediately prior to such event and will promptly deliver to Landlord and Lender copies of any and all served papers it receives in connection therewith (assuming the Leased Premises to have been in the condition required by this Lease). So long as no Event of Default exists, upon completion the Leased Premises will be in compliance with all Legal Requirements and Environmental Laws and access to the Leased Premises will not be materially impaired on a permanent basis, any Net Award up to and including $1,000,000 shall be paid by Landlord to Tenant and shall be held in a segregated account, and Tenant shall restore the Leased Premises in accordance with the requirements of Paragraphs 12(a) and 13(b) of this Lease. Any Net Award in excess of $1,000,000 shall be made available by Landlord (or Lender, if required by the terms of any Mortgage) to Tenant for the restoration of any of the Leased Premises pursuant to and in accordance with the provisions of

Paragraph 19 hereof. If any Condemnation which is not a Partial Condemnation shall occur, Tenant shall comply with the terms and conditions of Paragraph 18. Landlord and Tenant waive the provisions of California Civil Code Sections 1932 and 1933 and California Code of Civil Procedure Section 1265.130.

(d) In the event of a Requisition of any of the Leased Premises, if any Net Award payable by reason of such Requisition or Partial Condemnation is (i) retained by Landlord (and not applied to restoration in the case of a Partial Condemnation), each installment of Basic Rent payable on or after the date on which the Net Award is paid to Landlord shall be reduced by a fraction, the denominator of which shall be the total amount of all Basic Rent due from such date to and including the last Basic Rent Payment Date for the then existing Term and the numerator of which shall be the amount of such Net Award retained by Landlord, or (ii) paid to Lender, then each installment of Basic Rent thereafter payable shall be reduced in the same amount and for the same period as payments are reduced under the Note until such Net Award has been applied in full or until the Term has expired, whichever first occurs.

18. Termination Events.

(a) If (i) the entire Leased Premises shall be taken by a Taking or (ii) any substantial portion of the Leased Premises shall be taken by a Taking and in the prudent business judgment of Tenant cannot be restored to an integrated unit sufficient for Tenant's business (each of the events described in the above clauses (i) and (ii) shall hereinafter be referred to as a "Termination Event"), then (x) in the case of (i) above, Tenant shall be obligated, within thirty (30) days after Tenant receives a Condemnation Notice and (y) in the case of (ii) above, Tenant shall have the option, within thirty (30) days after Tenant receives a Condemnation Notice, to give to Landlord written notice of the Tenant's election to terminate this Lease (a "Termination Notice") in the form described in Paragraph 18(b).

(b) A Termination Notice shall contain (i) notice of Tenant's intention to terminate this Lease on the first Basic Rent Payment Date which occurs at least sixty (60) days after receipt of the Termination Notice (the "Termination Date") and (ii) a binding and irrevocable offer of Tenant to pay to Landlord the Termination Amount.

(c) If Landlord shall reject such offer to pay the Termination Amount pursuant to Paragraph 18(b) above by written notice to Tenant (a "Rejection"), which Rejection shall contain the written consent of Lender, not later than thirty (30) days following the receipt of the Termination Notice, then this Lease shall terminate on the Termination Date; provided that, if Tenant has not satisfied all Monetary Obligations on the Termination Date, then Landlord may, at its option, extend the date on which this Lease may terminate to a date which is no later than the first Basic Rent Payment Date after the Termination Date on which Tenant has satisfied all Monetary Obligations. Upon such termination (i) all obligations of Tenant hereunder shall terminate except for any Surviving Obligations, (ii) Tenant shall immediately vacate and shall have no further right, title or interest in or to any of the Leased Premises and (iii) the Net Award shall be retained by Landlord. Notwithstanding anything to the contrary hereinabove contained, if Tenant shall have received a Rejection and, on the date when this Lease would otherwise terminate as provided above, Landlord shall not have received the full amount of the Net Award payable by reason of the applicable Termination Event, then the date on which this Lease is to terminate automatically shall be extended to the first Basic Rent Payment Date after the receipt by Landlord of the full amount of the Net Award (but in no event shall any such extension exceed a maximum of three months) provided that, if Tenant has not satisfied all Monetary Obligations on such date, then Landlord may, at its option, extend the date on which this Lease may terminate to a date which is no later than the first Basic Rent Payment Date after such date on which Tenant has satisfied all such Monetary Obligations.

(d) Unless Tenant shall have received a Rejection not later than the thirtieth (30th) day following receipt of the Termination Notice, Landlord shall be conclusively presumed to have accepted such offer. If such offer is accepted by Landlord then, on the Termination Date, Tenant shall pay to Landlord the Termination Amount and all remaining obligations (including Monetary Obligations) and, if requested by Tenant, Landlord shall pay to or assign to Tenant Landlord's entire interest in and to the Net Award.

19. Restoration.

(a) Landlord (or Lender if required by any Mortgage) shall hold Net Award in excess of $1,000,000 in a fund (the "Restoration Fund") and
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disburse amounts from the Restoration Fund only in accordance with the following conditions and, if the Restoration Fund is held by a Lender, it shall be held and administered in accordance with Lender's customary procedures for similar accounts:

(i) prior to commencement of restoration, (A) the architects, contracts, contractors, budget (which shall include Lender's administration costs if Lender holds the Restoration Fund), plans and specifications for the restoration shall have been approved by Landlord and Lender which approval shall not be unreasonably withheld and (B) Landlord and Lender shall be provided with performance and payment bonds which insure satisfactory completion of and payment for the restoration, are in an amount and form and have a surety reasonably acceptable to Landlord, and name Landlord and Lender as additional dual obligees;

(ii) at the time of any disbursement, no Event of Default shall exist, Tenant shall otherwise comply with the requirements imposed by Lender for disbursement of the Net Award and no mechanics' or materialmen's liens shall have been filed against any of the Leased Premises and remain uncontested or undischarged;

(iii) disbursements shall be made from time to time in an amount not exceeding the cost of the work completed since the last disbursement, upon receipt of (A) satisfactory evidence, including architects' certificates, of the stage of completion, the estimated total cost of completion and performance of the work to date in a good and workmanlike manner in accordance with the contracts, plans and specifications, (B) waivers of liens, (C) contractors' and subcontractors' sworn statements as to completed work and the cost thereof for which payment is requested, (D) a satisfactory bringdown of title insurance and (E) other evidence of cost and payment so that Landlord can verify that the amounts disbursed from time to time are represented by work that is completed, in place and free and clear of mechanics' and materialmen's lien claims, notices of pendency, stop orders or notices of intention to file same which have not either been fully bonded and discharged of record or in the alternative fully insured to the satisfaction of Landlord and Lender by the title company insuring the Mortgage;

(iv) each request for disbursement shall be accompanied by a certificate of Tenant, signed by an officer of Tenant, describing the work for which payment is requested, stating the cost incurred in connection therewith, stating that Tenant has not previously received payment for such work and, upon completion of the work, also stating that the work has been fully completed and complies with the applicable requirements of this Lease;

(v) Landlord may retain ten percent (10%) of the restoration fund until the restoration is fully completed;

(vi) if the Restoration Fund is held by Landlord, the Restoration Fund shall not be commingled with Landlord's other funds and shall bear interest at a rate agreed to by Landlord and Tenant; and

(vii) such other reasonable conditions as Landlord or Lender may impose.

(b) Prior to commencement of restoration and at any time during restoration, if the estimated cost of completing the restoration work free and clear of all liens, as reasonably determined by Landlord, exceeds the amount of the Net Award available for such restoration, the amount of such excess shall, upon demand by Landlord, be paid by Tenant to Landlord to be added to the Restoration Fund. Any sum so added by Tenant which remains in the Restoration Fund upon completion of restoration shall be refunded to Tenant. For purposes of determining the source of funds with respect to the disposition of funds remaining after the completion of restoration, the Net Award shall be deemed to be disbursed prior to any amount added by Tenant.

(c) If any sum remains in the Restoration Fund after completion of the restoration and any refund to Tenant pursuant to Paragraph 19(b), such sum shall be retained by Landlord or, if required by a Note or Mortgage, paid by Landlord to a Lender.

20. INTENTIONALLY DELETED.

21. Assignment and Subletting; Prohibition against Leasehold Financing.

(a) (i) Tenant shall have the right, upon thirty (30) days prior written notice to Landlord and Lender, with no consent of Landlord or Lender being required or necessary ("Preapproved Assignment") to assign this Lease, by operation of law or otherwise, to any Person ("Preapproved Assignee") (A) that is a wholly-owned United States subsidiary of Tenant on the date of the assignment (except that an assignment to Vantis Corp. shall not be permitted) or (B) that immediately following such assignment will have a publicly traded unsecured senior debt rating of "Baa3" or better from Moody's or a rating of "BBB-" or better from S&P, provided that the rating from the other agency (i.e. Moody's or S&P, as the case may be) shall not be less than Ba1 or BB+ and in the event all of such rating agencies cease to furnish such ratings, then a comparable rating by any rating agency reasonably acceptable to Landlord and Lender or (C) that is the surviving entity after a merger or consolidation in which Tenant is a party, so long as the net worth of such surviving entity is not less than the net worth of Tenant immediately prior thereto.

(ii) If Tenant desires to assign this Lease, whether by operation of law or otherwise, to a Person ("Non-Preapproved Assignee") who would not be a Preapproved Assignee ("Non-Preapproved Assignment") then Tenant shall, not less than forty-five (45) days prior to the date on which it desires to make a Non-Preapproved Assignment submit to Landlord and Lender information regarding the following with respect to the Non-Preapproved Assignee (collectively, the "Review Criteria"): (A) credit, (B) capital structure, (C) management, (D) operating history, (E) proposed use of the Leased Premises and (F) risk factors associated with the proposed use of the Leased Premises by the Non-Preapproved Assignee, taking into account factors such as environmental concerns, product liability and the like. Landlord and Lender shall review such information and shall approve or disapprove the Non-Preapproved Assignee no later than the thirtieth (30th) day following receipt of all such information, and Landlord and Lender shall be deemed to have acted reasonably in granting or withholding consent if such grant or disapproval is based on their review of the Review Criteria applying prudent business judgment.

(b) Tenant shall have the right, upon thirty (30) days prior written notice to Landlord and Lender, to enter into one or more subleases that demise, in the aggregate, up to but not in excess of thirty percent (30%) of the leaseable space in the Improvements with no consent or approval of Landlord being required or necessary ("Preapproved Sublet"). Other than pursuant to Preapproved Sublets, at no time during the Term shall subleases for more than

thirty percent (30%) of the gross space in the Leased Premises without the prior written consent of Landlord, which consent shall be granted or withheld based on a review of the Review Criteria as they relate to the proposed sublessee and the terms of the proposed sublease. Landlord and Lender shall be deemed to have acted reasonably in granting or withholding consent if such grant or disapproval is based on their review of the Review Criteria applying prudent business judgment.

(c) If Tenant assigns all its rights and interest under this Lease, the assignee under such assignment shall expressly assume all the obligations of Tenant hereunder, actual or contingent, including obligations of Tenant which may have arisen on or prior to the date of such assignment, by a written instrument delivered to Landlord at the time of such assignment. Each sublease of any of the Leased Premises shall be subject and subordinate to the provisions of this Lease. No assignment or sublease made as permitted by this Paragraph 21 shall affect or reduce any of the obligations of Tenant hereunder, and all such obligations shall continue in full force and effect as obligations of a principal and not as obligations of a guarantor, as if no assignment or sublease had been made. No assignment or sublease shall impose any additional obligations on Landlord under this Lease.

(d) Tenant shall, within ten (10) days after the execution and delivery of any assignment or sublease deliver a duplicate original copy thereof to Landlord which, in the event of an assignment, shall be in recordable form.

(e) As security for performance of its obligations under this Lease, Tenant hereby grants, conveys and assigns to Landlord all right, title and interest of Tenant in and to all subleases now in existence or hereafter entered into for any or all of the Leased Premises, any and all extensions, modifications and renewals thereof and all rents, issues and profits therefrom. Landlord hereby grants to Tenant a license to collect and enjoy all rents and other sums of money payable under any sublease of any of the Leased Premises, provided, however, that Landlord shall have the absolute right to revoke said license and to collect such rents and sums of money, to retain the same and to the extent received the same shall be credited against Basic Rent as the same shall be due and owing.

(f) Tenant shall not have the power to mortgage, pledge or otherwise encumber its interest under this Lease or any sublease of the Leased Premises, and any such mortgage, pledge or encumbrance made in violation of this Paragraph 21 shall be void and of no force and effect.

(g) Tenant shall transfer its interest in this Lease to any Person who purchases all or substantially all of the assets of Tenant.

(h) Landlord may sell or transfer the Leased Premises at any time without Tenant's consent to any third party (each a "Third Party Purchaser"); provided, however, so long as no monetary Event of Default exists, in no event may Landlord sell or transfer to Intel Corporation, National Semiconductor, Inc. or to any Person directly engaged in the design, engineering or manufacturing of integrated circuits, including, without limitation, micro-processors, memory, networking, logic and communications devices (any of the foregoing a "Prohibited Purchaser"). The foregoing conditions shall not apply to any sale of the Leased Premises that occurs during the last eighteen months of the Term, or to any sale to a pension fund or finance affiliate of a Prohibited Purchaser (excluding, however, a pension fund or finance affiliate of Intel Corporation or National Semiconductor, Inc.), and, in any event, the aforesaid conditions shall be null and void and of no force and effect upon any foreclosure of a Loan or acceptance by a Lender of a deed in lieu thereof. In the event of any such transfer, Tenant shall attorn to any Third Party Purchaser as Landlord so long as such Third Party Purchaser and Landlord notify Tenant in writing of such transfer and such Third Party Purchaser expressly

assumes in writing the obligations of the Landlord hereunder. At the request of Landlord and at Landlord's cost, Tenant will execute such documents confirming the agreement referred to above and such other agreements as Landlord may reasonably request, provided that such agreements do not increase the liabilities and obligations of Tenant hereunder. Tenant shall not bear any costs or expenses in connection with any sale or transfer of the Leased Premises to a Third Party Purchaser. In no event shall the terms of this Paragraph 21(g) be or be deemed to be in effect following the termination or expiration of this Lease.

22. Events of Default.

(a) The occurrence of any one or more of the following (after expiration of any applicable cure period as provided in Paragraph 22(b)) shall, at the sole option of Landlord, constitute an "Event of Default" under this Lease:

(i) a failure by Tenant to make any payment of any Monetary Obligation, regardless of the reason for such failure;

(ii) a failure by Tenant duly to perform and observe, or a violation or breach of, any other provision of this Lease not otherwise specifically mentioned in this Paragraph 22(a);

(iii) any representation or warranty made by Tenant herein or in any certificate, demand or request made pursuant hereto proves to be incorrect, when made, in any material respect;

(iv) a default beyond any applicable cure period or at maturity by Tenant in any payment of principal or interest on any obligations for borrowed money having an original principal balance of $10,000,000 or more in the aggregate, or in the performance of any other provision contained in any instrument under which any such obligation is created or secured (including the breach of any covenant thereunder), (x) if such payment is a payment at maturity or a final payment, or (y) if an effect of such default is to cause, or permit any Person to cause, such obligation to become due prior to its stated maturity and Tenant is not diligently and in good faith contesting such default or has paid such obligation in full;

(v) a default by Tenant beyond any applicable cure period in the payment of rent under, or in the performance of any other material provision of, any other lease or leases that have, in the aggregate, rental obligations over the terms thereof of $10,000,000 or more if the Landlord under any such lease or leases actually terminates such lease;

(vi) a final, non-appealable judgment or judgments for the payment of money in excess of $10,000,000 in the aggregate shall be rendered against Tenant and the same shall remain undischarged for a period of sixty (60) consecutive days;

(vii) Tenant shall (A) voluntarily be adjudicated a bankrupt or insolvent, (B) seek or consent to the appointment of a receiver or trustee for itself or for the Leased Premises, (C) file a petition seeking relief under the bankruptcy or other similar laws of the United States, any state or any jurisdiction, (D) make a general assignment for the benefit of creditors, or (E) be unable to pay its debts as they mature;

(viii) a court shall enter an order, judgment or decree appointing, without the consent of Tenant, a receiver or trustee for it or for any of the Leased Premises or approving a petition filed against Tenant which seeks relief under the bankruptcy or

other similar laws of the United States, any state or any jurisdiction, and such order, judgment or decree shall remain undischarged or unstayed ninety (90) days after it is entered;

(ix) the Leased Premises shall have been vacated or abandoned;

(x) Tenant shall be liquidated or dissolved or shall begin proceedings towards its liquidation or dissolution;

(xi) the estate or interest of Tenant in any of the Leased Premises shall be levied upon or attached in any proceeding and such estate or interest is about to be sold or transferred or such process shall not be vacated or discharged within ninety (90) days after it is made;

(xii) a failure by Tenant to perform or observe, or a violation or breach of, or a misrepresentation by Tenant under any or any document between Tenant and Lender or from Tenant to Lender, if such failure, violation, breach or misrepresentation gives rise to a default beyond any applicable cure period with respect to any Loan; or

(xiii) a failure by Tenant to maintain in effect any license or permit necessary for the use, occupancy or operation of the Leased Premises.

(b) No notice or cure period shall be required in any one or more of the following events: (A) the occurrence of an Event of Default under clause (i) (except as otherwise set forth below), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), (xi) or (xii) of Paragraph 22(a); (B) if Tenant shall fail to comply with the provisions of Paragraph 16(d) of this Lease or an assignment or sublease entered into in violation of Paragraph 21; or (C) the default is such that any delay in the exercise of a remedy by Landlord could reasonably be expected to cause irreparable harm to Landlord. If the default consists of the failure to pay any Monetary Obligation under clause (i) of Paragraph 22(a), the applicable cure period shall be five (5) days from the date on which notice is given, but, if the default consists of a failure to pay Basic Rent, Landlord shall not be obligated to give notice of, or allow any cure period for, any such default more than twice within any Lease Year. If the default consists of a default under clauses (ii) or (xiv) of Paragraph 22(a), other than the events specified in clauses (B) and (C) of the first sentence of this Paragraph 22(b), the applicable cure period shall be twenty (20) days from the date on which notice is given or, if the default cannot be cured within such twenty (20) day period and delay in the exercise of a remedy would not (in Landlord's reasonable judgment) cause any material adverse harm to Landlord or any of the Leased Premises, the cure period shall be extended for the period required to cure the default (but such cure period, including any extension, shall not in the aggregate exceed ninety (90) days), provided that Tenant shall commence to cure the default within the said twenty-day period and shall actively, diligently and in good faith proceed with and continue the curing of the default until it shall be fully cured. The notices described in this Paragraph 22(b) are in lieu and not in addition to the notice under California Civil Code 1161.

23. Remedies and Damages Upon Default.

(a) If an Event of Default shall have occurred and is continuing, Landlord shall have the right, at its sole option, then or at any time thereafter, to exercise its remedies and to collect damages from Tenant in accordance with this Paragraph 23, subject in all events to applicable Law, without demand upon or notice to Tenant except as otherwise provided in Paragraph 22(b) and this Paragraph 23.

(i) Landlord may give Tenant notice of Landlord's intention to terminate this Lease on a date specified in such notice. Upon such date, this Lease, the estate

hereby granted and all rights of Tenant hereunder shall expire and terminate. Upon such termination, Tenant shall immediately surrender and deliver possession of the Leased Premises to Landlord in accordance with Paragraph 26. If Tenant does not so surrender and deliver possession of the Leased Premises, Landlord may re-enter and repossess the Leased Premises or by summary proceedings, ejectment or any other lawful means or procedure. Upon or at any time after taking possession of the Leased Premises, Landlord may, by peaceable means or legal process, remove any Persons or property therefrom. Landlord shall be under no liability for or by reason of any such entry, repossession or removal. Notwithstanding such entry or repossession, Landlord may (A) exercise the remedy set forth in and collect the damages permitted by Paragraph 23(a)(iii) or (B) collect the damages set forth in Paragraph 23(b) or (c).

(ii) After repossession of the Leased Premises pursuant to clause (i) above, Landlord shall have the right to relet any of the Leased Premises to such tenant or tenants, for such term or terms, for such rent, on such conditions and for such uses as Landlord in its sole discretion may determine, and collect and receive any rents payable by reason of such reletting. Landlord may pay such leasing commissions, retain such management and make such Alterations in connection with such reletting as it may deem advisable in its sole discretion. Notwithstanding any such reletting, Landlord may collect the damages set forth in Paragraph 23(c).

(iii) Landlord may declare by notice to Tenant the entire Basic Rent (in the amount of Basic Rent then in effect) for the remainder of the then current Term to be immediately due and payable. Tenant shall immediately pay to Landlord all such Basic Rent discounted to its present value, using a discount factor of eight percent (8%) per annum, all accrued Rent then due and unpaid, all other Monetary Obligations which are then due and unpaid and all Monetary Obligations which arise or become due by reason of such Event of Default (including any Costs of Landlord). Upon receipt by Landlord of all such accelerated Basic Rent and Monetary Obligations, this Lease shall remain in full force and effect and Tenant shall have the right to possession of the Leased Premises from the date of such receipt by Landlord to the end of the Term, and subject to all the provisions of this Lease, including the obligation to pay all increases in Basic Rent and all Monetary Obligations that subsequently become due, except that (A) no Basic Rent which has been prepaid hereunder shall be due thereafter during the said Term, (B) Tenant shall have no option to extend or renew the Term.

(b) In addition to its other rights under this Lease, Landlord has the remedy described in California Civil Code Section 1951.4 which provides substantially as follows: Landlord may continue the Lease in effect after Tenant's breach and abandonment and recover the Rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations. In accordance with California Civil Code Section 1951.4 (or any successor statute), Tenant acknowledges that in the event Tenant breaches this Lease and abandons the Leased Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all of its rights and remedies under this Lease, including the right to recover the Rent as it becomes due under this Lease. Tenant acknowledges that the limitations on subletting and assignment set forth in Paragraph 21 are reasonable. Acts of maintenance or preservation or efforts to relet the Leased Premises or the appointment of a receiver upon initiative of Landlord to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession.

(c) If Landlord elects to terminate this Lease upon the occurrence of an Event of Default, Landlord may collect from Tenant damages computed in accordance with the following provisions in addition to Landlord's other remedies under this Lease:

(i) the worth at the time of award of any unpaid Rent which has been earned at the time of such termination; plus

(ii) the worth at the time of award of the amount by which any unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other reasonable Cost necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom including, without limitation, brokerage commissions, the cost of repairing and reletting the Leased Premises and reasonable attorneys' fees; plus

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable state law. Damages shall be due and payable from the date of termination.

For purposes of clauses (i) and (ii) of this Paragraph, the "worth at the time of award" shall be computed by adding interest at the Default Rate to the past due Rent. For the purposes of clause (iii) of this Paragraph 23(d), the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%).

(d) Landlord shall be entitled to apply the Security Deposit to any amounts due under Paragraph 23(c) if this Lease shall be terminated, or, if this Lease shall remain in full force and effect, to any amounts due under Paragraph 23(b) or in the following order: (i) to past due Basic Rent, (ii) to other past due Monetary Obligations and (iii) to Basic Rent and Monetary Obligations thereafter due and owing.

(e) Notwithstanding anything to the contrary herein contained, in lieu of or in addition to any of the foregoing remedies and damages, Landlord may exercise any remedies and collect any damages available to it at law or in equity. If Landlord is unable to obtain full satisfaction pursuant to the exercise of any remedy, it may pursue any other remedy which it has hereunder or at law or in equity.

(f) Landlord shall not be required to mitigate any of its damages hereunder unless required to by applicable Law. If any Law shall validly limit the amount of any damages provided for herein to an amount which is less than the amount agreed to herein, Landlord shall be entitled to the maximum amount available under such Law.

(g) No termination of this Lease, repossession or reletting of the Leased Premises, exercise of any remedy or collection of any damages pursuant to this Paragraph 23 shall relieve Tenant of any Surviving Obligations.

(h) WITH RESPECT TO ANY REMEDY OR PROCEEDING OF LANDLORD HEREUNDER, LANDLORD AND TENANT WAIVES ANY RIGHT TO A TRIAL BY JURY. Landlord and Tenant agree that this Lease constitutes a written consent to waiver of trial by jury pursuant to the provisions of California Code and Civil Procedure Section 631, and each of Landlord and Tenant does appoint the other Person as its true and lawful attorney-in-fact, which appointment is coupled with an interest, and does hereby authorize and empower the other Person, in its name, place and stead, to file this Lease with the clerk of any court of competent jurisdiction as statutory written consent to waiver of trial by jury. Landlord and Tenant agree that this Lease constitutes a written consent to waiver of trial by jury pursuant

to the provisions of California Code of Civil Procedure Section 631, and each of Landlord and Tenant does appoint the other Person as its true and lawful attorney-in-fact, which appointment is coupled with an interest, and does hereby authorize and empower the other Person, in its name, place and stead, to file this Lease with the clerk of any court of competent jurisdiction as statutory written consent to waiver of trial by jury.

(i) Upon the occurrence of any Event of Default, Landlord shall have the right (but no obligation) to perform any act required of Tenant hereunder, including the right to retain a third party manager to manage the Leased Premises and, if performance of such act requires that Landlord enter the Leased Premises, Landlord may enter the Leased Premises for such purpose.

(j) No failure of Landlord (i) to insist at any time upon the strict performance of any provision of this Lease or (ii) to exercise any option, right, power or remedy contained in this Lease shall be construed as a waiver, modification or relinquishment thereof. A receipt by Landlord of any sum in satisfaction of any Monetary Obligation with knowledge of the breach of any provision hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision hereof shall be deemed to have been made unless expressed in a writing signed by Landlord.

(k) Tenant hereby waives and surrenders, for itself and all those claiming under it, including creditors of all kinds, (i) any right and privilege which it or any of them may have under any present or future Law to redeem any of the Leased Premises or to have a continuance of this Lease after termination of this Lease or of Tenant's right of occupancy or possession pursuant to any court order or any provision hereof, and (ii) the benefits of any present or future Law which exempts property from liability for debt or for distress for rent; provided that the foregoing shall not preclude or prevent Tenant from seeking relief under California Code of Civil Procedure Section 1179 in any action brought by Landlord for termination of this Lease.

(l) Except as otherwise provided herein, all remedies are cumulative and concurrent and no remedy is exclusive of any other remedy. Each remedy may be exercised at any time an Event of Default has occurred and is continuing and may be exercised from time to time. No remedy shall be exhausted by any exercise thereof.

24. Notices. All notices, demands, requests, consents, approvals, offers, statements and other instruments or communications required or permitted to be given pursuant to the provisions of this Lease shall be in writing and shall be deemed to have been given and received for all purposes when delivered in person or by Federal Express or other reliable 24-hour delivery service or five (5) business days after being deposited in the United States mail, by registered or certified mail, return receipt requested, postage prepaid, addressed to the other party at its address stated above or when delivery is refused. A copy of any notice given by Tenant to Landlord shall simultaneously be given by Tenant to Reed Smith Shaw & McClay, 2500 One Liberty Place, Philadelphia, PA 19103, Attention: Chairman, Real Estate Department. A copy of any notice given by Landlord to Tenant shall be sent to the attention of the Tenant's Real Estate Manager, and a copy of any such notice shall simultaneously be given by Landlord to Advanced Micro Devices, Inc., One AMD Place, Sunnyvale, California 94088, Attention: General Counsel. Copies of all notices sent by Landlord or Tenant shall be sent to Lender at GMAC Commercial Mortgage Corporation, 650 Dresher Road, Horsham, PA 19044-8015, Attention: Executive Vice President, Commercial Loan Servicing, with copies to Commercial Capital Initiatives, Inc., Wall Street Plaza, 88 Pine Street, New York, NY 10005, Attention: Manager - Loan administration and Pepe & Hazard LLP, Goodwin Square, 225 Asylum Street, Hartford, CT 06103, Attention: Adam F. Zweifler, Esq. For the purposes of this Paragraph, any party may substitute another address stated above (or substituted by a

previous notice) for its address by giving fifteen (15) days' notice of the new address to the other party, in the manner provided above.

25. Estoppel Certificate. At any time upon not less than ten (10) days' prior written request by either Landlord or Tenant (the "Requesting Party") to the other party (the "Responding Party"), the Responding Party shall deliver to the Requesting Party a statement in writing, executed by an authorized officer of the Responding Party, certifying (a) that, except as otherwise specified, this Lease is unmodified and in full force and effect, (b) the dates to which Basic Rent, Additional Rent and all other Monetary Obligations have been paid, (c) that, to the knowledge of the signer of such certificate and except as otherwise specified, no default by either Landlord or Tenant exists hereunder, (d) such other matters as the Requesting Party may reasonably request, and (e) if Tenant is the Responding Party that, except as otherwise specified, there are no proceedings pending or, to the knowledge of the signer, threatened, against Tenant before or by any court or administrative agency which, if adversely decided, would materially and adversely affect the financial condition and operations of Tenant. Any such statements by the Responding Party may be relied upon by the Requesting Party, any Person whom the Requesting Party notifies the Responding Party in its request for the Certificate is an intended recipient or beneficiary of the Certificate, any Lender or their assignees and by any prospective purchaser or mortgagee of any of the Leased Premises.

26. Surrender. Upon the expiration or earlier termination of this Lease, Tenant shall peaceably leave and surrender the Leased Premises to Landlord in the same condition in which the Leased Premises was at the commencement of this Lease, except as repaired, rebuilt, restored, altered, replaced or added to as permitted or required by any provision of this Lease, and except for ordinary wear and tear. Upon such surrender, Tenant shall (a) remove from the Leased Premises all property which is owned by Tenant or third parties other than Landlord and (b) repair any damage caused by such removal. Property not so removed shall become the property of Landlord, and Landlord may thereafter cause such property to be removed from the Leased Premises. The cost of removing and disposing of such property and repairing any damage to any of the Leased Premises caused by such removal shall be paid by Tenant to Landlord upon demand. Landlord shall not in any manner or to any extent be obligated to reimburse Tenant for any such property which becomes the property of Landlord pursuant to this Paragraph 26.

27. No Merger of Title. There shall be no merger of the leasehold estate created by this Lease with the fee estate in any of the Leased Premises by reason of the fact that the same Person may acquire or hold or own, directly or indirectly, (a) the leasehold estate created hereby or any part thereof or interest therein and (b) the fee estate in any of the Leased Premises or any part thereof or interest therein, unless and until all Persons having any interest in the interests described in (a) and (b) above which are sought to be merged shall join in a written instrument effecting such merger and shall duly record the same.

28. Books and Records.

(a) Tenant shall keep adequate records and books of account with respect to the finances and business of Tenant generally and with respect to the Leased Premises, in accordance with generally accepted accounting principles ("GAAP") consistently applied, and shall permit Landlord and Lender by their respective agents, accountants and attorneys, upon reasonable notice to Tenant, to visit and inspect the Leased Premises and to discuss the finances and business with the officers of Tenant, at such reasonable times as may be requested by Landlord. Upon the request of Lender or Landlord (either telephonically or in writing), Tenant shall provide the requesting party with copies of any information to which such party would be entitled in the course of a personal visit.

(b) Tenant shall deliver to Landlord and to Lender within one hundred twenty (120) days of the close of each fiscal year, annual audited financial statements of Tenant prepared by a nationally recognized firm of independent certified public accountants. Tenant shall also furnish to Landlord within forty-five (45) days after the end of each of the three remaining quarters unaudited financial statements and all other quarterly reports of Tenant, certified by Tenant's chief financial officer, and all filings, if any, of Form 10-K, Form 10-Q and other required filings with the Securities and Exchange Commission pursuant to the provisions of the Securities Exchange Act of 1934, as amended, or any other Law. All annual financial statements shall be accompanied (i) by an opinion of said accountants stating that (A) there are no qualifications as to the scope of the audit and (B) the audit was performed in accordance with GAAP and (ii) by the affidavit of a duly authorized officer of Tenant, dated within five (5) days of the delivery of such statement, stating that (C) the affiant knows of no Event of Default, or event which, upon notice or the passage of time or both, would become an Event of Default which has occurred and is continuing hereunder or, if any such event has occurred and is continuing, specifying the nature and period of existence thereof and what action Tenant has taken or proposes to take with respect thereto and (D) except as otherwise specified in such affidavit, that Tenant has fulfilled all of its obligations under this Lease which are required to be fulfilled on or prior to the date of such affidavit.

(c) Landlord, Lender and their respective management, agents, accountants, attorneys, and advisors, shall consider and treat on a strictly confidential basis Tenant's "Confidential Information." "Confidential Information" as used in this Lease, shall mean all information disclosed by Tenant that is not generally known in the Tenant's trade or industry and shall include, without limitation, (a) information relating to the development and distribution of the current, future and proposed products or services of Tenant or its subsidiaries or affiliates; (b) trade secrets, drawings, inventions, mask works, know-how, software programs, and software source documents; (c) information regarding plans for research, development, new service offerings or products, marketing and selling, business plans, business forecasts, budgets and unpublished financial statements, licenses and distribution arrangements, prices and costs, suppliers and customers; (d) existence of any business discussions, negotiations or agreements between the parties; (e) any information contained in the books and records of Tenant relating to the foregoing items; (f) any copies of any books and records of Tenant relating to the foregoing items; (g) any financial statements of Tenant; and (h) any other information of the Tenant which is designated by Tenant as CONFIDENTIAL. All Confidential Information shall be conspicuously stamped "CONFIDENTIAL"; in the case where such information cannot reasonably be marked CONFIDENTIAL, for example verbal disclosures, Tenant shall advise Landlord or Lender at the time of disclosure that such information is Confidential Information and shall confirm such designation in writing within five (5) days of disclosure. Neither Landlord, Lender, nor their respective management, agents, accountants, attorneys and advisors, shall disclose any information contained in Tenant's books and records nor distribute copies of any such books and records nor Tenant's financial statements to any other Persons without the prior consent of the chief operating officer of Tenant.

The restrictions contained in this Paragraph 28(c) shall not prevent disclosure by Landlord or Lender of any information in any of the following circumstances:

(i) Upon the order of any court or administrative agency to the extent required by such order and not effectively stayed or by appeal or otherwise in which case Landlord shall promptly notify Tenant of the request for disclosure received by Landlord;

(ii) Upon the request, demand or requirement of any regulatory agency or authority having jurisdiction over such party, including the Securities and Exchange Commission (whether or not such request or demand has the force of law) in which case Landlord shall promptly notify Tenant of the request for disclosure received by Landlord;

(iii) That has been publicly disclosed other than by breach of this Paragraph 28(c) by Lender or Landlord or by any other Person referenced in the first sentence of this Paragraph 28(c);

(iv) To counsel or accountants for Lender or Landlord;

(v) While an Event of Default exists, in connection with the exercise of any right or remedy under this Lease or any other related document;

(vi) The information is developed by Landlord or Lender, independently and without reference to any Confidential Information communicated to Landlord by Tenant, as shown by demonstrable proof;

(vii) To any Person to whom Initial Lender may disclose information under Section 18.1 of the Mortgage who shall be subject to the confidentiality requirements of this Paragraph 28(c); or

(viii) As otherwise required by Law.

All Confidential Information furnished to Landlord by Tenant is the sole and exclusive property of Tenant. Upon request by Tenant, Landlord agrees to promptly deliver to Tenant the original and any copies of such Confidential Information to Tenant.

The rights and obligations set forth in this Paragraph 28(c) shall survive according to the terms hereof and continue after any expiration or termination of this Agreement or the service specified herein. In the event of a breach or threatened breach by Landlord or Lender of the provisions of this Paragraph 28(c), Tenant shall be entitled to an injunction restraining Landlord or Lender from disclosing, in whole or in part, any of such Confidential Information.

29. INTENTIONALLY DELETED.

30. Non-Recourse as to Landlord and Lender. Anything contained herein to the contrary notwithstanding, any claim based on or in respect of any liability of Landlord or Lender under this Lease shall be enforced only against the Leased Premises and not against any other assets, properties or funds of (i) Landlord or Lender, (ii) any director, officer, member, general partner, shareholder, limited partner, beneficiary, employee or agent of Landlord or Lender or any general partner of Landlord or any of its members or general partners (or any legal representative, heir, estate, successor or assign of any thereof), (iii) any predecessor or successor partnership or corporation (or other entity) of Landlord or Lender or any of its general partners, shareholders, officers, directors, members, employees or agents, either directly or through Landlord or Lender or their general partners, shareholders, officers, directors, employees or agents or any predecessor or successor partnership or corporation (or other entity), or (iv) any Person affiliated with any of the foregoing, or any director, officer, employee or agent of any thereof.

31. Financing.

(a) Tenant agrees to pay all Costs incurred by Landlord in connection with the purchase, leasing and initial financing of the Leased Premises including, without limitation, the cost of appraisals, environmental reports, title insurance, surveys, legal fees and expenses and Lender's commitment fees.

(b) If Landlord desires to obtain or refinance any Loan, Tenant shall negotiate in good faith with Landlord concerning any request made by any Lender or proposed

Lender for changes or modifications in this Lease. In particular, Tenant shall agree, upon request of Landlord, to supply any such Lender with such notices and information as Tenant is required to give to Landlord hereunder and to extend the rights of Landlord hereunder to any such Lender and to acknowledge such financing and the assignment of this Lease to Lender if such acknowledgment is requested by such Lender.

32. Subordination, Non-Disturbance and Attornment. This Lease shall be subject and subordinate to any Mortgage which is hereafter executed or recorded securing a Loan, provided, however, such subordination shall only be effective if the Lender agrees in a written subordination of substantially the same substance as the document attached hereto as Exhibit "F", with such non-material changes as the Landlord may reasonably request, that so long as there exists no outstanding Event of Default at the time the Mortgage terminates by foreclosure or otherwise: (i) this Lease shall survive such termination; (ii) the Lender or any purchaser acquires Landlord's interest under this Lease pursuant to or in lieu of proceedings for enforcement of any Mortgage, the Lender or any purchaser shall assume all of Landlord's obligations hereunder arising during the period commencing on the date of such acquisition and ending on the date such interest is conveyed or transferred to a subsequent party that assumes the obligations of Landlord hereunder arising during the period such party so holds Landlord's interest, subject in all events to the terms of Paragraph 30 of this Lease. Provided the conditions of the preceding sentence are satisfied, Tenant covenants and agrees to execute and deliver, upon request by Landlord, the subordination described above, and any additional documents evidencing the subordination of this Lease with respect to any such Mortgage reasonably required by the Lender and the agreement of Tenant to attorn to the Lender or any such purchaser.

33. INTENTIONALLY DELETED.

34. Tax Treatment; Reporting. Landlord and Tenant each acknowledge that each shall treat this transaction as a true lease for state law purposes and shall report this transaction as a Lease for Federal income tax purposes. For Federal income tax purposes each shall report this Lease as a true lease with Landlord as the owner of the Leased Premises and Equipment and Tenant as the lessee of such Leased Premises and Equipment including: (1) treating Landlord as the owner of the property eligible to claim depreciation deductions under Section 167 or 168 of the Internal Revenue Code of 1986 (the "Code") with respect to the Leased Premises and Equipment, (2) Tenant reporting its Rent payments as rent expense under Section 162 of the Code, and (3) Landlord reporting the Rent payments as rental income.

35. Excess Land.

(a) Landlord acknowledges that the Excess Land is not necessary for Tenant's current and contemplated use of the Leased Premises. Landlord shall, upon not less than thirty (30) days prior written notice to Landlord and Lender, convey the Excess Land to or as directed by Tenant for no consideration (other than having entered into this Lease with Tenant); provided, that no Event of Default under this Lease or under the documents evidencing and securing the Loan exists and the following conditions are satisfied: (i) the Leased Premises shall have been subdivided in compliance with all applicable subdivision laws, Legal Requirements and Easement Agreements so that the Excess Land and the remainder of the Leased Premises (the "Retained Premises") are separate tracts, (ii) after such sale both the Excess Land and the Retained Premises shall comply with all applicable Laws, Legal Requirements and Easement Agreements, (iii) the release of the Excess Land does not materially impact the functional use, legal use or viability of the Retained Premises, (iv) Tenant shall have complied with all requirements of Lender set forth in the Mortgage with respect to the release of the Excess Land, and (v) all Costs of Landlord, Lender and Tenant in connection with the conveyance of the Excess Land and in complying with the above conditions, including reasonable attorneys' fees,

shall be borne solely by Tenant. Landlord, as record title holder to the Excess Land, shall cooperate with Tenant in obtaining a lawful subdivision of the Leased Premises with separate parcels consisting of the Excess Land and the Retained Premises, at no cost to Landlord. If Landlord conveys the Excess Land, then, except for Surviving Obligations this Lease shall terminate with respect to the Excess Land, but shall remain in full force and effect with respect to the Retained Premises, provided, however, that in no event will the release of the Excess Land from this Lease amend, reduce or modify any of the obligations and liabilities of Tenant hereunder, including the obligations to pay Basic Rent in the amount set forth in Exhibit "D" hereto.

(b) In the event at any time during the term Tenant determines to construct or cause to be constructed improvements on the Excess Land, Tenant shall so notify Landlord, and Landlord and Tenant shall negotiate in good faith for Landlord to purchase the Excess Land from Tenant, construct such improvements and lease the same to Tenant.

36. Financing Major Alterations.

(a) Should Tenant, during the Term of this Lease, desire to make Alterations to any of the Leased Premises which are not readily removable without causing material damage to the Leased Premises or to expand the Improvements and which will cost in excess of $500,000 ("Major Alterations"),
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Tenant may, prior to the commencement of construction of such Major Alterations, request Landlord to reimburse the costs thereof (the "Alteration Cost") to
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Tenant, to wit: cost of labor and materials, financing fees, legal fees,
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survey, title insurance and other normal and customary loan or construction costs.

(b) Should Landlord agree to reimburse such costs, Landlord and Tenant shall enter into good faith negotiations regarding the execution and delivery of a written agreement of modification of this Lease, which agreement shall provide for the following:

(i) payment by Landlord to Tenant of the Alteration Cost within one hundred twenty (120) days of the date of Landlord's agreement to pay the Alteration Cost, or in installment payments as agreed, or on the date of completion of the Major Alterations, whichever shall be the later;

(ii) an increase in the annual Basic Rent payable during the Amortization Period (as hereinafter defined) to an amount sufficient to amortize the Alteration Cost ("Total Financing") over a period (the
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"Amortization Period") which shall be the remainder of the then current Term
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and, if Tenant so elects, any additional extension periods provided for herein (so long as Tenant shall confirm any such extension periods included in the Amortization Period by a written waiver of its right to give notice of its intention not to renew this Lease prior to the expiration of such extension periods), at such rate of interest and upon such other terms as shall be agreed upon between Landlord and Tenant, but which shall be no less favorable than the prevailing interest rate and terms for first unsecured loans in a principal amount equal to the Total Financing for borrowers with credit ratings equivalent to that of Tenant's at that time;

(iii) provide a rate of return to Landlord on Landlord's equity investment in the Leased Premises equal to that enjoyed by Landlord hereunder immediately prior to such proposed increase in Basic Rent; and

(iv) such other changes and amendments to this Lease as may be necessary and appropriate in view of such payment of the Alteration Cost by Landlord to Tenant.

(c) Tenant shall pay all Costs incurred by Landlord in connection with any such modification to this Lease and such financing, including closing costs, brokerage fees, taxes, recording charges and reasonable legal fees and expenses.

(d) To the extent that the terms of the Mortgage or any other document encumbering any of the Leased Premises shall require the consent of Lender and/or the holder or holders of any encumbrance on any of the Leased Premises (the "Encumbrancers") to the addition or construction of any Major
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Alterations or to the financing thereof by Landlord, the rights and obligations of Landlord and Tenant under Paragraph 13 and this Paragraph 36 are expressly conditioned upon Tenant's obtaining, prior to the commencement of any construction, the Encumbrancers' written consent to such construction and to Landlord's obtaining, in the event Landlord has agreed to pay for the Major Alterations, the Encumbrancers' written consent to such financing.

(e) If Landlord and Tenant do not reach agreement on Tenant's request to have Landlord finance the Alteration Costs, Tenant shall, subject to the provisions of Paragraph 13 of this Lease, have the right to construct the Major Alterations at Tenant's sole cost and expense. In any event, the construction of the Major Alterations shall be performed in accordance with the provisions of Paragraph 13 hereof and the Major Alterations shall be the property of Landlord and part of the Leased Premises subject to this Lease.

(f) Nothing contained in this Paragraph 36 shall be construed to modify Paragraph 13 hereof, and the provisions of Paragraph 12 and subparagraphs (i) and (ii) of Paragraph 13(a) shall apply to all Major Alterations made or constructed hereunder, including the requirement for Landlord's consent to Alterations.

37. Security Deposit.

(a) Concurrently with the execution of this Lease, Tenant has delivered to Landlord cash in the amount of Ten Million Dollars ($10,000,000) (the "Security Deposit") which shall be deposited in a segregated interest-
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bearing account (the "Account") with a financial institution or institutions
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selected by Lender or Landlord. The Security Deposit shall secure the payment by Tenant of the Rent and all other charges or payments to be paid hereunder and the performance of the covenants and obligations contained herein.

(b) If at any time an Event of Default shall have occurred and be continuing beyond the applicable grace period, if any, Landlord shall be entitled, at its sole discretion, at any time and from time to time, to withdraw the Security Deposit or any portion thereof from the Account and to apply the proceeds in payment of (i) any Rent or other charges for the payment of which Tenant shall be in default, (ii) any expense incurred by Landlord in curing any default of Tenant, (iii) any other sums due to Landlord in connection with any default or the curing thereof, including, without limitation, any damages incurred by Landlord by reason of such default, including maintenance expenses and management fees and/or (iv) the payment of leasing commissions and tenant improvements for any substitute tenant. If any portion of the Security Deposit is used, retained or applied by Landlord for any purpose set forth above, Tenant shall, within fifteen (15) days after demand therefor is made by Landlord, provide to Landlord cash which complies with the requirements of this Paragraph 37 so that the Security Deposit is in the original principal amount thereof. Landlord shall deliver to Tenant copies of all statements regarding the account(s) in which the Security Deposit is held promptly after receipt thereof by Landlord.

(c) So long as no Event of Default exists, at any time following the later to occur of payment in full of the Initial Loan or the expiration of the tenth (10th) Lease Year, the balance of the Security Deposit shall be returned to Tenant upon the earlier to occur of:

(i) the expiration of the Term or

(ii) no later than fifteen (15) days after the date on which Tenant receives a rating ("Required Rating")on its publicly-traded unsecured senior debt of Baa3 or better from Moody's, provided that at the time of such rating Tenant has a rating from S&P of not less than BB+.

(d) Notwithstanding the foregoing, if at any time or from time to time following the release of the Security Deposit pursuant to Subsection (ii) of this Paragraph 37(c) (A) Tenant's publicly-traded unsecured debt rating shall be downgraded to Ba1 or Ba2 from Moody's, and is BB or BB+ from S&P, Tenant shall redeposit with Landlord a security deposit in the amount of Five Million Dollars ($5,000,000) or (B) if such debt rating from Moody's shall be less than Ba2 and from S&P shall be less than BB, Tenant shall redeposit with Landlord Ten Million Dollars ($10,000,000) (or if the deposit described in clause (A) has been made, Five Million Dollars $5,000,000). Any such amounts shall be deposited within fifteen (15) days following the downgrade of Tenant's rating and any amounts so deposited shall be considered the "Security Deposit" for the purposes of this Lease and shall thereafter be subject to the applicable provisions of this Lease, including this subparagraph (c).

(e) At the request of Tenant (so long as no Event of Default exists) the Security Deposit shall be invested in:

(i) securities issued or fully guaranteed or insured by the United States Government or any agency thereof having maturities of not more than 12 months from the date of acquisition;

(ii) certificates of deposit, time deposits, Eurodollar time deposits, repurchase agreements, reverse repurchase agreements, or bankers' acceptances, having in each case a tenor of not more than 12 months, issued by any Bank, or by any U.S. commercial bank or any branch or agency of a non-U.S. bank licensed to conduct business in the U.S. having combined capital and surplus of not less than $100,000,000 and whose short-term securities are rated at least A-1 by S&P or at least P-1 by Moody's;

(iii) taxable and tax-exempt commercial paper of an issuer rated at least A-1 by S&P or at least P-1 by Moody's and in either case having a tenor of not more than 270 days;

(iv) medium term notes of an issuer rated at least AA by S&P or at lease Aa2 by Moody's and having a remaining term of not more than 12 months after the date of acquisition by the Company or its Subsidiaries;

(v) municipal notes and bonds which are rated at least SP-1 or AA by S&P or at least MIG-2 or Aa by Moody's with tenors of not more than 12 months;

(vi) investments in taxable or tax-exempt money market funds with assets greater than $500,000,000 and whose assets have average maturities less than or equal to 180 days and are rated at least A-1 by S&P or at least P-1 by Moody's;

(vii) money market preferred instruments of an issuer rated at least A-1 by S&P or at least P-1 by Moody's with tenors of not more than 12 months; or

(viii) such other comparable investments as may be requested by Tenant and approved by Landlord and Lender, such approval not to be unreasonably withheld.

(f) As long as no Event of Default exists, all interest accrued on the Security Deposit shall be paid to Tenant as and when such interest is received from the investment of the Security Deposit, but in no event more than once per calendar quarter.

(g) Landlord shall have the right to designate Lender as the holder of the Security Deposit during the term of the applicable Loan in which event Lender shall have all of the rights of Landlord under this Paragraph 37. Tenant covenants and agrees to execute such agreements, consents and acknowledgments as may reasonably be requested by Landlord from time to time to change the holder of the Security Deposit as hereinabove provided.

38. Right of First Refusal.

(a) Except as otherwise provided in clause (h) of this Paragraph 38, and provided an Event of Default does not then exist, if Landlord shall enter into a bona fide, arms-length contract for the sale (the "Sale Contract") of the Leased Premises with a Third Party Purchaser (which Sale Contract may include other property owned by Landlord so long as a specific purchase price is allocated to the Leased Premises), such Sale Contract must be conditioned upon Tenant's failure to exercise its right under this Paragraph 38, Landlord shall give written notice to Tenant of the Sale Contract, together with a copy of the executed Sale Contract and the name and business address of the Third Party Purchaser.

(b) For a period of thirty (30) days following receipt of such notice, Tenant shall have the right, exercisable by written notice to Landlord given within said thirty (30) day period, to elect to purchase the Leased Premises at the purchase price (calculated on a comparable after-tax basis with respect to capital gains, including depreciation and in cash) and upon all the terms and conditions set forth in such Sale Contract except that no contingencies contained in such Sale Contract as to environmental assessments, engineering studies, inspection of the Leased Premises, availability of financing, sale of other property, state of the title to or encumbrances on the Leased Premises, or any other condition or contingency to the Third Party Purchaser's obligation to purchase the Leased Premises which pertains to the condition of the Leased Premises, the Third Party Purchaser's ability to take certain action or any other factor beyond the control of Landlord, shall apply to Tenant's obligation to purchase the Leased Premises under this Paragraph 38, and Tenant shall be obligated to purchase the Leased Premises without any such condition or contingency.

(c) If at the expiration of the aforesaid thirty (30) day period Tenant shall have failed to exercise the aforesaid right of first refusal, Landlord may sell the Leased Premises to such Third Party Purchaser upon the terms set forth in such contract.

(d) Except as otherwise specifically provided herein, the closing date for any purchase of the Leased Premises by Tenant pursuant to this Paragraph 38 shall be the earlier to occur of (i) ninety (90) days after the date of Tenant's notice to Landlord of its intention to purchase the Leased Premises upon the terms of a Sale Contract with a Third Party Purchaser and (ii) the closing date provided in such Sale Contract. At such closing Landlord shall convey the Leased Premises to Tenant in accordance with, and Tenant shall pay to Landlord the purchase price and other consideration set forth in, the applicable contract.

(e) Tenant shall have the right during the Term to exercise the foregoing right of first refusal upon (i) each proposed sale of the Leased Premises prior to the tenth (10th) anniversary of the date of this Lease and (ii) one (1) time during the period commencing with the tenth (10th) anniversary of the date of this Lease and ending with the last day of the Term; provided, that if, following compliance with the procedure described in Paragraph 38(b), a Third Party Purchaser does not purchase the Leased Premises, such event shall not count as an exercise of Tenant's right of first refusal.

(f) NOTWITHSTANDING ANYTHING TO THE CONTRARY, SUCH RIGHT SHALL TERMINATE AND BE NULL AND VOID AND OF NO FURTHER FORCE AND EFFECT IF (1) TENANT FAILS TO EXERCISE THE RIGHT OF FIRST REFUSAL GRANTED PURSUANT TO THIS PARAGRAPH 38(e)(ii), AND THE SALE TO THE THIRD PARTY PURCHASER IS CONSUMMATED OR IF (2) THIS LEASE TERMINATES OR THE TERM EXPIRES OR (3) IF THE LEASED PREMISES ARE SOLD OR TRANSFERRED PURSUANT TO THE EXERCISE OF A PRIVATE POWER OF SALE OR JUDICIAL FORECLOSURE OR ACCEPTANCE OF A DEED IN LIEU THEREOF. IN SUCH EVENT TENANT SHALL EXECUTE A QUITCLAIM DEED AND SUCH OTHER DOCUMENTS AS LANDLORD SHALL REASONABLY REQUEST EVIDENCING THE TERMINATION OF ITS RIGHT OF FIRST REFUSAL.

(g) If Tenant does not exercise its right of first refusal to purchase the Leased Premises and the Leased Premises are transferred to a Third Party Purchaser, Tenant will attorn to any Third Party Purchaser as Landlord so long as such Third Party Purchaser and Landlord notify Tenant in writing of such transfer. At the request of Landlord, Tenant will execute such documents confirming the agreement referred to above and such other agreements as Landlord may reasonably request, provided that such agreements do not increase the liabilities and obligations of Tenant hereunder.

(h) The provisions of this Paragraph 38 shall not apply to or prohibit (i) any mortgaging, subjection to deed of trust or other hypothecation of Landlord's interest in the Leased Premises, (ii) any sale of the Leased Premises pursuant to a private power of sale under or judicial foreclosure of any Mortgage or other security instrument or device to which Landlord's interest in the Leased Premises is now or heareafter subject, (iii) any transfer of Landlord's interest in the Leased Premises to a Lender, beneficiary under deed of trust or other holder of a security interest therein or their designees by deed in lieu of foreclosure; (iv) any transfer of the Leased Premises to any governmental or quasi-governmental agency with power of condemnation, (v) any transfer of the Leased Premises to any affiliate of Landlord, Carey Institutional Properties Incorporated ("CIP") , Corporate Property Associates 12 Incorporated ("CPA12"), Corporate Property Associates 14 Incorporated ("CPA14") or to any entity for whom W.P. Carey & Co., Inc., Carey Diversified LLC or any of their affiliates provides management or advisory services or investment advice, (vi) any transfers of interests in Landlord by any member to any other member, (vii) any Person to whom any one or more of CIP, CPA12 and/or CPA14 sells all or substantially all of its assets, or (viii) any transfer of the Leased Premises to any of the successors or assigns of any of the Persons referred to in the foregoing clauses (i) through (iv).

39. Miscellaneous.

(a) The paragraph headings in this Lease are used only for convenience in finding the subject matters and are not part of this Lease or to be used in determining the intent of the parties or otherwise interpreting this Lease.

(b) As used in this Lease, the singular shall include the plural and any gender shall include all genders as the context requires and the following words and phrases shall have the following meanings: (i) "including" shall mean "including without limitation"; (ii) "provisions" shall mean "provisions, terms, agreements, covenants and/or conditions"; (iii) "lien" shall mean "lien, charge, encumbrance, title retention agreement, pledge, security interest, mortgage and/or deed of trust"; (iv) "obligation" shall mean "obligation, duty, agreement, liability, covenant and/or condition"; (v) "any of the Leased Premises" shall mean "the Leased Premises or any part thereof or interest therein"; (vi) "any of the Land" shall mean "the Land or any part thereof or interest therein"; (vii) "any of the Improvements" shall mean "the Improvements or any part thereof or interest therein"; (viii) "any of the Equipment" shall mean

"the Equipment or any part thereof or interest therein"; and (ix) "any of the Adjoining Property" shall mean "the Adjoining Property or any part thereof or interest therein".

(c) Any act which Landlord is permitted to perform under this Lease may be performed at any reasonable time and from time to time upon prior written notice to Tenant (except in the event of an emergency in which case no notice shall be required) by Landlord or any person or entity designated by Landlord. Each appointment of Landlord as attorney-in-fact for Tenant hereunder is irrevocable and coupled with an interest. Time is of the essence with respect to the performance by each party of their respective obligations under this Lease.

(d) Landlord shall in no event be construed for any purpose to be a partner, joint venturer or associate of Tenant or of any subtenant, operator, concessionaire or licensee of Tenant with respect to any of the Leased Premises or otherwise in the conduct of their respective businesses.

(e) This Lease and any documents which may be executed by Tenant on or about the effective date hereof at Landlord's request constitute the entire agreement between the parties and supersede all prior understandings and agreements, whether written or oral, between the parties hereto relating to the Leased Premises and the transactions provided for herein. Landlord and Tenant are business entities having substantial experience with the subject matter of this Lease and have each fully participated in the negotiation and drafting of this Lease. Accordingly, this Lease shall be construed without regard to the rule that ambiguities in a document are to be construed against the drafter.

(f) This Lease may be modified, amended, discharged or waived only by an agreement in writing signed by the party against whom enforcement of any such modification, amendment, discharge or waiver is sought.

(g) The covenants of this Lease shall run with the land and bind Tenant, its successors and assigns and all present and subsequent encumbrancers and subtenants of any of the Leased Premises, and shall inure to the benefit of Landlord, its successors and assigns. If there is more than one Tenant, the obligations of each shall be joint and several.

(h) If any one or more of the provisions contained in this Lease shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

(i) This Lease shall be governed by and construed and enforced in accordance with the Laws of the State.

(j) In the event that either Landlord or Tenant is delayed, interrupted or prevented, despite it best efforts, from performing any of its obligations under this Lease (excluding any obligation to make any payment required hereunder), and such delay, interruption or prevention is due to fire or other casualty, acts of God, governmental act, embargo, strike or labor dispute, unavailability of materials, or any other cause outside the reasonable control of such party (financial inability, unavailability of sources of financing, or changes in market conditions excepted), then the time for performance of the affected obligations of Landlord or Tenant, as the case may be, shall be extended for a period equivalent to the period of such delay, interruption or prevention.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be duly executed as of the day and year first above written.

LANDLORD:

DELAWARE CHIP LLC, a Delaware limited liability company

By: /s/ W. Sean Sovak

Title: First Vice President

TENANT:

ADVANCED MICRO DEVICES, INC., a Delaware corporation

By: /s/ R. Previte

Title: President & Chief Operating Officer

PREMISES

EXHIBIT "A"

LEGAL DESCRIPTION

REAL PROPERTY in the City of Sunnyvale, County of Santa Clara, State of California, described as follows:

Parcel A, as shown upon that Parcel Map recorded February 26, 1975 in Book 352 of Maps, pages 54 and 55, Santa Clara County Records.

APN: 205-22-020 & 021
ARB: 206-60-12, 13, 14, 15, 18, 35, 42, 52, 53 and 57

Exhibit A-2

[This exhibit consists of a map of Parcel 1 and Parcel 2.]

EXHIBIT B

MACHINERY AND EQUIPMENT

All fixtures, machinery, apparatus, equipment, fittings and appliances of every kind and nature whatsoever now or hereafter affixed or attached to or installed in any of the Leased Premises (except as hereafter provided), including all electrical, anti-pollution, heating, lighting (including hanging fluorescent lighting), incinerating, power, air cooling, air conditioning, humidification, sprinkling, plumbing, lifting, cleaning, fire prevention, fire extinguishing and ventilating systems, devices and machinery and all engines, pipes, pumps, tanks (including exchange tanks and fuel storage tanks), motors, conduits, ducts, steam circulation coils, blowers, steam lines, compressors, oil burners, boilers, doors, windows, loading platforms, lavatory facilities, stairwells, fencing (including cyclone fencing), passenger and freight elevators, overhead cranes and garage units, together with all additions thereto, substitutions therefor and replacements thereof required or permitted by this Lease; but excluding all personal property and all trade fixtures, machinery, office, manufacturing and warehouse equipment which are not necessary to the operation, as buildings, of the buildings which constitute part of the Leased Premises, including, without limitation, the following items of personal property of Tenant:

1. audio/visual equipment;

2. artwork; and

3. furniture and furniture systems.

EXHIBIT C

Site Access Agreement.

An easement as follows as shown on the Map of Tract 2421, filed July 15, 1959 in Book 108 of Maps, page 53, Santa Clara County Records, being the same as shown on the survey
For: Public Utilities, Storm Drainage and Sanitary Sewer Easement
Affects: The Southeasterly 10 feet of Lots 32 and 33 as shown on the Map above referred to and as said 10 foot strip is shown on the Parcel Map herein referred to and being the same as shown on the survey.

An easement as follows as shown on the Map of Tract 2421, filed July 15, 1959 in Book 108 of Maps, page 53, Santa Clara County Records, being the same as shown on the survey.
For: Public Utilities
Affects: Southerly 1 foot of Westerly 25 feet of Lot 29 and Northerly 1 foot of Easterly 25 feet of Westerly 215 feet of Lot 27 as shown on the Map above referred to and as said easement is shown on the Parcel Map herein referred to and being the same as shown on the survey.

A portion of public utilities easement dedicated on the Map of Tract 2421 has been vacated by Resolution No. 4734 of the City of Sunnyvale, recorded September 21, 1961 in Book 5304, page 288 of Official Records. The above described portion of the easement was reserved in said resolution.

An easement as follows as shown on the Map of Tract 2726, filed June 13, 1960 in Book 121 of Maps, page 45, Santa Clara County Records, being the same as shown on the survey.
For: Public Utilities
Affects: Westerly 5 feet of Lot 5 as shown on the Map above referred to and as said easement is shown on the Parcel Map referred to herein and being the same as shown on the survey.

An easement as follows as shown on the Map of Tract 2726, filed June 13, 1960 in Book 121 of Maps, page 45, Santa Clara County Records, being the same as shown on the survey.
For: Wire Clearance
Affects: Easterly 5 feet of Westerly 5 feet of Lot 5 as shown on the Map above referred to and as said easement is shown on the Parcel Map referred to herein and being the same as shown on the survey.

EASEMENT for the purposes stated herein and incidents thereto, being the same as shown on the survey.
Purpose: Single line of poles with such wires and cables as second parties may suspend therefrom and all necessary and proper guys, anchors, crossarms and braces and other features for transmitting and distributing by Pacific Gas or electric energy and for rendering by Pacific Telephone of communication services respectively, together with a right-of-way therefor
Granted to: Pacific Gas and Electric Company and The Pacific Telephone and Telegraph Company, a California corporation.
Recorded: July 24, 1962 in Book 5657, page 336, Official Records
Affects: As follows:

The certain parcel of land described in that certain deed executed by George Land, et ux to Ben Ginden, et ux, recorded February 15, 1962 in Volume 5468 of Official Records, at page 497, records of said County of Santa Clara.

The route of said line of poles across said premises shall be as follows, viz:

1. Within a strip of land of the uniform width of 5.0 feet, extending entirely across said premises and lying contiguous to and Southeasterly of the Northwesterly boundary line of said premises.

EASEMENT as shown on that Parcel Map recorded February 26, 1975 in Book 351 of Maps, page 54 and 55, Santa Clara County Records.

For : Public utilities, wire clearance, storm drainage, sanitary sewer, building height and anchor purposes
Affects : A portion of sale land as shown on the survey

EASEMENT for the purposes stated herein and incidents thereto being the same as shown on the survey

Purpose : The right from time to time to construct, install, inspect, maintain, replace, remove, and use facilities, together with a right-of-way thereof, and also ingress thereto and egress therefrom
Granted to : Pacific Gas and Electric Company, a California corporation
Recorded : September 26, 1977 in Book D 164, page 465, Official Records
Affects : All of said Land as to ingress and egress; and a strip or parcel of land or along a route as hereinafter set forth as to the facilities:

1. Beginning at the found 3/4 inch iron pipe accepted as marking the Southeast corner of said lands and running thence, Westerly along the Southerly boundary line of said lands.

(1) South 88" 13' West 731.51 feet to the found 3/4 inch iron pipe accepted as marking the Southwest corner of said lands: thence leaving said Southerly boundary line of said lands and running Northerly along the Westerly boundary line of said lands.

(2) North 1" 47' West 351.15 feet to the found 3/4 inch iron pipe accepted as marking the point of intersection of said Westerly boundary line of said lands with the Southerly boundary line of the City Street known as De Guigne Drive; thence leaving said Westerly boundary line of said lands and running Easterly and along said Southerly boundary line of said De Guigne Drive.

(3) On a curve to the left with a radius of 33.00 feet through a central angle of 17" 38' 23" and tangent at the Westerly terminus thereof to a line which has a bearing of North 88" 13' East, an arc distance of 10.16 feet; thence leaving said Southerly boundary line of said De Guigne Drive and running.

(4) South 1" 47' East 342.70 feet; thence

(5) North 88" 13' East 724.49 feet to a point in the Easterly boundary line of said lands; thence Southerly along said Easterly boundary line of said lands.

(6) South 14" 48' West 10 feet, more or less, to the point of beginning.

And being the same as shown on the survey

EASEMENT for the purposes stated herein and incidents thereto
Purpose : Public Utilities
Granted to : City of Sunnyvale, a municipal corporation
Recorded : June 13, 1978 in Book D738, page 165, Official Records
Affects : As follows:

Commencing at the point of intersection of the centerline of Lawrence Expressway, a 67.01 foot half street, with the centerline of East Duane Avenue, 86 feet wide, as shown on that certain Parcel Map for the lands of Western Electric Company records in Book 351 of Maps, page 54 and 55, Santa Clara County Records: thence South 88" 44' 39" West along said centerline of East Duane Avenue and its Westerly prolongation, 561.01 feet; thence South 0" 03' 31" East 53.84 feet; thence South 89" 56' 29" West, 33.00 feet to a point in the Westerly line of San Xavier Avenue; thence along the arc of a tangent curve to the left having a radius of 150.00 feet, through a central angle of 0" 17' 00", a distance of 0.74 feet to the true point of beginning; thence from a tangent bearing of North 0" 20' 31" West, along the arc of a compound curve to the left having a radius of 19.00 feet through a central angle of 91" 11' 50" a distance of 30.24 feet; thence North 1" 15' 21" West, 7.00 feet; thence South 88" 44' 39" West 63.96 feet; thence North 1" 15' 21" West 26.00 feet to a point in said Westerly prolongation of East Duane Avenue, thence North 88" 44' 39" East along said prolongation 25.33 feet; thence North 1" 15' 21" West 33.00 feet; thence from a tangent bearing of North 88" 44' 39" East, along the arc of a curve to the left having a radius of 19.00 feet, through a central angle of 120" 01' 00", a distance of 39.80 feet to a point of tangency on the Southwesterly line of said East Duane Avenue; thence South 31" 16' 21" East along said Southeasterly line 42.12 feet; thence along the arc of a tangent curve to the right having a radius of 150.00 feet, through a central angle of 30" 55' 50", a distance of 80.98 feet to the true point of beginning.

And being the same as shown on the survey.

UNRECORDED LEASE for the term and upon the terms and conditions contained therein

Dated	: As of December 22, 1998
Lessor	: Delaware Chip LLC, a Delaware limited liability company
Lessee	: Advanced Micro Devices, Inc., a Delaware corporation
Disclosed by	: Memorandum of Lease, recorded December ____, 1998 as Instrument No. _____ Official Records.

A DEED OF TRUST to secure an indebtedness in the original principal sum shown below and any other amounts and/or obligations secured thereby

Amount	: $68,250,000.00
Dated	: December ____, 1998
Trustor	: Delaware Chip LLC, a Delaware limited liability company
Trustee	: First American Title Insurance Company
Beneficiary	: GMAC Commercial Mortgage Corporation, a California corporation
Address	:
Recorded	: December ____, 1998, as Instrument No. _____ Official Records.

BASIC RENT PAYMENTS

1. Basic Rent. Subject to the adjustments provided for in Paragraphs 2, 3 and 4 below, Basic Rent payable in respect of the Term shall be $9,145,500 per annum, payable monthly in advance on each Basic Rent Payment Date, in equal installments of $762,125 each.

2. CPI Adjustments to Basic Rent. The Basic Rent shall be subject to adjustment, in the manner hereinafter set forth, for increases in the index known as United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, United States City Average, All Items, (1982-84=100) ("CPI") or the successor index that most closely approximates the CPI. If the CPI shall be discontinued with no successor or comparable successor index, Landlord and Tenant shall attempt to agree upon a substitute index or formula, but if they are unable to so agree, then the matter shall be determined by arbitration in accordance with the rules of the American Arbitration Association then prevailing in San Francisco, California. Any decision or award resulting from such arbitration shall be final and binding upon Landlord and Tenant and judgment thereon may be entered in any court of competent jurisdiction. In no event will the Basic Rent as adjusted by the CPI adjustment be less than the Basic Rent in effect for the three (3) year period immediately preceding such adjustment.

3. Arbitration of Disputes. NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN PARAGRAPH 2 ABOVE DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN PARAGRAPH 2 ABOVE. IF YOU REFUSE TO SUBMIT THE ARBITRATION AFTER AGREEMENT TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY. WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN PARAGRAPH 2 ABOVE TO NEUTRAL ARBITRATION.

Landlord	Tenant

4. Effective Dates of CPI Adjustments. Basic Rent shall not be adjusted to reflect changes in the CPI until the third (3rd) anniversary of the Basic Rent Payment Date on which the first full monthly installment of Basic Rent shall be due and payable (the "First Full Basic Rent Payment Date"). As of the third (3rd) anniversary of the First Full Basic Rent Payment Date and thereafter on the sixth (6th), ninth (9th), twelfth (12th), fifteenth (15th) and eighteenth (18th) and, if the initial Term is extended, on the twenty-first (21st), twenty-fourth (24th), and twenty-seventh (27th), and, if the Term is further extended, on the thirtieth (30th), thirty-third (33rd), thirty-sixth (36th) and thirty-ninth (39th) anniversaries of the First Full Basic Rent Payment Date and, if the Term is further extended pursuant to Paragraph 5(c), on each third (3rd) anniversary of the First Full Rent Payment Date thereafter, Basic Rent shall be adjusted to reflect increases in the CPI during the most recent three (3) year period immediately preceding each of the foregoing dates (each such date being hereinafter referred to as the "Basic Rent Adjustment Date").

5. Method of Adjustment for CPI Adjustment.

(a) As of each Basic Rent Adjustment Date when the average CPI determined in clause (i) below exceeds the Beginning CPI (as defined in this Paragraph 5(a)), the Basic Rent in effect immediately prior to the applicable Basic Rent Adjustment Date shall be multiplied by a fraction, the numerator of which shall be two (2) times the difference between (i) the average CPI for the three (3) most recent calendar months (the "Prior Months") ending prior to such Basic Rent Adjustment Date for which the CPI has been published on or before the forty-fifth (45th) day preceding such Basic Rent Adjustment Date and (ii) the Beginning CPI, and the denominator of which shall be the Beginning CPI. An amount equal to the lesser of (x) the product of such multiplication or 6.903% of the Basic Rent in effect immediately prior to such Basic Rent Adjustment Date shall be added to the Basic Rent in effect immediately prior to such Basic Rent Adjustment Date. As used herein, "Beginning CPI" shall mean the average CPI for the three (3) calendar months corresponding to the Prior Months, but occurring three (3) years earlier. If the average CPI determined in clause (i) is the same or less than the Beginning CPI, the Basic Rent will remain the same for the ensuing three (3) year period.

(b) Effective as of a given Basic Rent Adjustment Date, Basic Rent payable under this Lease until the next succeeding Basic Rent Adjustment Date shall be the Basic Rent in effect after the adjustment provided for as of such Basic Rent Adjustment Date.

(c) Notice of the new annual Basic Rent shall be delivered to Tenant on or before the tenth (10th) day preceding each Basic Rent Adjustment Date, but any failure to do so by Landlord shall not be or be deemed to be a waiver by Landlord of Landlord's rights to collect such sums. Tenant shall pay to Landlord, within ten (10) days after a notice of the new annual Basic Rent is delivered to Tenant, all amounts due from Tenant, but unpaid, because the stated amount as set forth above was not delivered to Tenant at least ten (10) days preceding the Basic Rent Adjustment Date in question.

EXHIBIT E

INTENTIONALLY DELETED

EXHIBIT F

RECORDING REQUESTED BY, AND
WHEN RECORDED RETURN TO:

_____

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

RECITALS

This SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT ("AGREEMENT") is entered into as of this ____ day of _____, ____, by and among ADVANCED MICRO DEVICES, INC., a Delaware corporation ("TENANT"). _____, a _____ corporation ("LENDER") and DELAWARE CHIP LLC, a Delaware limited liability company ("LANDLORD").

A. Pursuant to a Lease Agreement dated as of December 22, 1998 (the "LEASE") between Landlord and Tenant, Tenant is leasing from Landlord all of that certain real property located in the County of Santa Clara, State of California, more particularly described in Exhibit A attached hereto, together with the buildings improvements located thereon (hereinafter referred to as the "PROPERTY").

B. Lender intends to make a loan to Landlord in the amount of $ _____.00 with interest thereon (the "LOAN"), evidenced by a certain Promissory Note secured by a Deed of Trust, Security Agreement and Fixture Filing of even date herewith (together with any consolidations, replacements, extensions, modifications and renewals thereof and any other mortgage on the Property which may hereafter be held by Lender, the "SECURITY INSTRUMENT"), constituting a valid lien upon the Property and secured by an assignment of Landlord's interest in the Lease as more particularly set forth in a certain Assignment of Leases and Rents (the "ASSIGNMENT").

C. As a condition precedent to funding the Loan, Lender has required that Landlord and Tenant make certain agreements with Lender with respect to the Lease.

NOW, THEREFORE, in consideration of the foregoing facts and mutual covenants contained herein, the parties hereto do hereby agree as follows:

1. ASSIGNMENT; PAYMENT. Tenant hereby acknowledges and agrees that it has notice that the Lease and the rent and all other sums due thereunder have been assigned or are to be assigned to Lender as security for the obligations secured by the Security Instrument and agrees to such assignment. Tenant agrees to pay such sums due under the Lease directly to Lender. In complying with these provisions. Tenant shall be entitled to rely solely upon the notices given by Lender and Landlord hereby permits said direct payments to be made. Tenant shall be entitled to full credit under the Lease for any rents paid to Lender in accordance with the provisions of this Paragraph to the same extent as if such rents were paid directly to Landlord.

2. SUBORDINATION. Subject to the terms hereof and by its execution hereof, Tenant acknowledges that the Security Instrument in favor of Lender, shall remain a lien on the Property until such time when fully paid or otherwise disposed of pursuant to the terms thereof, prior and superior to the Lease (including specifically, without limitation, any option to purchase or rights of first refusal affecting the Property, or any portion thereof, contained therein), the leasehold estate created thereby and Tenant's right, title and interest in the Property as if the Security Instrument had been executed, delivered and duly recorded in the appropriate land records prior to the execution and delivery of the Lease.

3. ATTORNMENT. If the interest of Landlord in the Property and under the Lease shall be acquired by Lender by reason of foreclosure of the Security Instrument or any other act or proceeding(s) made or brought to enforce the rights of the Lender, including, but not limited to, by deed in lieu of foreclosure or as a result of any other means, then the Lease and all terms therein, and the rights of Tenant thereunder, shall continue in full force and effect and shall not be altered, terminated, or disturbed, except in accordance with the terms of the Lease, and Tenant shall be bound to Lender and Lender shall be bound to Tenant, subject to the terms hereof, under all of the terms, covenants and conditions of the Lease for the balance of the term and any renewals thereof with the same force and effect as if the Lender were the Landlord under the Lease. In the event Lender acquires the interest of Landlord, Tenant hereby agrees to attorn to Lender as its landlord, said attornment to be effective and self-operative without the execution of any other instruments on the part of either party hereto, immediately upon Lender succeeding to the interest of Landlord under the Lease with written notice of same being delivered to Tenant. Upon receipt by Tenant of said written notice from Lender that Lender has succeeded to the interest of Landlord under the Lease, Tenant will make all payments of monetary obligations due by Tenant under the Lease at the address provided by Lender in the notice. Tenant agrees, however, upon the election of and written demand by Lender within sixty (60) days after Lender receives title to Property, to execute an instrument in confirmation of the foregoing provisions, mutually satisfactory to Lender and Tenant, in which Lender and Tenant shall acknowledge these agreements.

4. NONDISTURBANCE. If it becomes necessary to foreclose the Security Instrument, Lender will not terminate the Lease nor join Tenant in summary or foreclosure proceedings so long as an Event of Default as defined in the Lease has not occurred with respect to Tenant. If Lender shall succeed to the interests of Landlord under the Lease, Lender shall be bound to the Tenant under all of the terms, covenants and conditions of the Lease from and after the date of such succession to Landlord's interest in the Lease, and Lender agrees to recognize Tenant and further agrees that, provided an Event of Default under the Lease has not occurred with respect to Tenant, Tenant shall not be disturbed in its possession or use of the Property, said nondisturbance to be effective and self-operative without the execution of any other instrument(s) on the part of either party hereto, immediately upon Lender succeeding to the interest of Landlord under the Lease. Tenant shall, from and after Lender's succession to the interests of Landlord under the Lease, have the same remedies against Lender for the breach of any provision contained in the Lease that Tenant might have had under the Lease against Landlord if Lender had not succeeded to the interests of Landlord under the Lease; provided further, however, that Lender and any purchaser at foreclosure or owner by virtue of a deed in lieu of foreclosure shall not be:

(a) liable for any acts or omissions of any prior landlord (including, but not limited to, Landlord): or

(b) subject to any offsets or defenses which Tenant may have against any prior landlord (including, but not limited to, Landlord); or

(c) liable for any consequential damages attributable to any acts or omissions of any prior landlord (including, but not limited to, Landlord); or

(d) obligated to give Tenant a credit for or acknowledge any rent or any other sums not delivered to Lender which Tenant has paid to Landlord in excess of the rent due under the Lease at the time Lender gave Tenant notice of its succession to the Landlord's interest; or

(e) liable for the repayment of any monies paid by Tenant under the Lease, including, without limitation, security deposits, unless Lender actually received possession of such monies and except to the extent provided in that certain Assignment of Leases, Rents and Security Deposit dated the date hereof between Lender and Landlord, as Borrower, and acknowledged and agreed to by Tenant; or

(f) obligated to commence or complete any construction or contribute toward the construction or installation of any improvements required under the Lease, or expand or rehabilitate existing improvements thereon, or restore improvements following any casualty not required to be insured under the Lease or pay the costs of any restoration in excess of the proceeds recovered under any insurance required to be carried under the Lease; or

(g) liable for any damages or other relief attributable to any latent or patent defects in construction; or

(h) liable for any costs or expenses related to any indemnification provided by any prior landlord (including, but not limited to, Landlord) with respect to the presence or clean-up of any hazardous substances or materials in, on, under or about the leased premises; or

(i) bound by any amendment or modification of the Lease made without its consent and knowledge.

Additionally, in such event, Tenant shall be bound to Lender, and Lender shall be bound to Tenant, subject to the terms hereof, under all of the terms, covenants and conditions of the Lease, and Lender and Tenant shall, from and after Lender's succession to the interest of Landlord under the Lease, have the same remedies against each other for the breach of any provision

contained in the Lease that they might have had under the Lease against each other if Lender were the original Landlord under the Lease.

5. LIMITATIONS ON LIABILITY. Neither this Agreement, the Assignment, nor anything to the contrary in the Lease shall, prior to Lender's acquisition of Landlord's interest in and possession of the Property, operate to give rise to or create any responsibility or liability for the control, care, management or repair of the Property upon Lender, or impose responsibility for the carrying out by Lender of any of the covenants, terms and conditions of the Lease, or constitute Lender a "mortgagee in possession," nor shall said instrument operate to make Lender responsible or liable for any waste committed on the Property by any person whatsoever, or for any dangerous or defective condition of the Property, or for any negligence in the management, upkeep, repair or control of the Property resulting in loss, injury or death to any tenant, licensee, invitee, guest, employee, agent or stranger, provided however that Tenant will accept performance by Lender of any obligation required to be performed by Landlord under the terms of the Lease with the same force and effect as though performed by Landlord. Notwithstanding anything to the contrary in the Lease, Lender shall be responsible (subject to the limitations under paragraph 4 above) for performance of only those covenants and obligations of the Lease accruing after Lender's acquisition of Landlord's interest in and possession of the Property. In the event Lender becomes substitute landlord, Lender may assign its interest as substitute landlord without notice to or the consent of Tenant provided that such substitute landlord expressly assumes Lender's obligations as substitute Landlord under that Agreement.

Anything herein or in the Lease to the contrary notwithstanding, in the event that Lender shall acquire title to the Property, Lender shall have no obligation, nor incur any liability beyond the then-existing ownership interest, if any, of Lender in the Property and Tenant shall look exclusively to such interest of Lender in the Property for the payment and discharge of any obligations imposed upon Lender hereunder or under the Lease, and Lender is hereby released and relieved of any other liability hereunder and under the Lease. As regards Lender, Tenant shall look solely to the estate or interest owned by Lender in the Property and Tenant will not collect or attempt to collect any judgment out of any other assets of Lender.

6. WARRANTIES AND REPRESENTATIONS. Tenant hereby warrants, represents, covenants and agrees to and with Lender:

(a) not to alter, modify, cancel, terminate or surrender the Lease, except as provided therein;

(b) after the date hereof (except as otherwise expressly provided in the Lease), not to enter into any agreement with Landlord, its successors or assigns, which grants any concession with respect to the Lease or which reduces the rent or other Tenant obligations called for thereunder without the express written consent of Lender and Tenant acknowledges that any such agreement entered into without Lender's consent shall not be binding on Lender;

(c) after the date hereof (except as otherwise expressly provided in the Lease), not to create any offset or claims against rents, or prepay rent more than thirty (30) days in advance;

(d) that Tenant is now lessee of the leasehold estate created by the Lease and shall not hereafter assign the Lease except as permitted by the terms thereof;

(e) to promptly certify in writing to Lender, in connection with any proposed assignment of the Security Instrument, whether or not any default on the part of Landlord is claimed to exist under the Lease, and what any such claimed default factually involves; and

(f) that Tenant shall not voluntarily subordinate the Lease to any other lien or encumbrance (except as otherwise expressly provided in the Lease).

7. NO WAIVER. Notwithstanding any other provision of this Agreement, where Lender acquires Landlord's interest in and possession of the Property and a Landlord default has occurred and is continuing, Tenant shall not be considered as having waived its rights to require that Lender remedy such default if the Landlord default continues after the date Lender acquires Landlord's interest in and possession of the Property. In that case, Lender shall have no liability for Landlord's default as it applies to the period before Lender's acquisition of Landlord's interest in and possession of the Property, but shall be liable for any failure to cure such continuing default thereafter, provided only that Lender receives the benefit of any notice and cure period required by the Lease or hereunder.

8. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California.

9. NOTICE AND CURE. In the event that Landlord shall default in the performance or observance of any of the terms, conditions or agreements in the Lease, Tenant shall give written notice thereof to Lender and Lender shall have the right (but not the obligation) to cure such default. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in the Lease, then the Lender shall have an additional forty-five (45) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default shall be granted if within such forty-five (45) days Lender has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to, commencement of foreclosure proceedings, if necessary to effect such cure), in which event the Lease shall not be terminated while such remedies are being so diligently pursued and provided that if and to the extent any such defaults are monetary in nature, Lender has cured the monetary aspects of such defaults within such forty-five (45) day period.

10. BINDING EFFECT; DEFINITIONS. The provisions of this Agreement shall be covenants running with the Property, and shall be binding upon and inure to the benefit of the respective parties hereto and their respective heirs, legatees, executors, administrators, beneficiaries,

successors and assigns, including without limitation (a) any person who shall obtain, directly or by assignment or conveyance, any interest in the Security Instrument and any person who shall obtain any interest in the Property, whether through foreclosure or otherwise. As used herein the term "TENANT" shall include Tenant, its successors and assigns; the words "FORECLOSURE" and 'FORECLOSURE SALE" as used herein shall be deemed to include the acquisition of Landlord's estate in the Property by voluntary deed (or assignment) in lieu of foreclosure; and the word "LENDER" shall include Lender herein specifically named and any of its successors and assigns, including anyone who shall have succeeded to Landlord's interest in the Property by, through or under foreclosure of the Security Instrument.

11. ENTIRE AGREEMENT. This Agreement shall be the whole and only agreement between the parties hereto with regard to the subordination of the Lease and leasehold interest of Tenant to the Security Instrument in favor of Lender, and, with respect to Lender and Tenant only, shall supersede and cancel any prior agreements as to such, or any, subordination, including, but not limited to, those provisions, if any, contained in the Lease, which provide for the subordination of the Lease and leasehold interest of Tenant to a deed or deeds of trust or to a Security Instrument of Security Instruments to be thereafter executed, and shall not be modified or amended except in writing signed by all parties hereto.

12. CONSIDERATION. Tenant declares, agrees and acknowledges that it intentionally and unconditionally waives, relinquishes and subordinates the Lease and leasehold interest in favor of the Security Instrument above mentioned to the extent set forth in this Agreement, and, in consideration of this waiver, relinquishment and subordination, specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this waiver, relinquishment and subordination. Lender acknowledges and agrees that Tenant is relying on the agreements and obligations of Lender hereunder in executing this Agreement.

13. INVALIDITY OR UNENFORCEABILITY. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision.

14. NUMBER AND GENDER. The use of the neuter gender in this Agreement shall be deemed to include any other gender, and words in the singular number shall be held to include the plural, when the sense requires.

15. COUNTERPARTS. This Agreement may be executed in one or more counterparts each of which shall be deemed to be an original and all of which, when taken together, shall be deemed one and the same document.

16. NOTICE. Any notice required or allowed by this Agreement shall be in writing and shall be (i) hand-delivered, effective upon receipt, or (ii) sent by United States Express Mail or by private overnight courier, effective upon receipt, or (iii) served by certified mail, postage prepaid, return receipt requested, deemed effective on the day of actual delivery as shown by the

addressee's return receipt or the expiration of three (3) business days after the date of mailing, whichever is the earlier in time; addressed to the party intended to receive the same at the address set forth below;

If to Tenant
Advanced Micro Devices, Inc.
One AMD Place
Sunnyvale, California 94088
Attention: General Counsel

With Copy to:
Shartsis, Friese & Ginsburg LLP
One Maritime Plaza
San Francisco, California 94111
Attention: David Kremer

If to Landlord:
Delaware CHIP LLC
c/o W.P. Carey & Co., Inc.
50 Rockefeller Plaza - 2nd Floor
New York, New York, 10020
Attention: Mr. Sean Sovak

With Copy to:
Reed Smith Shaw & McClay LLP
2500 One Liberty Place
Philadelphia, Pennsylvania 19103
Facsimile No. (215) 851-1420
Attn: Chairman, Real Estate Department

If to Lender:

With a copy to:

And

The parties may, by written notice to the others, designate a different mailing address for notices.

18. Confidentiality. Lender hereby agrees, with respect to information requested by Lender or required to be delivered to Lender pursuant to the terms of the Security Instrument or the other loan documents, to be bound to the confidentiality provisions contained in Section 28(c) of the Lease as of the date hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LANDLORD:

DELAWARE CHIP LLC,
a Delaware limited liability company

By: MICRO (CA) QRS 11-43, INC.,
a Delaware corporation,
Its Manager

By:_____
W. Sean Sovak
First Vice President

TENANT;

ADVANCED MICRO DEVICES, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

LENDER:

GMAC COMMERCIAL MORTGAGE
CORPORATION, a California
corporation

By: _____
Name: _____
Title: _____

STATE OF NEW YORK)
) ss: _____
COUNTY OF NEW YORK)

On December _____, 1998, before me, _____, a Notary Public in and for the State of California, personally appeared W. Sean Sovak, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the within instrument in his authorized capacity and that, by his signature on the within instrument, the person or entity upon behalf of which he acted executed the within instrument.

WITNESS my hand and official seal.

Signature:_____ (SEAL)

STATE OF NEW YORK)
) ss: _____
COUNTY OF NEW YORK)

On December _____, 1998, before me, _____, a Notary Public in and for the State of California, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the within instrument in his authorized capacity and that, by his signature on the within instrument, the person or entity upon behalf of which he acted executed the within instrument.

WITNESS my hand and official seal.

Signature: _____ (SEAL)

STATE OF CALIFORNIA)
) ss: _____
COUNTY OF)

On December ____, 1998, before me, _____, a Notary Public in and for the State of California, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the within instrument in his authorized capacity and that, by his signature on the within instrument, the person or entity upon behalf of which he acted executed the within instrument.

WITNESS my hand and official seal.

Signature: _____ (SEAL)

EXHIBIT G

SCHEDULE OF TERMINATION AMOUNTS

The Termination Amount shall equal the following amounts for the specified lease year plus the Prepayment Premium.

Lease Year	Amount
1	$ 99,546,291.00
2	$ 99,546,291.00
3	$ 99,546,291.00
4	$ 99,546,291.00
5	$101,405,445.00
6	$101,405,445.00
7	$101,405,445.00
8	$101,405,445.00
9	$ 98,194,241.00
10	$ 98,194,241.00
11	$ 98,194,241.00
12	$ 98,194,241.00
13	$ 96,429,228.00
14	$ 96,429,228.00
15	$ 94,295,854.00
16	$ 94,295,854.00
17	$ 93,815,960.00
18	$ 93,815,960.00
19	$ 93,815,960.00
20	$ 93,815,960.00

ADVANCED MICRO DEVICES, INC.
1998 STOCK INCENTIVE PLAN

1. PURPOSE

The purpose of this Plan is to encourage key personnel and advisors whose long-term service is considered essential to the Company's continued progress, to remain in the service of the Company or its Affiliates. By means of the Plan, the Company also seeks to attract new key employees and advisors whose future services are necessary for the continued improvement of operations. The Company intends future increases in the value of securities granted under this Plan to form part of the compensation for services to be rendered by such persons in the future. It is intended that this purpose will be effected through the granting of Options and Restricted Stock.

2. DEFINITIONS

The terms defined in this Section 2 shall have the respective meanings set forth herein, unless the context otherwise requires.

(a) "Affiliate" The term "Affiliate" shall mean any corporation, partnership, joint venture or other entity in which the Company holds an equity, profits or voting interest of thirty percent (30%) or more.

(b) "Board" The term "Board" shall mean the Company's Board of Directors or its delegate as set forth in Section 3(d) below.

(c) "Change of Control" Unless otherwise defined in a Participant's employment agreement, the term "Change of Control" shall be deemed to mean any of the following events: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or any of its Affiliates) representing more than 20% of either the then outstanding shares of the Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities; (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than a director designated by a person who has entered into an agreement or arrangement with the Company to effect a transaction described in clause (i) or (ii) of this sentence) whose appointment, election, or nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or (iii) there is consummated a merger or consolidation of the Company or subsidiary thereof with or into any other corporation, other than a merger or consolidation which would result in the holders of the voting securities of the Company outstanding immediately prior thereto holding securities which represent immediately after such

merger or consolidation more than 50% of the combined voting power of the voting securities of either the Company or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there is consummated the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 80% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of the Company immediately prior to such sale. Notwithstanding the foregoing (i) unless otherwise provided in a Participant's employment agreement, no "Change of Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the Common Stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately prior to such transaction or series of transactions and (ii) unless otherwise provided in a Participant's employment agreement, "Change of Control" shall exclude the acquisition of securities representing more than 20% of either the then outstanding shares of the Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities by the Company or any of its wholly owned subsidiaries, or any trustee or other fiduciary holding securities of the Company under an employee benefit plan now or hereafter established by the Company.

(d) "Code" The term "Code" shall mean the Internal Revenue Code of 1986, as amended to date and as it may be amended from time to time.

(e) "Company" The term "Company" shall mean Advanced Micro Devices, Inc., a Delaware corporation.

(f) "Constructive Termination" The term "Constructive Termination" shall mean a resignation by a Participant who has been elected by the Board as a corporate officer of the Company due to diminution or adverse change in the circumstances of such Participant's employment with the Company, as determined in good faith by the Participant; including, without limitation, reporting relationships, job description, duties, responsibilities, compensation, perquisites, office or location of employment. Constructive Termination shall be communicated by written notice to the Company, and such termination shall be deemed to occur on the date such notice is delivered to the Company.

(g) "Fair Market Value per Share" The term "Fair Market Value per Share" shall mean as of any day (i) the closing price for Shares on the New York Stock Exchange as reported in The Wall Street Journal on the day as of which such determination is being made or, if there was no sale of Shares reported in The Wall Street Journal on such day, on the most recently preceding day on which there was such a sale, or (ii) if the Shares are not listed or admitted to trading on the New York Stock Exchange on the day as of which the determination is made, the amount determined by the Board or its delegate to be the fair market value of a Share on such day.

(h) "Insider" The term "Insider" means an officer or director of the Company or any other person whose transactions in the Company's Common Stock are subject to Section 16 of the Exchange Act.

(i) "Option" The term "Option" shall mean a nonstatutory stock option granted under this Plan.

(j) "Participant" The term "Participant" shall mean any person who holds an Option or Restricted Stock Award granted under this Plan.

(k) "Plan" The term "Plan" shall mean this Advanced Micro Devices, Inc. 1998 Stock Incentive Plan, as amended from time to time.

(l) "Restricted Stock" or "Restricted Stock Award" The term "Restricted Stock" or "Restricted Stock Award" shall mean an award of restricted Shares of Common Stock granted under the Plan.

(m) "Shares" The term "Shares" shall mean shares of Common Stock of the Company and any shares of stock or other securities received as a result of the adjustments provided for in Section 9 of this Plan.

3. ADMINISTRATION

(a) The Board, whose authority shall be plenary, shall administer the Plan and may delegate part or all of its administrative powers with respect to part or all of the Plan pursuant to Section 3(d).

(b) The Board or its delegate shall have the power, subject to and within the limits of the express provisions of the Plan:

(1) To grant Options or Restricted Stock pursuant to the Plan.

(2) To determine from time to time which of the eligible persons shall be granted Options or Restricted Stock under the Plan, the number of Shares for which each Option or Restricted Stock Award shall be granted, the term of each granted Option and the time or times during the term of each Option within which all or portions of each Option may be exercised (which at the discretion of the Board or its delegate may be accelerated.)

(3) To prescribe the terms and provisions of each Option or Restricted Stock Award granted (which need not be identical) and the form of written instrument that shall constitute the Option or Restricted Stock Award agreement.

(4) To take appropriate action to amend any Option or Restricted Stock Award hereunder, including to amend the vesting schedule of any outstanding Option or Restricted Stock Award, provided that no such action adverse to a Participant's interest may be taken by the Board or its delegate without the written consent of the affected Participant.

(5) To determine whether and under what circumstances an Option or Restricted Stock Award may be settled in cash or Shares.

(c) The Board or its delegate shall also have the power, subject to and within the limits of the express provisions of this Plan:

(1) To construe and interpret the Plan and Options or Restricted Stock Awards granted under the Plan, and to establish, amend and revoke rules and regulations for administration of the Plan. The Board or its delegate, in the exercise of this power, shall generally determine all questions of policy and expediency that may arise and may correct any defect, omission or inconsistency in the Plan or in any Option or Restricted Stock Award agreement in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(2) Generally, to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Company.

(d) The Board may, by resolution, delegate administration of the Plan (including, without limitation, the Board's powers under Sections 3(b) and (c) above), under either or both of the following:

(1) with respect to the participation of or granting of Options or Restricted Stock Awards to an employee, consultant or advisor, to a committee of one or more members of the Board;

(2) with respect to matters other than the selection for participation in the Plan, substantive decisions concerning the timing, pricing, amount or other material term of an Option or Restricted Stock Award, to a committee of one or more members of the Board.

(e) The Board shall have complete discretion to determine the composition, structure, form, term and operations of any committee established to administer the Plan. If administration is delegated to a committee, unless the Board otherwise provides, the committee shall have, with respect to the administration of the Plan, all of the powers and discretion theretofore possessed by the Board and delegable to such committee, subject to any constraints which may be adopted by the Board from time to time and which are not inconsistent with the provisions of the Plan. The Board at any time may revest in the Board any of its administrative powers under the Plan.

(f) The determinations of the Board or its delegate shall be conclusive and binding on all persons having any interest in this Plan or in any awards granted hereunder.

4. SHARES SUBJECT TO PLAN

Subject to the provisions of Section 10 (relating to adjustments upon changes in capitalization), (i) the Shares which may be available for issuance of Options under the Plan shall not exceed in the aggregate 3,700,000 Shares of the Company's authorized Common Stock and (ii) the Shares which may be available for issuance of Restricted Stock Awards under the Plan shall not exceed in the aggregate 1,000,000 Shares of the Company's authorized Common Stock. In each case, the Shares of the Company's Common Stock may be unissued Shares or reacquired Shares or Shares bought on the market for the purposes of issuance under the Plan. If any Options or Restricted Stock Awards granted under the Plan shall for any reason be forfeited or canceled, terminate or expire, the Shares subject to such Options or Restricted Stock Awards shall be available again for the purposes of the Plan. Shares which are delivered or withheld from the Shares otherwise due on exercise of an Option shall become available for future awards under the Plan. Shares that have actually been issued under the Plan upon exercise of an Option and Shares of Restricted Stock that are no longer subject to forfeiture shall not in any event be returned to the Plan and shall not become available for future awards under the Plan.

5. ELIGIBILITY

All Options issued under the Plan shall be nonqualified stock options. Options may be granted only to full or part-time employees, officers, consultants and advisors of the Company and/or of any Affiliate; provided that such consultants and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. Restricted Stock Awards may be granted only to full or part-time employees of the Company. Options awarded to Insiders may not exceed in the aggregate forty-five (45%) percent of all Shares that are available for grant under the Plan and employees of the Company who are not Insiders must receive at least fifty (50%) percent of all Shares that are available for grant under the Plan. No Insider shall be eligible to receive a Restricted Stock Award. Any Participant may hold more than one Option or Restricted Stock Award at any time; provided that the maximum number of shares which are subject to Options or Restricted Stock Awards granted to any individual shall not exceed in the aggregate two million (2,000,000) Shares over the full ten-year life of the Plan.

6. TERMS OF STOCK OPTIONS

Each Option agreement shall be in such form and shall contain such terms and conditions as the Board, or its delegate, from time to time shall deem appropriate, subject to the following limitations:

(a) The term of any Option shall not be greater than ten (10) years and one day from the date it was granted.

(b) Options may be granted at an exercise price that is not less than the Fair Market Value per Share of the Shares at the time an Option is granted.

(c) Unless otherwise specified in the Option agreement, no Option shall be transferable otherwise than by will, pursuant to the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

(d) Except as otherwise provided in paragraph (e) of this Section 6 or in a Participant's employment agreement, the rights of a Participant to exercise an Option shall be limited as follows:

(1) DEATH OR DISABILITY: If a Participant's service is terminated by death or disability, then the Participant or the Participant's estate, or such other person as may hold the Option, as the case may be, shall have the right for a period of twelve (12) months following the date of death or disability, or for such other period as the Board may fix, to exercise the Option to the extent the Participant was entitled to exercise such Option on the date of his death or disability, or to such extent as may otherwise by specified by the Board (which may so specify after the date of his death or disability but before expiration of the Option), provided the actual date of exercise is in no event after the expiration of the term of the Option. A Participant's estate shall mean his legal representative or any person who acquires the right to exercise an Option by reason of the Participant's death or disability.

(2) MISCONDUCT: If a Participant is determined by the Board to have committed on act of theft, embezzlement, fraud, dishonesty, a breach of fiduciary duty to the Company (or Affiliate), or deliberate disregard of the rules of the Company (or Affiliate), or if a Participant makes any unauthorized disclosure of any of the trade secrets or confidential information of the Company (or Affiliate), engages in any conduct which constitutes unfair competition with the Company (or Affiliate), induces any customer of the Company (or Affiliate) to break any contract with the Company (or Affiliate), or induces any principal for whom the Company (or Affiliate) acts as agent to terminate such agency relationship, then, unless otherwise provided in a Participant's employment agreement, neither the Participant, the Participant's estate nor such other person who may then hold the Option shall be entitled to exercise any Option with respect to any Shares whatsoever, after termination of service, whether or not after termination of service the Participant may receive payment from the Company (or Affiliate) for vacation pay, for services rendered prior to termination, for services rendered for the day on which termination occurs, for salary in lieu of notice, or for any other benefits. In making such determination, the Board shall give the Participant an opportunity to present to the Board evidence on his behalf. For the purpose of this paragraph, unless otherwise provided in a Participant's employment agreement, termination of service shall be deemed to occur on the date when the Company dispatches notice or advice to the Participant that his service is terminated.

(3) TERMINATION FOR OTHER REASONS: If a Participant's service is terminated for any reason other than those mentioned above under "DEATH OR DISABILITY" or "MISCONDUCT," the Participant, the Participant's estate, or such other person who may then hold the Option may, within three months following such

termination, or within such longer period as the Board may fix, exercise the Option to the extent such Option was exercisable by the Participant on the date of termination of his employment or service, or to the extent otherwise specified by the Board (which may so specify after the date of the termination but before expiration of the Option) provided the date of exercise is in no event after the expiration of the term of the Option.

(4) EVENTS NOT DEEMED TERMINATIONS: Unless otherwise provided in a Participant's employment agreement, the service relationship shall not be considered interrupted in the case of (i) a Participant who intends to continue to provide services as a director, employee, consultant or advisor to the Company or an Affiliate; (ii) sick leave; (iii) military leave; (iv) any other leave of absence approved by the Board, provided such leave is
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for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to formal policy adopted from time to time by the Company and issued and promulgated to employees in writing; or (v) in the case of transfer between locations of the Company or between the Company or its Affiliates. In the case of any employee on an approved leave of absence, the Board may make such provisions respecting suspension of vesting of the Option while on leave from the employ of the Company or an Affiliate as it may deem appropriate, except that in no event shall an Option be exercised after the expiration of the term set forth in the Option.

(e) Unless otherwise provided in a Participant's employment agreement, if any Participant's employment is terminated by the Company for any reason other than for Misconduct or, if applicable, by Constructive Termination, within one year after a Change of Control has occurred, then all Options held by such Participant shall become fully vested for exercise upon the date of termination, irrespective of the vesting provisions of the Participant's Option agreement. For purposes of this subsection (e), the term "Change of Control" shall have the meaning assigned by this Plan, unless a different meaning is defined in an individual Participant's Option agreement or employment agreement.

(f) Options may also contain such other provisions, which shall not be inconsistent with any of the foregoing terms, as the Board or its delegate shall deem appropriate.

(g) The Board may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor; provided that any
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such action may not, without the written consent of a Participant, impair any such Participant's rights under any Option previously granted.

7. RESTRICTED STOCK

A Restricted Stock Award is an offer by the Company to sell to an eligible person Shares that are subject to restrictions. The Board or its delegate will determine to whom an offer will be made, the number of Shares the person may purchase, the price to be paid, the restrictions to which the Shares will be subject, and all other terms and conditions of the Restricted Stock Award, subject to the following:

(a) All purchases under a Restricted Stock Award made pursuant to this Plan will be evidenced by a Restricted Stock Award that will be in such form and contain such terms and conditions (which need not be the same for each Participant) as the Board or its delegate will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. The offer of Restricted Stock will be accepted by the Participant's delivery of full payment for the Shares to the Company upon the lapse of the restrictions applicable thereto, or otherwise in accordance with the applicable Restricted Stock agreement.

(b) The purchase price of Shares sold pursuant to a Restricted Stock Award will be determined by the Board or its delegate on the date the Restricted Stock Award is granted. Payment of the purchase price may be made in accordance with Section 8 of this Plan.

(c) Restricted Stock Awards shall be subject to such restrictions as the Board or its delegate may impose (the "Restrictions"). The Restrictions may be based upon completion of a specified period of service with the Company (or Affiliate) or upon completion of the performance goals as set out in advance in the Participant's individual Restricted Stock Award agreement. Restricted Stock Awards may vary from Participant to Participant and between groups of Participants. Prior to the grant of a Restricted Stock Award, the Board or its delegate shall: (i) determine the nature, length and starting date of any vesting or performance period (the "Restriction Period") for the Restricted Stock Award and (ii) select from among the performance factors to be used to measure performance goals, if any. Prior to the payment of any Restricted Stock Award, the Board or its delegate shall determine the extent to which such Restricted Stock Award has been earned.

(d) If a Participant terminates service with the Company (or any Affiliate) during a performance period for any reason, then such Participant will be entitled to payment (whether in Shares, cash or otherwise) with respect to the Restricted Stock Award only to the extent earned as of the date of the Participant's termination of service with the Company (or any Affiliate) in accordance with the Restricted Stock Award agreement, unless the Board or its delegate determines otherwise.

(e) During the Restriction Period, the Participant will not be permitted to sell, pledge (other than to the Company), assign or otherwise transfer Restricted Stock awarded under this Plan. Notwithstanding the foregoing, the Board or its delegate may adopt rules which would permit a gift by a participant of Restricted Stock to a spouse, lineal descendant or legal dependent or to a trust whose beneficiary or beneficiaries shall be either such a person or persons or the participant; provided that any restrictions on further transfer and any requirement of continued service shall continue to apply to the Restricted Stock in the hands of the donee.

(f) All certificates for shares of Restricted Stock delivered under this Plan shall be subject to such stop transfer orders and other restrictions as the Board or its delegate may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange on which the Shares are then listed, and any applicable federal or state securities law. The Board or its delegate may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

(g) The Board or its delegate may adopt rules which provide that the stock certificates evidencing shares of Restricted Stock may be held in custody by a third party fiduciary, or that the Company may itself hold such shares in custody until the restrictions thereon shall have lapsed and may require, as a condition of any award, that the participant shall have delivered a stock power endorsed in blank relating to the stock covered by such award.

(h) If a Participant is determined by the Board to have committed on act of theft, embezzlement, fraud, dishonesty, a breach of fiduciary duty to the Company (or Affiliate), or deliberate disregard of the rules of the Company (or Affiliate), or if a Participant makes any unauthorized disclosure of any of the trade secrets or confidential information of the Company (or Affiliate), engages in any conduct which constitutes unfair competition with the Company (or Affiliate), induces any customer of the Company (or Affiliate) to break any contract with the Company (or Affiliate), or induces any principal for whom the Company (or Affiliate) acts as agent to terminate such agency relationship, then, unless otherwise provided in a Participant's employment agreement, either the Participant, the Participant's estate or such other person who may then hold the Restricted Stock shall forfeit the Restricted Stock, whether or not after termination of service the Participant may receive payment from the Company (or Affiliate) for vacation pay, for services rendered prior to termination, for services rendered for the day on which termination occurs, for salary in lieu of notice, or for any other benefits. In making such determination, the Board shall give the Participant an opportunity to present to the Board evidence on his behalf. For the purpose of this paragraph, unless otherwise provided in a Participant's employment agreement, termination of service shall be deemed to occur on the date when the Company dispatches notice or advice to the Participant that his service is terminated.

(i) Unless otherwise provided in a Participant's employment agreement, if any Participant's employment is terminated by the Company for any reason other than for misconduct pursuant to Section 7(h) or, if applicable, by Constructive Termination as defined in Section 2(f), within one year after a Change of Control has occurred, then all Restricted Stock held by such Participant shall become fully vested for exercise upon the date of termination, irrespective of any other vesting provisions of the Restricted Stock Award. For purposes of this subsection (i), the term "Change of Control" shall have the meaning assigned by Section 2(c) of this Plan, unless a different meaning is defined in an individual Participant's Option agreement or employment agreement.

8. PAYMENT OF PURCHASE PRICE

(a) The consideration to be paid for the Shares to be issued upon exercise of an Option or the grant of Restricted Stock, including the method of payment, shall be determined by the Board or its delegate and may consist entirely of (i) cash, (ii) certified or cashier's check, (iii) promissory note, (iv) other Shares which (x) either have been owned by the Participant for more than six months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (y) have a Fair Market Value per Share on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised or the aggregate purchase price of the Restricted Stock, (v) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price, or (vi) any combination of the

foregoing methods of payment. Any promissory note shall be a full recourse promissory note having such terms as may be approved by the Board and bearing interest at a rate sufficient to avoid imputation of income under Sections 483, 1274 or 7872 of the Code; provided that Participants who are not employees
or directors of the Company will not be entitled to purchase Shares with a promissory note unless the note is adequately secured by collateral other than the Shares; provided further, that the portion of the exercise price equal to
the par value, if any, of the Shares must be paid in cash;

(b) The Company may make loans or guarantee loans made by an appropriate financial institution to individual Participants, including Insiders, on such terms as may be approved by the Board for the purpose of financing the exercise of Options or the purchase of Restricted Stock granted under the Plan and the payment of any taxes that may be due by reason of such exercise.

9. TAX WITHHOLDING

(a) Where, in the opinion of counsel to the Company, the Company has or will have an obligation to withhold federal, state or local taxes relating to the exercise of any Option or the purchase or vesting of Restricted Stock, the Board may in its discretion require that such tax obligation be satisfied in a manner satisfactory to the Company. The Company may require the payment of such taxes before Shares are transferred to the holder of the Option or Restricted Stock Award.

(b) A Participant may elect (a "Withholding Election") to pay his minimum statutory withholding tax obligation by the withholding of Shares from the total number of Shares deliverable under such Option or Restricted Stock Award, or by delivering to the Company a sufficient number of previously acquired Shares, and may elect to have additional taxes paid by the delivery of previously acquired Shares, in each case in accordance with rules and procedures established by the Board. Previously owned Shares delivered in payment for such additional taxes must have been owned for at least six months prior to the delivery or must not have been acquired directly or indirectly from the Company and may be subject to such other conditions as the Board may require. The value of Shares withheld or delivered shall be the Fair Market Value per Share on the date the Option or Restricted Stock becomes taxable. All Withholding Elections are subject to the approval of the Board and must be made in compliance with rules and procedures established by the Board.

10. ADJUSTMENTS OF AND CHANGES IN CAPITALIZATION

If there is any change in the Common Stock of the Company by reason of any stock dividend, stock split, spin-off, split up, merger, consolidation, recapitalization, reclassification, combination or exchange of Shares, or any other similar corporate event, then the Board shall make appropriate adjustments to the number of Shares theretofore appropriated or thereafter subject or which may become subject to an Option or Restricted Stock Award under the Plan. Outstanding Options and Restricted Stock Awards shall also be automatically converted as to price and other terms if necessary to reflect the foregoing events. No right to purchase fractional Shares shall result from any adjustment in Options and Restricted Stock Awards pursuant to this Section 10. In case of any such adjustment, the Shares subject to the Option and Restricted

Stock Award shall be rounded down to the nearest whole Share. Notice of any adjustment shall be given by the Company to each holder of any Option and Restricted Stock Award which shall have been so adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

11. PRIVILEGES OF STOCK OWNERSHIP

No Participant will have any rights of a stockholder with respect to any Shares until the Shares are issued to the Participant. After Shares, including Restricted Stock, are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares.

12. EXCHANGE AND BUYOUT OF AWARDS

The Board or its delegate may, at any time or from time to time, authorize the Company, with the consent of the respective Participants, to issue new Options or Restricted Stock Awards in exchange for the surrender and cancellation of any or all outstanding Options or Restricted Stock Awards to optionees who are not Insiders. The Board or its delegate may at any time buy from a Participant an Option or Restricted Stock Award previously granted with payment in cash, Shares or other consideration, based on such terms and conditions as the Board or its delegate and the Participant may agree.

13. EFFECTIVE DATE OF THE PLAN

This Plan will become effective when adopted by the Board (the "Effective Date").

14. AMENDMENT OF THE PLAN

(a) The Board at any time, and from time to time, may amend the Plan.

(b) Rights and obligations under any Option or Restricted Stock Award granted before any amendment of the Plan shall not be altered or impaired by amendment of the Plan, except with the consent of the person who holds the Option or Restricted Stock Award, which consent may be obtained in any manner that the Board or its delegate deems appropriate.

15. REGISTRATION, LISTING, QUALIFICATION, APPROVAL OF STOCK AND OPTIONS AND RESTRICTED STOCK

An award under this Plan will not be effective unless such award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal law or ruling of any governmental body that the Company

determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the Securities and Exchange Commission or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

16. NO RIGHT TO EMPLOYMENT

Nothing in this Plan or in any Option or Restricted Stock Award shall be deemed to confer on any employee any right to continue in the employ of the Company or any Affiliate or to limit the rights of the Company or its Affiliates, which are hereby expressly reserved, to discharge an employee at any time, with or without cause, or to adjust the compensation of any employee.

17. MISCELLANEOUS

The use of any masculine pronoun or similar term is intended to be without legal significance as to gender.

FINANCIAL HIGHLIGHTS

Five Years Ended December 27, 1998 (Dollars in thousands except per share amounts, ratios and employment figures)	1994	1995	1996	1997	1998
Net sales	$2,155,453	$2,468,379	$1,953,019	$2,356,375	$2,542,141
Operating income (loss)	469,035	222,200	(253,310)	(90,653)	(163,642)
Net income (loss)	270,942	216,326	(68,950)	(21,090)	(103,960)
Net income (loss) per common share:					
Basic	2.22	1.69	(0.51)	(0.15)	(0.72)
Diluted	2.03	1.57	(0.51)	(0.15)	(0.72)
Working capital	441,649	461,509	445,604	448,497	721,308
Total assets	2,525,721	3,078,467	3,145,283	3,515,271	4,252,968
Long-term debt, capital lease obligations and other, less current portion	75,752	214,965	444,830	662,689	1,372,416
Stockholders' equity	1,797,354	2,102,462	2,021,878	2,029,543	2,005,049
Capital additions	586,473	650,322	493,723	729,870	996,170
Depreciation and amortization	224,421	272,527	346,774	394,465	467,521
Research and development	295,326	416,521	400,703	467,877	567,402
Research and development as a percentage of net sales	13.7%	16.9%	20.5 %	19.9 %	22.3 %
Return on equity	17.2%	11.1%	(3.3)%	(1.0)%	(5.2)%
Debt as a percentage of capital	7.6%	11.9%	19.4 %	26.6 %	43.2 %
Worldwide employment	11,994	12,981	12,181	12,759	13,597>>

[GRAPH APPEARS HERE]

1998 was the year of the AMD-K6(R)-2 processor with 3DNow!(TM) technology.

Our introduction of the AMD-K6-2 processor with 3DNow! technology in May of 1998 was a watershed event. For the first time in our history, we had a new, differentiated processor, fully compatible with the Microsoft(R) Windows(R) computing standard, that offered clear, compelling performance advantages for consumers.

The response of the marketplace has validated our strategy:

. Today nine of the world's top ten personal computer manufacturers offer systems powered by AMD-K6 family processors, including the world's #1 and #2 manufacturers of portable systems.

. Unit shipments of AMD-K6 family processors more than trebled year-to-year, and revenues
from AMD-K6 family processors nearly trebled to $1.25 billion.

. AMD shipped more than 13 million AMD-K6 family processors in 1998 - including more
than 8.5 million AMD-K6-2 processors with 3DNow! technology.

. AMD-K6 family processors captured a 16 percent share of the worldwide market for Windows compatible processors in the fourth quarter of 1998 - more than double our market share
for the same quarter of 1997!

The success of the AMD-K6-2 processor enabled AMD to achieve record quarterly revenues of $788,820,000, as well as record annual revenues of $2,542,141,000. In 1998, AMD revenues grew by 8 percent in a year when worldwide shipments of integrated circuits declined by nearly 10 percent.

Despite the progress we made in microprocessors, enabling a return to profitability in the second half, AMD incurred a substantial net loss of $103,960,000, or $0.72 per share, in 1998.

Our non-microprocessor product groups - our Communications Group, our Memory Group, and Vantis, our programmable logic subsidiary - were severely impacted by continuing weak demand and resultant price pressures due to the lingering recession in the worldwide semiconductor industry. Revenues from these groups in the aggregate continued to decline throughout the year, in some measure offsetting the strong revenue growth of our Computation Products Group. I do not expect significant growth in revenues from these product lines during the first half of 1999. Therefore, for the near term, any and all revenue growth must come from our Computation Products Group, i.e., processors for Windows computing.

At AMD, we define "winning" as gaining market share, and "success" as profitable growth. By these definitions, even though we are winning, we have not been consistently successful. The necessity of investing heavily and continuously in research and development while bringing up additional production facilities in order to execute our long-term strategy continues to make it difficult to achieve consistent profitable growth. I am not satisfied with our performance, and I will not be satisfied until we can consistently grow profitably.

Our principal challenge in 1999 will be to continue to grow our microprocessor market share and position ourselves for sustained profitability. All applicable resources at AMD must and will be focused accordingly as we restructure our activities to address the realities of the marketplace.

The 1,000 Days In 1996 I issued a challenge to our worldwide sales force. At that time, I told them that we had 1,000 days in which to establish an alternative platform for Microsoft Windows computing. The 1,000-day window of opportunity began with the introduction of our first independently engineered alternative to Intel processors. Our overarching goal was and is to capture a 30 percent unit share of the worldwide market for processors for Windows computing by the end of 2001, creating an opportunity for us to achieve financial returns superior to the semiconductor industry. Our immediate challenges, however, were to shed our "clone image" and secure a beachhead with innovative products of our own concept and design.

By the end of 1998 - and the expiration of our initial 1,000-day campaign - the beachhead was ours. The AMD-K6-2 processor with 3DNow! technology and a low-cost infrastructure supported by independent chipset and motherboard suppliers throughout the world have established AMD and our AMD-K6 processor family as the only real alternative to the Intel monopoly. With a 16 percent market share, we are just over halfway toward our long-term goal. Let's review the progress we have made and the challenges we must meet to achieve that goal.

Our "P3 Strategy" Execution of our "P3 Strategy" continues to be the key to success: first, we must be the nucleating point for platforms based on processor products that offer compelling features within the Microsoft Windows standard; second, we must have leading-edge process technology that will enable us to deliver high-performance processors at competitive cost; and finally, we must have production capacity to manufacture processors using that technology in volume to support our customers as they come to depend upon AMD for a growing percentage of their requirements.

During the past three years we have made extraordinary progress in creating these wealth-producing assets.

PROCESS TECHNOLOGY. Today all of our microprocessor production is on leading-edge 0.25-micron (250-nanometer) technology. We have successfully developed 180-nanometer, six-layer, aluminum interconnect technology to remain at the leading edge and have produced advanced processors using this technology both in our development facility in Sunnyvale, California, and in Fab 25 in Austin, Texas. We are on schedule to introduce 180-nanometer technology into high-volume production in the third quarter of 1999.

The next step in the continuing evolution of process technology will employ the use of copper interconnect technology to achieve even higher-performance devices and lower-cost production. During 1998, we entered into a seven-year agreement with Motorola to collaborate on the development of process technology, including copper interconnect technology. This alliance with another of the world's premier semiconductor manufacturers has increased our confidence that we will meet our schedule for introduction of copper interconnect technology into production at Fab 30 in Dresden, Germany. We have commenced process integration wafer starts that will utilize copper interconnect technology resulting from this alliance, and we plan to qualify the process for production by the end of this year in order to generate revenues from Fab 30 in the first quarter of 2000.

Production Capacity. We have completed the outfitting of Fab 25. This facility is now equipped to produce 5,000 wafers per week - 250,000 wafers per year - employing technologies with geometries of 250 nanometers and finer. Fab 25 is currently operating at approximately 80 percent of capacity.

We have completed construction of Fab 30, and are in the process of installing equipment and qualifying the facility to commence commercial production by the end of this year. When fully equipped, Fab 30 will also be capable of producing 250,000 wafers per year employing technologies of 180 nanometers and finer with copper interconnects.

Platforms/Products. The AMD-K6-2 processor with 3DNow! technology enabled AMD to gain a substantial share of the mainstream PC market, reaching a 37 percent share of the market in December for desktop systems in the North American retail channel, which is frequently a bellwether for trends in the PC industry. In January of this year, we were #1 in the channel with a 43.9 percent market share versus Intel's 40.3 percent! I believe a growing installed base of PC systems with 3DNow! technology establishes a strong platform for software developers, which should enhance opportunities for even broader acceptance of AMD processors going forward. All AMD processors for the PC market incorporate 3DNow! technology, which is supported by Microsoft Windows Direct X.

The AMD-K6-III processor with 3DNow! technology, our latest offering for the mainstream PC market, features a unique performance-enhancing tri-level cache memory design with more on-system

cache memory than any other processor currently available for Windows computing. With outstanding capability and features, the AMD-K6-III processor will enable PC manufacturers to build more affordable high-performance systems. I expect that an increasing proportion of production for the market segments served by AMD will be devoted to the AMD-K6-III processor family throughout the remainder of 1999.

The Convergence of Computation and Communications As the convergence of computation and communications continues to accelerate, driven in large measure by the burgeoning growth of the Internet, AMD will devote increasing focus on enhancement of the personal computer as a visual computing platform and information tool. Today, our Computation Products Group (which now includes our Embedded Processor Division) produces two-thirds of our total revenues. With new opportunities created by the Internet and electronic commerce, our Communications Group is developing new products, such as our PCnet (TM) Home controller, that will enable home PC users to link multiple PCs together over standard telephone wiring - all sharing access to a single Internet connection. We will also supply ADSL (Asynchronous Digital Subscriber Line) chipsets capable of delivering high-speed access to the Internet over existing copper telephone lines.

The AMD-K7 Processor and the Next 1,000 Days Our mission of establishing the beachhead and putting in place significant wealth-producing assets has been accomplished in the aforementioned 1,000-day campaign. Our mission for the next 1,000 days is to extract the value for our shareholders from the substantial investments we have made and continue to make in our P3 strategy. The forthcoming AMD-K7(TM) processor family will be central to our success. The AMD-K7 processor will be the first seventh-generation Microsoft Windows compatible processor in the marketplace.

Prototype AMD-K7 processors were demonstrated at Comdex last fall, and we are currently sampling versions with clock speeds in excess of 500 megahertz. Simply put, we believe that the AMD-K7 processor will be the highest-performance processor for Windows computing on the market in 1999. We plan to aggressively increase clock speeds over the 18-month period following introduction with a goal of achieving a clock speed of 1 gigahertz by the end of next year!

The AMD-K7 processor family and the infrastructure to support it offer the greatest technical, logistical and marketing challenges in AMD's 30-year history. This is the culmination of our corporate purpose of "empowering people everywhere to lead more productive lives" and our corporate mission "to grow faster and achieve superior returns to the semiconductor industry" through innovative solutions.

Microprocessors for Microsoft Windows computing represent the largest segment of the worldwide semiconductor industry. The barriers to entry are high. The scale of investment to compete is enormous. The rewards of success should be commensurate.

Carpe diem!

/s/ W. J. Sanders III
W. J. Sanders III
Chairman and Chief Executive Officer

February 26, 1999

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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 27, 1998, as filed with the Securities and Exchange Commission, that could cause actual results to differ materially from those projected.
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations that are forward-looking are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially. The forward-looking statements relate to operating results; anticipated cash flows; realization of net deferred tax assets; capital expenditures; adequacy of resources to fund operations and capital investments; our ability to access external sources of capital; our ability to transition to new process technologies; our ability to increase unit shipments of microprocessors at higher speed grades; anticipated market growth; Year 2000 costs; the effect of foreign currency hedging transactions; the effect of adverse economic conditions in Asia; our new integrated circuit manufacturing and design facility in Dresden, Germany (Dresden Fab 30); and the Fujitsu AMD Semiconductor Limited (FASL) manufacturing facilities. See "Financial Condition" and "Risk Factors" below, as well as such other risks and uncertainties as are detailed in our 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 Notes thereto at December 27, 1998 and December 28, 1997 and for each of the three years in the period ended December 27, 1998.

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RESULTS OF OPERATIONS

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

The following is a summary of the net sales of the CPG, the Memory Group, the Communications Group and Vantis for 1998, 1997 and 1996:

(Millions)	1998	1997	1996
AMD segment			
CPG	$1,257	$ 682	$ 341
Memory Group	561	724	698
Communications Group	519	707	666
	2,337	2,113	1,705
Vantis segment	205	243	248
Total	$2,542	$2,356	$1,953

For the year ended December 27, 1998, we experienced lower than expected net sales due to the general downturn in the worldwide semiconductor market and the current economic conditions in Asia, which negatively impacted our results of operations. To the extent that these factors continue to deteriorate in 1999, our net sales and results of operations may continue to be negatively affected.

Recent and Anticipated Results of Operations

Net sales were $789 million in the fourth quarter of 1998 compared to $686 million in the third quarter of 1998 and $613 million in the fourth quarter of 1997. In the first quarter of 1999, we implemented design enhancements to increase the yield of higher-speed versions of AMD-K6(R)-2 microprocessors. However, we will incur a shortfall in

microprocessor units shipped in the first quarter of 1999 as a result of lower than expected yields in the first eight weeks of the quarter on wafers started prior to our implemention of these design enhancements. Additionally, we expect that we will be unable to increase our microprocessor average selling prices in the first quarter of 1999 due to Intel's announced price reductions. As a result of these factors, combined with increases in our planned research and development spending on technology development through Dresden Fab 30 and our alliance with Motorola (described below), we will be unable to increase our microprocessor revenue and expect to incur a significant operating loss in the first quarter of 1999.

Net Sales Comparison of Years Ended December 27, 1998 and December 28, 1997

Total net sales increased by $186 million, or 8 percent, to $2,542 million in 1998 from $2,356 million in 1997 primarily due to an increase in CPG net sales of $575 million. This increase was partially offset by a combined decrease in the other product groups of $389 million.

CPG net sales increased by 84 percent to $1,257 million in 1998 compared to $682 million in 1997. This increase was primarily due to increased shipments of microprocessors at a higher speed grade mix and higher average selling prices. CPG sales growth in 1999 is dependent on increased unit shipments at higher speed grades and higher average selling prices, as to which we cannot give any assurance.

Memory Group net sales decreased 23 percent to $561 million from the prior year primarily due to a significant decline in the average selling price of Flash memory devices. This decrease was partially offset by an increase in unit shipments of Flash memory devices. Oversupply in the Flash market, combined with an increase in competition, has caused downward pressure on the average selling price of Flash memory devices. We expect continued price pressure from intense competition in Flash memory devices. In addition, average selling prices and unit shipments of EPROMs declined. We expect future EPROM sales to be flat or down due to a general shift to Flash memory devices.

Communications Group net sales decreased 27 percent to $519 million from the prior year primarily due to a significant decrease in unit shipments of nearly all products. Our offerings of network products, which represented approximately one-half of the decline in Communications Group net sales, have not kept pace with the market shift towards higher-performance products. Our sales of tele-communication products, which represented more than one-third of the decline in Communications Group net sales, were particularly impacted by the general economic downturn in Asia.

Vantis net sales decreased 16 percent to $205 million from the prior year due to a decrease in unit shipments and lower average selling prices of low-density or simple PLD (SPLD) products. The total available market for SPLD products has been shrinking for the past three years as older SPLD products are increasingly replaced by complex PLD (CPLD) and field programmable gate array (FPGA) products in new designs. This decline in market demand for SPLDs intensified at the beginning of 1998 and led to increased competition among SPLD suppliers. In addition, sales of CPLDs decreased slightly despite a significant sales increase in our newer CPLD products.

Net Sales Comparison of Years Ended December 28, 1997 and December 29, 1996

In 1997, net sales of $2,356 million increased $403 million, or 21 percent, from 1996 primarily due to an increase in CPG net sales. Net sales from non-microprocessor products increased nominally in 1997 compared to 1996.

CPG net sales doubled to $682 million in 1997 compared to $341 million in 1996 largely due to sales of AMD-K6 microprocessors, which became available at the end of the first quarter of 1997. This sales growth was partially offset by decreased sales of earlier generations of microprocessors, which represented most of our microprocessor sales in 1996.

Memory Group net sales increased 4 percent as substantial Flash memory device unit growth more than offset declines in the average selling price. EPROM product net sales decreased due to a decline in both the average selling price and unit shipments.

Communications Group net sales increased 6 percent primarily due to increased unit shipments of telecommunication products. This increase was partially offset by a decline in the average selling price of network products. Vantis net sales decreased 2 percent due to declines in the average selling price of both SPLD and CPLD products. These decreases were partially offset by increases in unit shipments of both SPLD and CPLD products.

COMPARISON OF EXPENSES, GROSS MARGIN PERCENTAGE AND INTEREST

The following is a summary of expenses, gross margin percentage and interest income and other, net for 1998, 1997 and 1996:

(Millions except for gross margin percentage)	1998	1997	1996
Cost of sales	$1,719	$1,578	$1,441
Gross margin percentage	32%	33%	26%
Research and development	$ 567	$ 468	$ 401
Marketing, general and administrative	420	401	365
Litigation settlement	12	-	-
Interest income and other, net	34	35	59
Interest expense	66	45	15

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

Gross margin percentage decreased to 32 percent in 1998 compared to 33 percent in 1997. The decline in gross margin percentage was primarily caused by a decline in net sales of non-microprocessor products. During 1998, we continued to invest in the facilitization of Fab 25, our submicron integrated circuit manufacturing facility in Austin, Texas, and in the transition from 0.35-micron to 0.25-micron process technology in Fab 25. These investments have led to significant increases in our fixed costs associated with our microprocessor products. Fixed costs will continue to increase as we add equipment to Fab 25 and as we introduce equipment for 0.18-micron process technology capacity in our production facilities. Accordingly, absent significant increases in sales, particularly with respect to microprocessors, we will continue to experience pressure on our gross margin percentage.

Gross margin percentage increased in 1997 compared to 1996 primarily due to increased sales of microprocessors manufactured in Fab 25.

In 1998, we entered into an alliance with Motorola for the development of Flash memory and logic technology. The alliance includes a seven-year technology development and license agreement and a patent cross-license agreement. The agreements provide that we will co-develop with Motorola future-generation logic process and embedded Flash technologies. The licenses to each generation of technology vary in scope relative to the contributions to technology development made by both companies. Subject to certain conditions, the companies will share:

. ownership of jointly developed technology and any intellectual property rights relating to such technology;

. development costs for mutually agreed upon facilities, tasks and technologies; and

. foundry support.

In addition, we will gain access to Motorola's semiconductor logic process technology, including copper interconnect technology. In exchange, we will develop and license to Motorola a Flash module design to be used in Motorola's future embedded Flash products. The licenses to logic process technologies granted to AMD may be subject to variable royalty rates, which are dependent on the technology transferred and subject to certain other conditions. Motorola will have additional rights, subject to certain conditions, to make stand-alone Flash devices, and to make and sell certain data networking devices. The rights to data networking devices may be subject to variable royalty payment provisions.

Research and development expenses increased in 1998 compared to 1997 due to an increase in spending in Dresden Fab 30 for construction, facilitization and pre-production process development and in Fab 25 for new product and process development. In addition, we incurred research and development expenses of $11 million in the fourth quarter of 1998 related to the alliance with Motorola. We expect research and development spending related to this alliance

to be between $15 million and $20 million per quarter in 1999. We cannot give any assurance that we will benefit from this additional research and development spending through future copper interconnect-based product offerings, and any such failure could have a material adverse effect on our business.

Research and development expenses increased in 1997 compared to 1996. In 1996, a significant portion of our Submicron Development Center (SDC) in Sunnyvale, California, capacity was devoted to the production of products for sale. In 1997, a higher percentage of SDC capacity was devoted to process development.

Marketing, general and administrative expenses increased in 1998 compared to 1997 primarily due to depreciation expense and labor costs associated with the installation of new order management and accounts receivable systems and related software upgrades. In 1997, marketing, general and administrative expenses increased compared to 1996 primarily due to higher advertising and marketing expenses associated with the introduction of the AMD-K6 micro processor. Additionally, business systems expenses increased in 1997 due to new system installation and upgrade expenses.

A litigation settlement of approximately $12 million was recorded in the first quarter of 1998 for the settlement of a class action securities lawsuit against AMD and certain of our current and former officers and directors. We paid the settlement during the third quarter of 1998.

Interest expense increased in 1998 compared to 1997 due to the increase in debt balances including the $517.5 million of Convertible Subordinated Notes sold in May 1998 (the Convertible Subordinated Notes). There was no significant change in interest income and other, net in 1998 compared to 1997. Interest expense increased in 1997 compared to 1996 due to the increase in debt balances, including the $400 million of Senior Secured Notes sold in August 1996 (the Senior Secured Notes) and the $250 million four-year secured term loan received under the 1996 syndicated bank loan agreement, which also provides for a currently unused $150 million revolving line of credit (the Credit Agreement). This increase was partially offset by higher capitalized interest related to the second phase of construction of Fab 25 and construction of Dresden Fab 30. Interest income and other, net decreased in 1997 compared to 1996 due to the absence in 1997 of realized gains recorded in 1996 of approximately $41 million from sales of equity securities. This reduction in 1997 was partially offset by higher interest income in 1997 as a result of higher cash balances.

Income Tax

We recorded tax benefits of $92 million in 1998, $55 million in 1997 and $85 million in 1996, resulting in an effective tax benefit rate of approximately 44 percent in 1998, 55 percent in 1997 and 41 percent in 1996. The tax benefit rate is greater than the federal statutory rate due to fixed tax benefits that increase the benefit rate in a loss year. The lower tax benefit rate in 1998 and 1996 compared to 1997 reflects a lesser impact of these fixed benefits relative to a larger pre-tax loss in 1998 and 1996 compared to 1997. Realization of our net deferred tax assets ($171 million at December 27, 1998) is dependent on future taxable income. While we believe that it is more likely than not that such assets will be realized, other factors, including those mentioned in the discussion of "Risk Factors," may impact the ultimate realization of such assets.

Other Items

International sales as a percent of net sales were 55 percent in 1998, 57 percent in 1997 and 53 percent in 1996. During 1998, approximately 8 percent of our net sales were denominated in foreign currencies. We do not have sales denominated in local currencies in those countries which have highly inflationary economies (as defined by generally accepted accounting principles). The impact on our operating results from changes in foreign currency rates individually and in the aggregate has not been material.

Comparison of Segment Income (Loss)

We operate in two segments: (1) our AMD segment, which consists of our three product groups - Computation Products Group, Memory Group and Communications Group; and (2) our Vantis segment, which consists of Vantis. 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 1998, 1997 and 1996:

(Millions)	1998	1997	1996
AMD segment	$(185)	$(127)	$(270)
Vantis segment	22	37	17
Total	$(163)	$ (90)	$(253)

The AMD segment's operating loss increased in 1998 compared to 1997 primarily due to a significant increase in fixed costs associated with microprocessor products, as well as increased costs for research and development related to Dresden Fab 30 and the Motorola alliance and depreciation expense and labor costs associated with the installation of new order management and accounts receivable systems and related software upgrades. These increases in expenses were partially offset by higher net sales in the AMD segment. The AMD segment's operating loss decreased in 1997 compared to 1996 primarily due to increased AMD segment net sales. This increase in net sales was partially offset by increases in research and development expenses as well as advertising and marketing expenses for the introduction of the AMD-K6 microprocessor.

The Vantis segment's operating income decreased in 1998 compared to 1997 due to a decrease in unit shipments, lower average selling prices of SPLD products and higher spending on software and product development. This decrease in net sales was partially offset by a decrease in costs and expenses as a result of reduced manufacturing activity in response to lower demand for SPLDs coupled with lower per unit wafer fabrication expenses and lower marketing, general and administrative expenses. Despite a decrease in net sales, the Vantis segment's operating income increased in 1997 compared to 1996 due to the transfer of manufacturing activity from the SDC to other production facilities, where production costs were lower. In addition, research and development expenses in 1997 decreased from 1996.

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Financial Condition

Cash flow from operating activities was $144 million in 1998 compared to $399 million in 1997 and $89 million in 1996. Net operating cash flows in 1998 decreased $254 million year over year primarily due to an increase in net loss of $83 million combined with a decrease in the net change in operating assets and liabilities of $153 million and a decrease in net non-cash adjustments to net loss of $18 million. The decrease in the net change in operating assets and liabilities was primarily due to a lower increase in payables and accrued liabilities in 1998 compared to 1997. The decrease in net non-cash adjustments to net loss was primarily due to a larger increase in deferred income taxes in 1998 compared to 1997. This decrease was partially offset by an increase in depreciation and amortization in 1998.

Investing activities consumed $998 million in cash during 1998 compared to $633 million in 1997 and $276 million in 1996. Substantially all of our net investing activities in 1998 consisted of capital expenditures. Capital expenditures increased in 1998 compared to 1997 due to continued investment in property, plant and equipment primarily for Fab 25 and Dresden Fab 30. Capital expenditures of $485 million in 1996 were offset by net proceeds from the sale of short-term investments of approximately $207 million.

Our financing activities provided cash of $975 million in 1998, including proceeds from the Convertible Subordinated Notes, borrowings from Dresdner Bank AG in the amount of $300 million (denominated in deutsche marks), and capital investment grants from the Federal Republic of Germany and the State of Saxony of $197 million.

Financing sources of cash for 1997 and 1996 consisted primarily of borrowings under the Credit Agreement in 1997 and proceeds from the Senior Secured Notes in 1996. The above sources were offset by debt repayments of $88 million in 1998, $80 million in 1997 and $253 million in 1996. Financing activities for all years presented include proceeds from the issuance of common stock under employee stock plans.

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

AMD Saxony, an indirect wholly owned German subsidiary of AMD, has constructed and is installing equipment in Dresden Fab 30, a 900,000-square-foot submicron integrated circuit manufacturing and design facility located in Dresden, in the State of Saxony, Germany. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are supporting the project. We currently estimate construction and facilitization costs of Dresden Fab 30 to be $1.9 billion. In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG. The Dresden Loan Agreements provide for the funding of the construction and facilitization of Dresden Fab 30. The funding consists of:

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

The Dresden Loan Agreements, which were amended in February 1998 to reflect upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested $270 million to date in the form of subordinated loans and equity in AMD Saxony, which includes $100 million in subordinated loans in 1998 ($60 million of which was paid after fiscal 1998 but before December 31, 1998). We are required to make additional subordinated loans to, or equity investments in, AMD Saxony totaling $170 million in 1999, $70 million of which must be funded through the sale of at least $200 million of our stock by June 30, 1999. We cannot give any assurance that the requisite external financing will be available on favorable terms, if at all.

In addition to support from AMD, the consortium of banks referred to above has made available $989 million in loans (denominated in deutsche marks) to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had $300 million of such loans outstanding as of December 27, 1998.

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

- guarantees of 65 percent of AMD Saxony bank debt up to a maximum amount of $989 million;
- capital investment grants and allowances totaling $289 million; and
- interest subsidies totaling $180 million.

Of these amounts (which are all denominated in deutsche marks), AMD Saxony has received $275 million in capital investment grants and $8 million in interest subsidies as of December 27, 1998. The grants and subsidies are subject to conditions, including meeting specified levels of employment in December 2001 and maintaining those levels until June 2007. Noncompliance with the conditions of the grants and subsidies could result in the forfeiture of all or a portion of the future amounts to be received as well as the repayment of all or a portion of amounts received to date. As of December 27, 1998, we were in compliance with all of the conditions of the grants and subsidies.

The Dresden Loan Agreements also require that we:

- provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed, 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;
- guarantee a portion of AMD Saxony's obligations under the Dresden Loan Agreements up to a maximum of $130 million (denominated in deutsche marks) until Dresden Fab 30 has been completed;
- fund certain contingent obligations including obligations to fund project cost overruns, if any; and
- make funds available to AMD Saxony, after completion of Dresden Fab 30, up to approximately $87 million (denominated in deutsche marks) if AMD Saxony does not meet its fixed charge coverage ratio covenant.

Because our obligations under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth herein are subject to change based on applicable conversion rates. At the end of the fourth quarter of 1998, the exchange rate was approximately 1.67 deutsche marks to 1 U.S. dollar (which we used to calculate our obligations denominated in deutsche marks).

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

- material variances from the approved schedule and budget;
- our failure to fund equity contributions or share holder 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 of proceedings in bankruptcy or insolvency with respect to us, AMD Saxony or AMD Holding; and
- the occurrence of default under the indenture pursuant to which the Senior Secured Notes were issued (the Indenture) or the Credit Agreement.

Generally, any such default which either (1) results from our noncompliance with the Dresden Loan Agreements and is not cured by AMD or (2) results in recourse to AMD of more than $10 million and is not cured by AMD, would result in a cross-default under the Dresden Loan Agreements, the Indenture and the Credit Agreement. Under certain circumstances, cross-defaults result under the Convertible Subordinated Notes, the Indenture and the Dresden Loan Agreements.

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

Beginning in October 1998, the $250 million four-year secured term loan under the Credit Agreement was repayable in eight equal quarterly installments of approximately $31 million. As of December 27, 1998, the outstanding balance was $219 million. As of December 27, 1998, we also had available unsecured uncommitted bank lines of credit in the amount of $69 million, of which $6 million was outstanding.

In February and June 1998, certain of the covenants under the Credit Agreement, including those relating to the modified quick ratio, minimum tangible net worth and the fixed charge coverage ratio, were amended. As of December 27, 1998, we were in compliance with all covenants under the Credit Agreement. In March 1999, the parties to the Credit Agreement agreed to amend certain covenants, including those relating to minimum tangible net worth, the modified quick ratio, the leverage ratio and profitability, to facilitate our compliance with all covenants under the Credit Agreement as of the end of the first quarter of 1999.

FASL, a joint venture formed by AMD and Fujitsu Limited in 1993, is continuing the facilitization of its second Flash memory device wafer fabrication facility, FASL II, in Aizu-Wakamatsu, Japan. We expect the facility, including equipment, to cost approximately $1 billion when fully equipped. As of December 27, 1998, approximately $368 million of such cost had been funded. Capital expenditures for FASL II construction to date have been funded by cash generated from FASL operations and local borrowings by FASL. During 1999, we presently anticipate that FASL capital expenditures will continue to be funded by cash generated from FASL operations and local borrowings by FASL. However, to the extent that FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in pro portion to our 49.992 percent interest in FASL. As of December 27, 1998, we had loan guarantees of $81 million outstanding with respect to these loans. The planned FASL II costs are denominated in yen and are, therefore, subject to change due to foreign exchange rate fluctuations.

As a result of our alliance with Motorola, relating to the development of Flash memory and logic technology, we expect related research and development spending to be between $15 million and $20 million per quarter in 1999.

We believe that cash flows from operations and current cash balances, together with external financing activities, will be sufficient to fund operations and capital investments through 1999.

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Recently Issued Financial Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is required to be adopted in years beginning after June 15, 1999. We expect to adopt SFAS 133 in 2000. We have not completed our review of SFAS 133, and accordingly have not evaluated the effect the adoption of the Statement may have on our consolidated results of operations and financial position. SFAS 133 will require AMD to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

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 long-term debt obligations. We do not use derivative financial instruments in our investment portfolio. We place our investments with high credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. 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, market risk and reinvestment risk.

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.

We primarily use proceeds from debt obligations to support general corporate purposes including capital expenditures and working capital needs. We have no interest rate exposure due to rate changes for the Convertible Subordinated Notes and the Senior Secured Notes. However, we do have interest rate exposure on our $250 million bank term loan due to its variable LIBOR pricing. From time to time, we enter into interest rate swaps, primarily to reduce our interest rate exposure by changing a portion of our interest rate exposure from floating to fixed rate. There were no interest rate swaps outstanding at the end of fiscal 1998.

The table below presents principal (or notional) amounts and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 27, 1998 and December 28, 1997.

	1998								1997
(Thousands)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value	Total
Cash equivalents									
Fixed rate amounts	$ 22,434	-	-	-	-	-	$ 22,434	$ 22,394	$ 37,761
Average rate	5.51%	-	-	-	-	-			
Variable rate amounts	$136,408	-	-	-	-	-	$ 136,408	$ 136,408	-
Average rate	5.12%	-	-	-	-	-			
Short-term investments									
Fixed rate amounts	$219,085	-	-	-	-	-	$ 219,085	$ 219,617	$164,538
Average rate	5.64%	-	-	-	-	-			
Variable rate amounts	$115,500	-	-	-	-	-	$ 115,500	$ 115,500	$ 61,200
Average rate	5.66%	-	-	-	-	-			
Long-term investments									
Equity investments	-	$ 7,027	-	-	-	-	$ 7,027	$ 13,292	$ 6,161
Fixed rate amounts	-	$ 2,000	-	-	-	-	$ 2,000	$ 2,003	$ 1,997
Average rate	5.88%	5.88%	-	-	-	-			
Total investments									
Securities	$493,427	$ 9,027	-	-	-	-	$ 502,454	$ 509,214	$271,657
Average rate	5.49%	5.88%	-	-	-	-			
Notes payable									
Fixed rate amounts	$ 6,017	-	-	-	-	-	$ 6,017	$ 6,017	$ 6,601
Average rate	1.06%	-	-	-	-	-			
Long-term debt									
Fixed rate amounts	$ 283	$ 151	$53,611	$178,332	$468,290	$518,169	$1,218,836	$1,266,196	$410,056
Average rate	7.49%	7.49%	7.49%	7.59%	8.00%	6.01%			
Variable rate amounts	$125,000	$93,750	-	-	-	-	$ 218,750	$ 218,750	$250,000
Average rate	8.06%	8.06%	-	-	-	-			

Foreign Exchange Risk We use foreign exchange forward and option contracts to reduce our exposure to currency fluctuations on our net monetary assets position in our foreign subsidiaries, liabilities for products purchased from FASL, fixed asset purchase commitments and obligations for future investments in AMD Saxony. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisition. Our accounting policy for these instruments is based on our designation of such instruments as hedging transactions. We do not use derivative financial instruments for speculative or trading purposes. We had $13 million (notional amount) of short-term foreign currency forward contracts denominated in the Japanese yen, German mark and British pound outstanding as of December 27, 1998.

We also have entered into various foreign currency option arrangements. In 1997, we purchased $150 million of call option contracts to hedge our obligations to provide loans to, or invest equity in, AMD Saxony, of which $75 million were outstanding as of December 27, 1998. In 1998, we entered into a no-cost collar arrangement to hedge Dresden Fab 30 project costs through which we purchased $300 million of put option contracts and sold $300 million of call option contracts. We had $220 million of no-cost collar option contracts outstanding as of December 27, 1998.

Gains and losses related to the foreign currency forward and option contracts for the year ended December 27, 1998 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 following table provides information about our foreign currency forward and option contracts as of December 27, 1998 and December 28, 1997.

	1998			1997		
(Thousands except contract rates)	Notional amount	Average contract rate	Estimated fair value	Notional amount	Average contract rate	Estimated fair value
Foreign currency forward contracts:						
Japanese yen	$ 6,865	117.07	$ (22)	$ 9,688	129.41	$ 76
German mark	5,407	1.66	(7)	1,695	1.77	-
British pound	840	1.68	4	823	1.65	(6)
Dutch guilder	-	-	-	24,861	2.01	238
Italian lira	-	-	-	6,323	1,739.00	2
French franc	-	-	-	2,110	5.94	(1)
	$13,112		$ (25)	$ 48,500		$309
Purchased call option contracts:						
German mark	$ 75,000	1.45	$ 45	$150,000	1.45	$369
Purchased put option contracts:						
German mark	$220,000	1.85	$ 1,547	$ -	-	$ -
Written call option contracts:						
German mark	$220,000	1.69	$(13,469)	$ -	-	$ -

The purchased call option contracts mature in 1999.

The purchased put and written call option contracts both mature in 2000. All of our foreign currency forward contracts mature within the next 12 months.

Risk Factors

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

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

The demand for our products has been weak due to the general downturn in the worldwide semiconductor market and the current economic crisis in Asia. We anticipate that the economic crisis in Asia may continue to adversely affect our business. A further decline of the worldwide semi-conductor market and economic condition in Asia could decrease the demand for microprocessors and other ICs. A significant decline in economic conditions in any significant geographic area, both domestically and internationally, could decrease the overall demand for our products.

Microprocessor Products

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

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

Our ability to increase microprocessor product revenues, and benefit fully from the substantial financial investments and commitments we have made and continue to make related to microprocessors, depends upon the success of the AMD-K6-2 and AMD-K6-III microprocessors with 3DNow! technology (the AMD-K6 family of micro-processors or the AMD-K6 microprocessors), the AMD-K7 microprocessor, which is our seventh-generation Microsoft Windows compatible microprocessor planned for introduction by the end of the first half of 1999, and future generations of K86 microprocessors. The microprocessor market is characterized by short product life cycles and migration to ever higher performance microprocessors. To compete successfully against Intel in this market, we must transition to new process technologies at a faster pace than before and offer higher performance microprocessors in significantly greater volumes. We must achieve acceptable yields while producing microprocessors at higher speeds. In the past, including the last few months, we have experienced significant difficulty in achieving microprocessor yield and volume plans. Such difficulties have in the past and may in the future adversely affect our results of operations and liquidity. If we fail to offer higher performance microprocessors in significant volume on a timely basis in the future, our business could be materially and adversely affected. We may not achieve the production ramp necessary to meet our customers' volume requirements for higher performance AMD-K6 and AMD-K7 microprocessors. It is also possible that we may not increase our microprocessor revenues enough to achieve sustained profitability in the AMD segment of our business.

To sell the volume of AMD-K6 and AMD-K7 micro processors we currently plan to make in 1999 and 2000, we must increase sales to existing customers and develop new customers. If we lose any current top-tier Original Equipment Manufacturer (OEM) customer, or if we fail to attract additional customers through direct sales and through our distributors, we may not be able to sell the volume of units planned. This result could have a material adverse effect on our business.

Our production and sales plans for the AMD-K6 and AMD-K7 microprocessors are subject to other risks and uncertainties, including:

- the timing of introduction and market acceptance of the AMD-K7 microprocessor;
- whether we can successfully fabricate higher-performance AMD-K6 and AMD-K7 microprocessors in planned volume mixes;
- the effects of Intel new product introductions, marketing strategies and pricing;
- the continued development of worldwide market acceptance for the AMD-K6 microprocessors and systems based on them;
- whether we will have the financial and other resources necessary to continue to invest in our microprocessor products, including leading-edge wafer fabrication equipment and advanced process technologies;
- the possibility that our newly introduced products may be defective;
- adverse market conditions in the PC market and consequent diminished demand for our microprocessors; and
- unexpected interruptions in our manufacturing operations.

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

- achieve the product performance improvements necessary to meet customer needs;
- continue to achieve market acceptance of our AMD-K6 microprocessors and increase market share;
- substantially increase revenues of the AMD-K6 family of microprocessors; and
- successfully introduce and ramp production of the AMD-K7 microprocessor.

See also discussions below regarding Intel Dominance and Process Technology.

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

- through the Intel Inside program;
- through other contractual constraints on customers, industry suppliers and other third parties; and
- by controlling industry standards.

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

- product introduction schedule;
- product pricing strategy; and
- customer brand loyalty and control over industry standards, PC manufacturers and other PC industry participants.

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

To compete with Intel in the microprocessor market in the future, we intend to continue to form closer relationships with third-party designers and manufacturers of core-logic chipsets, motherboards, BIOS software and other components. Similarly, we intend to expand our chipset and system design capabilities, and to offer OEMs licensed system designs incorporating our microprocessors and companion products. We cannot be certain, however, that our efforts will be successful. We expect that, as Intel introduces future generations of microprocessors, chipsets and motherboards, the design of chipsets, memory and other semiconductor devices, and higher level board products which support Intel microprocessors, will become increasingly dependent on the Intel microprocessor design and may become incompatible with non-Intel processor-based PC systems.

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

- success in designing and developing the micro-processors; and

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

A failure for any reason of the designers and producers of motherboards, chipsets and other system components to support our x86 microprocessor offerings would have a material adverse effect on our business.

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

Future Dependence on Planned AMD-K7 Microprocessor. We will need to successfully develop and market in a timely manner our seventh-generation microprocessor, the AMD-K7, in order to increase our microprocessor product revenues in 1999 and beyond, and to benefit fully from the substantial financial investments and commitments we have made and continue to make related to microprocessors. We currently plan to introduce the AMD-K7 microprocessor by the end of the first half of 1999. We cannot be certain that the introduction will occur on schedule. Our production and sales plans for the AMD-K7 are subject to numerous risks and uncertainties, including:

- the successful development and installation of 0.18-micron process technology and copper interconnect technology;
- the pace at which we are able to transition production in Fab 25 from 0.25- to 0.18-micron process technology and to ramp production in Dresden Fab 30 on 0.18-micron copper interconnect process technology;
- the use and market acceptance of a non-Intel processor bus (adapted by us from Digital Equipment Corporation's EV6 pin bus) in the design of the AMD-K7, and the availability of chipset vendors who will develop, manufacture and sell chipsets with the EV6 interface in volumes required by us;
- our ability to expand our chipset and system design capabilities;
- the availability to our customers of cost and performance competitive Static Random Access Memories (SRAMs), including TAG chips, if Intel corners the market for SRAM production capacity through its relationship with SRAM manufacturers;
- our ability to design and manufacture processor modules through subcontractors; and
- the availability and acceptance of motherboards designed for the AMD-K7 microprocessor.

If we fail to introduce the AMD-K7 microprocessor in a timely manner or achieve market acceptance, our business will be materially and adversely affected.

Possible Rights of Others. Prior to our acquisition of NexGen, NexGen granted limited manufacturing rights regarding certain of its current and future microprocessors, including the Nx586(TM) and Nx686(TM) to other companies. We do not intend to produce any NexGen products. We believe that our AMD-K6 microprocessors are AMD products and not NexGen products because, among other things, we significantly modified the technology we acquired in the NexGen merger using our design, verification and manufacturing technologies. No NexGen licensee or other party has asserted any rights with respect to the AMD-K6 family of microprocessors. However, it is possible that another company may seek to establish rights with respect to the microprocessors. If another company were deemed to have rights to produce any of our AMD-K6 family of microprocessors for its own use or for sale to third parties, such production could reduce the potential market for our microprocessor products, the profit margin achievable with respect to such products, or both.

Financing Requirements

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

In 1998, equipment was installed and production was initiated in FASL II. We expect the facility, including equipment, to cost approximately $1 billion when fully equipped. Capital expenditures for FASL II construction

to date have been funded by cash generated from FASL operations and borrowings by FASL. If FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL.

In 1996, we entered into the Credit Agreement, which provided for a $150 million three-year secured revolving line of credit (which is currently unused) and a $250 million four-year secured term loan. Approximately $219 million of the secured term loan was outstanding as of December 27, 1998. We are required to repay the secured loan in eight equal quarterly installments of approximately $31 million which commenced in October 1998.

In March 1997, our indirect wholly owned subsidiary, AMD Saxony, entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG. The Dresden Loan Agreements, which were amended in February 1998 to reflect upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested $270 million to date in the form of subordinated loans and equity in AMD Saxony, which includes $100 million in subordinated loans in 1998 ($60 million of which was paid after fiscal 1998 but before December 31, 1998). We are required to make additional subordinated loans to, or equity investments in, AMD Saxony totaling $170 million in 1999, $70 million of which must be funded through the sale of at least $200 million of our stock by June 30, 1999. We cannot give any assurance that the requisite external financing will be available on favorable terms, if at all.

Because our obligations under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth herein are subject to change based on applicable conversion rates. At the end of the fourth quarter of 1998, the exchange rate was approximately 1.67 deutsche marks to 1 U.S. dollar (which we used to calculate our obligations denominated in deutsche marks).

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

Flash Memory Products

Increasing Competition and Price Decline. Competition in the market for Flash memory devices continues to increase as existing manufacturers introduce new products and industry-wide production capacity increases, and as Intel continues to aggressively price its Flash memory products. We expect competition in the marketplace for Flash memory devices to continue to increase. The selling prices of Flash memory devices declined from 1996 through the fourth quarter of 1998. It is possible that we will be unable to maintain our market share in Flash memory devices and that price declines may accelerate as the market develops and as existing and potential new competitors introduce competitive products. A continued decline in our Flash memory device business or continued declines in the gross margin percentage in this business could have a material adverse effect on our business.

Manufacturing

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

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

Process Technology. In order to remain competitive, we must make continuing substantial investments in improving our process technologies. In particular, we have made and continue to make significant research and development investments in the technologies and equipment used to fabricate our microprocessor products and our Flash memory devices. Portions of these investments might not be fully recovered if we fail to continue to gain market acceptance or if the market for our Flash memory products should significantly deteriorate. Likewise, we are making a substantial investment in Dresden Fab 30. The business plan for Dresden Fab 30 calls for the successful development and installation of 0.18-micron process technology and copper interconnect technology in order to manufacture the AMD-K7 microprocessor in Dresden Fab 30 beginning in late 1999. We have entered into a strategic alliance with Motorola to co-develop the copper interconnect technology required for the AMD-K7 and subsequent generations of microprocessors. We cannot be certain that the strategic alliance will be successful or that we will be able to develop or obtain the leading-edge process technologies that will be required in Dresden Fab 30 to fabricate the AMD-K7 microprocessor successfully.

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

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

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

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

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

Impact of Year 2000

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

or in the ability to process transactions, send invoices or engage in other normal business activities.

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

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

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

. Information Technology. We will be required to modify or replace significant portions of our application software so that our systems will function properly with respect to dates in the year 2000 and thereafter. Application software consists of business software required for our corporate business systems, including our accounts payable and receivable, payroll, order management, general ledger and shipping applications. In December 1998, we installed new, Year 2000 capable order management and accounts receivable systems. In addition, we are utilizing internal resources and have contracted with a software reengineering company which specializes in Year 2000 remediation to remediate noncompliant code in our other application systems. The reengineering company has completed remediation of approximately 75 percent of the remaining application systems. Our goal is to complete remediation by June 30, 1999. It is also our goal to complete testing and put all application systems into production by September 30, 1999. If required modifications to existing software are not made, or are not completed in a timely manner, the Year 2000 issue could have a material impact on our business.

IT infrastructure consists of hardware and software other than application software that supports our mainframe and distributed computer systems, including PCs, operating systems and system utilities. We have tested Year 2000 capable versions of all our infrastructure software and are in the process of transitioning such software into productive use. Our goal is to have 95 percent of our infrastructure hardware and software installed and in production by March 31, 1999, with the remaining 5 percent to be completed by September 30, 1999. If we are unable to successfully transition our infrastructure software or to install and put our infrastructure hardware and software into production as anticipated, our business could be materially and adversely affected.

Network engineering and telecommunications consist of components in our data and voice communication networks. Approximately 95 percent of the data components and 70 percent of the voice components in our communication networks were Year 2000 capable as of January 31, 1999. Our goal is to make all data and voice network components Year 2000 capable by March 31, 1999. However, we do not currently have all of the information necessary to determine if certain of our international network service providers will be Year 2000 capable in a timely manner. If they are not Year 2000 capable, our business could be materially and adversely affected.

. Manufacturing. We are dedicating substantial resources to Year 2000 issues with respect to our wafer fabrication facilities worldwide to ensure continued operation of all critical wafer fabrication systems in the year 2000 and thereafter. We have retained an outside firm to provide Year 2000 program management and implementation assistance in connection with problem assessment, remediation and compliance testing. It is our goal that 60 percent of the critical wafer fabrication equipment will be Year 2000 capable by June 30, 1999, and the remaining critical equipment will be Year 2000 capable by year-end 1999. Fabrication equipment software testing and installation is ongoing and will continue through the fourth quarter of 1999. However, some vendors have indicated that Year 2000 capable upgrades will not be available until mid to late 1999. If these vendors do not provide Year 2000 capable upgrades in time for us to install the products and to do adequate testing, or if the products do not adequately address the Year 2000 problem, our business will be materially and adversely affected.

Our assembly and test facilities are located in Malaysia, Thailand, China and Singapore. The remediation and replacement process for noncompliant systems and equipment in these facilities was approximately 75 percent complete as of January 31, 1999. Our goal is to complete this remediation by March 31, 1999.

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

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

. Products and Product Design. We have reviewed the status of our current products and have not identified any mission critical products with Year 2000 problems. It is our goal that the hardware and software we use for product design will be Year 2000 capable by June 30, 1999. Testing of these systems is ongoing and will continue through the end of the year. If we fail to make the hardware and software we use for product design Year 2000 capable by year-end 1999, our business could be materially and adversely affected.

. Organizational Support. Since organizational support consists of several functional divisions that provide administrative support to us as a whole, and this support overlaps in many areas, we are unable to quantify the overall progress of this group. However, several divisions have commenced significant projects aimed at Year 2000 readiness. For example, the facilities department is in the process of upgrading the building management system at our corporate marketing, general and administrative facility located in Sunnyvale, California. Our goal is to install all software upgrades required by facilities for Year 2000 readiness by June 30, 1999. EHS provides another example. Upgrades are being scheduled and performed on gas detection systems, acid neutralization systems and groundwater cleanup controls. Our goal is for EHS's remaining Year 2000 readiness activities to be 75 percent complete by March 31, 1999 and 100 percent complete by June 30, 1999. Similarly, our security department has completed our plan to ensure Year 2000 compliance of the fire, intrusion and industrial process alarms in our China, Thailand and Germany sites. Our goal is to have our domestic alarm systems upgraded and tested for Year 2000 compliance by September 30, 1999, and to have all remaining international alarm system upgrades and testing complete by October 31, 1999. However, if we are unable to complete such upgrades and testing before year-end 1999, our business could be materially and adversely affected.

Third-Party Suppliers and Customers. We have initiated formal communication with our significant suppliers to determine the extent to which our operations are vulnerable to those third parties' failure to remediate their own Year 2000 issues. Suppliers of hardware, software or other products that might contain embedded processors were requested to provide information regarding the Year 2000 compliance status of their products. We contacted additional suppliers in the second half of 1998 and will continue to seek information from nonresponsive suppliers in the first quarter of 1999. In addition, in order to protect against the acquisition of additional non-compliant products, we now require suppliers to warrant that products sold or licensed to us are Year 2000 capable. In the event that any of our significant customers and suppliers do not successfully and timely achieve Year 2000 compliance, our business or operations could be adversely affected. We cannot give any assurance that the systems of other companies on which our systems rely will be converted in a timely manner and would not have an adverse effect on our operations. We are currently assessing our exposure to contingencies related to the Year 2000 issue for the products we sell; however, we do not expect these to have a material impact on our operations.

Our goal is to resolve our critical Year 2000 issues by June 30, 1999, which is prior to any anticipated impact on our operating systems. We expect some testing and verification activities, as well as some upgrading of the wafer fabrication equipment, to continue through the end of the year. We also expect some aspects of the Year 2000 plan to continue beyond January 1, 2000 with respect to resolution of non-critical issues. However, these dates are contingent upon the timeliness and accuracy of software and hardware upgrades from vendors, adequacy and quality of resources available to work on completion of the project and any other unforeseen factors.

Costs. The total expense of the Year 2000 plan is currently estimated to be a maximum of $35 million, although actual expenditures may differ. Actual costs incurred through the end of the fourth quarter of 1998 were approximately $8.5 million, the majority of which was expensed. The expenses of the Year 2000 project are being funded through operating cash flows.

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

Contingency Planning. We have not yet fully developed a comprehensive contingency plan to address situations that may result if we are unable to achieve Year 2000 readiness of our critical operations. Development of contingency plans is in progress and will develop in detail and expand during the remainder of 1999. We cannot give any assurance that we will be able to develop a contingency plan that will adequately address all issues that may arise in the year 2000. Our failure to develop and implement, if necessary, an appropriate contingency plan could have a material adverse impact on our operations. Finally, we are also vulnerable to external forces that might generally affect industry and commerce, such as utility or transportation company Year 2000 compliance failures and related service interruptions.

Other Risk Factors

Debt Restrictions. The Credit Agreement and the Indenture contain significant covenants that limit our ability and our subsidiaries' ability to engage in various transactions and require satisfaction of specified financial performance criteria. In addition, the occurrence of certain events, including, among other things, failure to comply with the foregoing covenants, material inaccuracies of representations and warranties, certain defaults under or acceleration of other indebtedness and events of bankruptcy or insolvency, would, in certain cases after notice and grace periods, constitute events of default permitting acceleration of indebtedness. The limitations imposed by the Credit Agreement and the Indenture are substantial, and failure to comply with such limitations could have a material adverse effect on our business.

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

Programmable Logic Software Risks. Historically, our programmable logic subsidiary, Vantis, has depended primarily on third parties to develop and maintain software "fitters" that allow electrical circuit designs to be implemented using Vantis' CPLDs. Vantis has initiated efforts to manage and control the development and maintenance of software fitters for Vantis' products internally. More specifically, Vantis acquired rights to MINC, Inc.'s (MINC) software and hired selected MINC development personnel. Accordingly, MINC no longer supplies software development services to Vantis. Vantis' efforts to develop and maintain internally the software needed to sell and support its products may or may not be successful. If Vantis is unable to successfully develop and maintain software internally in a cost-effective manner, Vantis' business could be materially and adversely affected.

If the existing software were subject to errors or "bugs," or if the internally developed software is subject to delays in development, errors, or "bugs" or is not accepted by the market, then Vantis would need to find another vendor for such services. It is possible that Vantis could be unable to locate additional software development tool vendors with the available capacity and technology necessary for the development and maintenance of software fitter tools. Even if an additional vendor or vendors were identified, Vantis may still be unable to enter into contracts with those vendors on terms acceptable to Vantis. Vantis' inability to find an acceptable alternative vendor for software services in a timely manner could materially and adversely affect Vantis' business.

Introduction of Vantis' FPGA Products. In January 1998, Vantis announced its intention to introduce its first FPGA products, which it currently intends to introduce under the VF1 name during the second half of 1999. The market for FPGAs is highly competitive. The design, marketing and sale of FPGA products is subject to many risks, including risks of delays, errors and customer resistance to change. Vantis does not anticipate significant sales of the VF1 family of products until 2000. Vantis' VF1 FPGA products may or may not be available as scheduled or gain market acceptance. Inadequate forecasts of customer demand, delays in responding to technological advances or to limitations of the VF1 FPGA products, and delays in commencing volume shipments of the VF1 FPGA products each could have a material adverse effect on Vantis. Failure to compete successfully in this highly competitive FPGA market would restrict Vantis' ability to offer products across all major segments of the PLD market and could have a material adverse effect on Vantis.

In addition, Vantis has contracted with several developers of FPGA software tools, including AutoGate Logic, Inc. (AGL), to develop and maintain software for Vantis' VF1 family of FPGAs. If any of these developers were to stop developing and maintaining software for the VF1 family, or if the software developed by these developers were subject to delays, errors or "bugs," Vantis would need to find an alternative developer or developers for these services or rely on its own internal software development efforts to address this need. It is possible that Vantis' internal development efforts may be unsatisfactory or that Vantis may be unable to locate available and acceptable alternative software developers. Any interruption in the timely development of FPGA software for the VF1 family could have a material adverse effect on Vantis.

Technological Change and Industry Standards. The market for our products is generally characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent

new product introductions and enhancements, short product life cycles and severe price competition. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others. In addition, new products may or may not achieve market acceptance.

Competition. The IC industry is intensely competitive and, historically, has experienced rapid technological advances in product and system technologies. After a product is introduced, prices normally decrease over time as production efficiency and competition increase, and as successive generations of products are developed and introduced for sale. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements. Competition in the sale of ICs is based on:

- performance;
- product quality and reliability;
- price;
- adherence to industry standards;
- software and hardware compatibility;
- marketing and distribution capability;
- brand recognition;
- financial strength; and
- ability to deliver in large volumes on a timely basis.

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

- the effects of competition with Intel in the microprocessor and Flash memory device markets;
- competitive pricing pressures;
- anticipated decreases in unit average selling prices of our products;
- production capacity levels and fluctuations in manufacturing yields;
- availability and cost of products from our suppliers;
- the gain or loss of significant customers;
- new product introductions by us or our competitors;
- changes in the mix of products produced and sold and in the mix of sales by distribution channels;
- market acceptance of new or enhanced versions of our products;
- seasonal customer demand due to vacation and holiday schedules (for example, decreased demand in Europe during the summer); and
- the timing of significant orders and the timing and extent of product development costs.

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

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

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

Key Personnel. Our future success depends upon the continued service of numerous key engineering, manufacturing, sales and executive personnel. We may or may not be able to continue to attract and retain qualified personnel necessary for the development and manufacture of our products. Loss of the service of, or failure to recruit,

key engineering design personnel could be significantly detrimental to our product development programs or otherwise have a material adverse effect on our business.

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

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

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

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

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

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

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

In addition, an actual or anticipated shortfall in revenue, gross margins or earnings from securities analysts' expectations could have an immediate effect on the trading price of our common stock in any given period. Technology company stocks in general have experienced extreme price and volume fluctuations that are often unrelated to the operating performance of the companies. This market volatility may adversely affect the market price of our common stock and consequently limit our ability to raise capital or to make acquisitions. Our current business plan envisions substantial cash outlays requiring external capital financing. It is possible that capital and/or long-term financing will be unavailable on terms favorable to us or in sufficient amounts to enable us to implement our current plan.

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

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

Three Years Ended December 27, 1998 (Thousands except per share amounts)	1998	1997	1996
Net sales	$2,542,141	$ 2,356,375	$ 1,953,019
Expenses:			
Cost of sales	1,718,703	1,578,438	1,440,828
Research and development	567,402	467,877	400,703
Marketing, general and administrative	419,678	400,713	364,798
	2,705,783	2,447,028	2,206,329
Operating loss	(163,642)	(90,653)	(253,310)
Litigation settlement	(11,500)	-	-
Interest income and other, net	34,207	35,097	59,391
Interest expense	(66,494)	(45,276)	(14,837)
Loss before income taxes and equity in joint venture	(207,429)	(100,832)	(208,756)
Benefit for income taxes	(91,878)	(55,155)	(85,008)
Loss before equity in joint venture	(115,551)	(45,677)	(123,748)
Equity in net income of joint venture	11,591	24,587	54,798
Net loss	$ (103,960)	$ (21,090)	$ (68,950)
Net loss per common share:			
Basic	$(0.72)	$(0.15)	$(0.51)
Diluted	$(0.72)	$(0.15)	$(0.51)
Shares used in per share calculation:			
Basic	143,668	140,453	135,126
Diluted	143,668	140,453	135,126

See accompanying notes

December 27, 1998 and December 28, 1997 (Thousands except share and per share amounts)	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 361,908	$ 240,658
Short-term investments	335,117	226,374
Total cash, cash equivalents and short-term investments	697,025	467,032
Accounts receivable, net of allowance for doubtful accounts of $12,663 in 1998 and $11,221 in 1997	415,557	329,111
Inventories:		
Raw materials	21,185	33,375
Work-in-process	129,036	96,712
Finished goods	24,854	38,430
Total inventories	175,075	168,517
Deferred income taxes	205,959	160,583
Prepaid expenses and other current assets	68,411	50,024
Total current assets	1,562,027	1,175,267
PROPERTY, PLANT AND EQUIPMENT:		
Land	36,273	29,421
Buildings and leasehold improvements	823,287	1,012,680
Equipment	2,776,336	2,295,498
Construction in progress	744,466	461,452
Total property, plant and equipment	4,380,362	3,799,051
Accumulated depreciation and amortization	(2,111,894)	(1,808,362)
Property, plant and equipment, net	2,268,468	1,990,689
INVESTMENT IN JOINT VENTURE	236,820	204,031
OTHER ASSETS	185,653	145,284
	$ 4,252,968	$ 3,515,271
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to banks	$ 6,017	$ 6,601
Accounts payable	333,975	359,536
Accrued compensation and benefits	80,334	63,429
Accrued liabilities	168,280	134,656
Income tax payable	22,026	12,676
Deferred income on shipments to distributors	84,523	83,508
Current portion of long-term debt, capital lease obligations and other	145,564	66,364
Total current liabilities	840,719	726,770
DEFERRED INCOME TAXES	34,784	96,269
LONG-TERM DEBT, CAPITAL LEASE OBLIGATIONS AND OTHER, LESS CURRENT PORTION	1,372,416	662,689
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Common stock, par value $0.01; 250,000,000 shares authorized; 145,477,376 shares issued and outstanding in 1998 and 142,123,079 in 1997	1,465	1,428
Capital in excess of par value	1,071,591	1,018,884
Retained earnings	962,171	1,066,131
Accumulated other comprehensive loss	(30,178)	(56,900)
Total stockholders' equity	2,005,049	2,029,543
	$ 4,252,968	$ 3,515,271

See accompanying notes

Consolidated Statements of Stockhloders' Equity

Three Years Ended December 27, 1998 (Thousands)	Common Stock Number of Shares	Common Stock Amount	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total Stockholders' equity
December 31, 1995	132,182	$ 1,050	$ 908,989	$ 1,156,171	$ 36,252	$ 2,102,462
Comprehensive loss:						
Net loss	-	-	-	(68,950)	-	(68,950)
Other comprehensive loss:						
Net change in unrealized loss on investments, net of tax benefit of $2,635	-	-	-	-	(31,432)	(31,432)
Net change in cumulative translation adjustments	-	-	-	-	(28,769)	(28,769)
Total other comprehensive loss						(60,201)
Total comprehensive loss						$ (129,151)
Issuance of shares:						
Employee stock plans	3,838	315	27,433	-	-	$ 27,748
Fujitsu Limited	1,000	10	16,525	-	-	16,535
Compensation recognized under employee stock plans	-	-	24	-	-	24
Warrants exercised	560	5	2,755	-	-	2,760
Income tax benefits realized from employee stock option exercises	-	-	1,500	-	-	1,500
December 29, 1996	137,580	1,380	957,226	1,087,221	(23,949)	2,021,878
Comprehensive loss:						
Net loss	-	-	-	(21,090)	-	(21,090)
Other comprehensive loss:						
Net change in unrealized loss on investments, net of tax benefit of $1,230	-	-	-	-	(2,813)	(2,813)
Net change in cumulative translation adjustments	-	-	-	-	(30,138)	(30,138)
Total other comprehensive loss						(32,951)
Total comprehensive loss						$ (54,041)
Issuance of shares for employee stock plans	4,113	44	38,013	-	-	$ 38,057
Compensation recognized under employee stock plans	-	-	21,232	-	-	21,232
Warrants exercised	430	4	2,413	-	-	2,417
December 28, 1997	142,123	1,428	1,018,884	1,066,131	(56,900)	2,029,543
Comprehensive loss:						
Net loss	-	-	-	(103,960)	-	(103,960)
Other comprehensive loss:						
Net change in unrealized gain on investments, net of tax expense of $355	-	-	-	-	4,753	4,753
Net change in cumulative translation adjustments	-	-	-	-	21,969	21,969
Total other comprehensive loss						26,722
Total comprehensive loss						$ (77,238)
Issuance of shares:						
Employee stock plans	2,354	27	25,656	-	-	$ 25,683
Fujitsu Limited	1,000	10	18,395	-	-	18,405
Compensation recognized under employee stock plans	-	-	8,645	-	-	8,645
Warrants exercised	-	-	11	-	-	11
December 27, 1998	145,477	$ 1,465	$ 1,071,591	$ 962,171	$ (30,178)	$2,005,049

See accompanying notes

Three Years Ended December 27, 1998 (Thousands)	1998	1997	1996
Cash flows from operating activities:			
Net loss	$ (103,960)	$ (21,090)	$ (68,950)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	467,521	394,465	346,774
Net (increase) decrease in deferred income taxes	(106,861)	(18,566)	17,134
Net loss on disposal of property, plant and equipment	11,515	19,763	11,953
Net gain realized on sale of available-for-sale securities	-	(4,978)	(41,022)
Compensation recognized under employee stock plans	8,645	21,232	24
Undistributed income of joint venture	(11,591)	(24,587)	(54,798)
Changes in operating assets and liabilities:			
Net (increase) decrease in receivables, inventories, prepaid expenses and other assets	(153,366)	(184,966)	30,421
Increase (decrease) in tax refund receivable and income tax payable	9,350	61,209	(110,058)
Net increase (decrease) in payables and accrued liabilities	23,160	156,333	(42,863)
Net cash provided by operating activities	144,413	398,815	88,615
Cash flows from investing activities:			
Purchase of property, plant and equipment	(996,170)	(685,100)	(485,018)
Proceeds from sale of property, plant and equipment	106,968	43,596	2,489
Purchase of available-for-sale securities	(1,591,802)	(537,275)	(633,476)
Proceeds from sale of available-for-sale securities	1,482,890	545,478	840,492
Net cash used in investing activities	(998,114)	(633,301)	(275,513)
Cash flows from financing activities:			
Proceeds from borrowings	836,100	283,482	447,877
Debt issuance costs	(14,350)	(13,080)	(15,378)
Payments on debt and capital lease obligations	(87,549)	(79,791)	(252,766)
Proceeds from foreign grants	196,651	77,865	-
Proceeds from issuance of stock	44,099	40,474	47,043
Net cash provided by financing activities	974,951	308,950	226,776
Net increase in cash and cash equivalents	121,250	74,464	39,878
Cash and cash equivalents at beginning of year	240,658	166,194	126,316
Cash and cash equivalents at end of year	$ 361,908	$ 240,658	$ 166,194
Supplemental disclosures of cash flow information:			
Cash paid (refunded) during the year for:			
Interest, net of amounts capitalized	$ 58,517	$ 34,600	$ -
Income taxes	$ 2,732	$ (100,016)	$ 375
Non-cash financing activities:			
Equipment capital leases	$ 13,908	$ 44,770	$ 8,705

See accompanying notes

NOTE 1. NATURE OF OPERATIONS

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

Vantis Corporation (Vantis), our wholly owned subsidiary designs, develops and markets programmable logic devices (PLDs). On September 29, 1997, we transferred certain of the assets and liabilities of our PLD division (excluding bipolar products) to Vantis.

NOTE 2. BUSINESS COMBINATION

On January 17, 1996, we acquired NexGen, Inc. in a tax-free reorganization in which NexGen was merged directly into AMD. At the date of the merger, we reserved approximately 33.6 million total shares to be exchanged, which represented eight-tenths (0.8) of a share of our common stock for each share of the common stock of NexGen outstanding or subject to an assumed warrant or option. We accounted for the merger under the pooling-of-interests method. We prepared the consolidated financial statements to give retroactive effect to the merger of NexGen with and into AMD on January 17, 1996.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR We use a 52- to 53-week fiscal year ending on the last Sunday in December, which resulted in a 52-week fiscal year for 1998, 1997 and 1996, which ended on December 27, December 28 and December 29, respectively.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include our accounts and those of our subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Also included in our consolidated financial statements, under the equity method of accounting, is our 49.992 percent investment in Fujitsu AMD Semiconductor Limited (FASL).

FOREIGN CURRENCY TRANSLATION We included in operations adjustments resulting from the process of translating into U.S. dollars the foreign currency financial statements of our wholly owned foreign subsidiaries for which the U.S. dollar is the functional currency. We included in stockholders' equity the adjustments relating to the translation of the financial statements of AMD Saxony, our indirect wholly owned German subsidiary in Dresden, in the State of Saxony, and our unconsolidated joint venture, for which the local currencies are the functional currencies.

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

INVESTMENTS We classify, at the date of acquisition, our marketable debt and equity securities into held-to-maturity and available-for-sale categories. Currently, we classify our securities as available-for-sale which are reported at fair market value with the related unrealized gains and losses included in stockholders' equity. Realized gains and losses and declines in value of securities judged to be other than temporary are included in interest income and other, net. Interest and dividends on all securities are included in interest income and other, net. The cost of securities sold is based on the specific identification method.

We consider investments with maturities between 3 and 12 months 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.

DERIVATIVE FINANCIAL INSTRUMENTS We utilize derivative financial instruments to reduce financial market risks. We use these instruments to hedge foreign currency and interest rate market exposures of underlying assets, liabilities and other obligations. We do not use derivative financial instruments for speculative or trading purposes. Our accounting policies for these instruments are based on whether such instruments are designated as hedging transactions. The criteria we use for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and

one-to-one matching of derivative instruments to underlying transactions. Gains and losses on foreign currency forward and option contracts that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and either recognized in income or included in the basis of the transaction in the same period that the underlying transactions are settled. Gains and losses on foreign currency forward and option contracts and interest rate swap contracts that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. Purchased option contracts that would result in losses, if exercised, are allowed to expire. If an underlying hedged transaction is terminated earlier than initially anticipated, the offsetting gain or loss on the related derivative instrument would be recognized in income in the same period. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold. Premiums paid for foreign currency forward and option contracts are generally amortized over the life of the contracts and are not material to our results of operations. Unamortized premiums are included in prepaid expenses and other assets.

INVENTORIES We state inventories at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or market (net realizable value).

PROPERTY, PLANT AND EQUIPMENT We state property, plant and equipment at cost. We provide depreciation and amortization on the straight-line basis over the estimated useful lives of the assets for financial reporting purposes and on accelerated methods for tax purposes. We estimate useful lives for financial reporting purposes as follows:

- machinery and equipment, 3 to 5 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.

REVENUE RECOGNITION We recognize revenue from product sales direct to customers when shipped. In addition, we sell to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise they hold. The distributor agreements, which may be canceled by either party upon specified notice, generally contain a provision for the return of our products in the event the agreement with the distributor is terminated. Accordingly, we defer recognition of revenue and related gross profits from sales to distributors with agreements that have the aforementioned terms until the merchandise is resold by the distributors.

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 $469 million (denominated in deutsche marks) consisting of capital investment grants and interest subsidies. Dresden Fab 30 is our new integrated circuit manufacturing and design facility in Dresden, Germany. The grants and subsidies are subject to conditions, including meeting specified levels of employment in December 2001 and maintaining those levels until June 2007. The grants and subsidies will be recognized as a reduction of operating expense ratably over the life of the project. In 1998, grants and subsidies recognized as income were not material. As of December 27, 1998, AMD Saxony had received grants and subsidies totaling $283 million (denominated in deutsche marks). 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.

ADVERTISING EXPENSES We account for advertising costs as expense in the period in which they are incurred. Advertising expense for 1998, 1997 and 1996 was approximately $74 million, $74 million and $44 million, respectively.

NET LOSS PER COMMON SHARE Basic and diluted net loss per share are computed using weighted-average common shares outstanding.

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

(Thousands except per share data)	1998	1997	1996
Numerator for basic and diluted net loss per common share	$(103,960)	$(21,090)	$ (68,950)
Denominator for basic and diluted net loss per common share-weighted-average shares	143,668	140,453	135,126
Basic and diluted net loss per common share	$ (0.72)	$ (0.15)	$ (0.51)

Options, warrants and restricted stock were outstanding during 1998, 1997 and 1996 but we did not include them in the computation of diluted net loss per common share because the effect in years with a net loss would be anti-dilutive. Convertible debt was outstanding during 1998 but we did not include it in the computation of diluted net loss per common share because the effect in years with a net loss would be antidilutive.

COMPREHENSIVE LOSS In 1998, we adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." SFAS 130 establishes new rules for the reporting and display of comprehensive loss and its components; however, the adoption of this Statement had no impact on our net loss or stockholders' equity. SFAS 130 requires unrealized gains or losses on our available-for-sale securities and the foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive loss. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

The following are the components of accumulated other comprehensive loss:

(Thousands)	December 27, 1998	December 28, 1997
Unrealized gain on investments	$ 6,760	$ 2,007
Cumulative translation adjustments	(36,938)	(58,907)
	$(30,178)	$(56,900)

Cumulative translation adjustments are not tax affected.

EMPLOYEE STOCK PLANS As allowed under Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," we continue to account for our stock option plans and our employee stock purchase plan in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" (see Note 10).

USE OF ESTIMATES The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

FINANCIAL PRESENTATION We have reclassified certain prior year amounts on the consolidated financial statements to conform to the 1998 presentation.

NEW ACCOUNTING PRONOUNCEMENTS In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is required to be adopted beginning after June 15, 1999. We expect to adopt SFAS 133 in 2000. We have not completed our review of SFAS 133, and accordingly have not evaluated the effect the adoption of the Statement may have on our consolidated results of operations and financial position. SFAS 133 will require us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

NOTE 4. FINANCIAL INSTRUMENTS

AVAILABLE-FOR-SALE SECURITIES Available-for-sale securities as of December 27, 1998 and December 28, 1997 were as follows:

(Thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair market value
1998				
Cash equivalents:				
Commercial paper	$ 22,434	$ -	$ (40)	$ 22,394
Money market funds	136,408	-	-	136,408
Total cash equivalents	$158,842	$ -	$ (40)	$158,802
Short-term investments:				
Money market auction rate preferred stocks	$115,500	$ -	$ -	$115,500
Certificates of deposit	100,230	58	(50)	100,238
Treasury notes	7,696	-	(18)	7,678
Corporate notes	32,657	30	-	32,687
Federal agency notes	34,616	50	(153)	34,513
Commercial paper	43,886	704	(89)	44,501
Total short-term investments	$334,585	$ 842	$(310)	$335,117
Long-term investments:				
Equity investments	$ 7,027	$6,265	$ -	$ 13,292
Treasury notes	2,000	3	-	2,003
Total long-term investments	$ 9,027	$6,268	$ -	$ 15,295
1997				
Cash equivalents:				
Commercial paper	$ 14,901	$ 14	$ -	$ 14,915
Federal agency notes	22,860	-	(79)	22,781
Total cash equivalents	$ 37,761	$ 14	$ (79)	$ 37,696
Short-term investments:				
Money market auction rate preferred stocks	$ 61,200	$ -	$ -	$ 61,200
Certificates of deposit	50,025	345	(10)	50,360
Treasury notes	9,989	9	-	9,998
Corporate notes	37,862	127	(4)	37,985
Federal agency notes	47,283	4	(70)	47,217
Commercial paper	19,379	235	-	19,614
Total short-term investments	$225,738	$ 720	$ (84)	$226,374
Long-term investments:				
Equity investments	$ 6,087	$1,341	$ -	$ 7,428
Treasury notes	1,997	95	-	2,092
Total long-term investments	$ 8,084	$1,436	$ -	$ 9,520

We realized a net gain on the sales of available-for-sale securities of $5 million and $41 million for 1997 and 1996, respectively. We did not sell any available-for-sale securities in 1998.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK As part of our asset and liability management strategy, we use financial instruments with off-balance-sheet risk to manage financial market risk, including interest rate and foreign

exchange risk. The notional amounts, carrying amounts and fair values of these instruments as of December 27, 1998 and December 28, 1997 are included in the table below.

	1998			1997		
(Thousands)	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Foreign exchange instruments:						
Purchased foreign currency call option contracts	$ 75,000	$ 289	$ 45	$150,000	$893	$ 369
Purchased foreign currency put option contracts	220,000	-	1,547	-	-	-
Written foreign currency call option contracts	220,000	(3,416)	(13,469)	-	-	-
Foreign exchange forward contracts	13,112	(32)	(25)	48,500	53	309

We used prevailing financial market information and price quotes from certain of our counterparty financial institutions as of the respective dates to obtain the estimates of fair value.

Foreign Exchange Forward Contracts We use foreign exchange forward contracts to hedge our exposure to currency fluctuations on our net monetary assets position in our foreign subsidiaries, liabilities for products purchased from FASL and fixed asset purchase commitments. Our hedging transactions in 1998 were denominated in Italian lira, Japanese yen, French franc, German mark, British pound, Dutch guilder, Thailand baht, Singapore dollar and Malaysian ringit. The maturities of these contracts were generally less than 12 months.

Foreign Currency Option Contracts In 1998, we entered into a no-cost collar arrangement to hedge Dresden Fab 30 project costs denominated in U.S. dollars. In addition to purchased put option contracts, no-cost collars include written call option contracts, the contract rates of which are structured so as to avoid payment of any option premium at the time of purchase. With respect to the written call option contracts, we recognized a loss in 1998 associated with the counterparties' in-the-money position. Unrealized losses on outstanding written contracts are included in accrued liabilities. These contracts mature on various dates through 2000.

In 1997, we purchased foreign currency call option contracts to hedge market risk exposures related to currency fluctuations on firm commitments denominated in deutsche marks to make investments in, or subordinated loans to, AMD Saxony. These contracts mature on various dates through 1999.

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS We estimated the fair value of debt using discounted cash flow analysis based on estimated interest rates for similar types of borrowing arrangements.

The carrying amounts and estimated fair values of our other financial instruments are as follows:

	1998		1997	
(Thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Short-term debt:				
Notes payable	$ 6,017	$ 6,017	$ 6,601	$ 6,601
Current portion of long-term debt (excluding capital leases)	125,283	148,178	37,176	47,013
Long-term debt (excluding capital leases)	1,312,303	1,336,768	622,880	640,604

NOTE 5. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, short-term investments, trade receivables and financial instruments used in hedging activities.

We place our cash equivalents and short-term investments with high credit quality financial institutions and, by policy, limit the amount of credit exposure with any one financial institution. We acquire 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.

We limit concentrations of credit risk with respect to trade receivables because a large number of geographically diverse customers make up our customer base, thus spreading the trade credit risk. We control credit risk through credit approvals, credit limits and monitoring procedures. We perform in-depth credit evaluations of all new customers and require letters of credit, bank guarantees and advance payments, if deemed necessary. Our bad debt expenses have not been material.

The counterparties to the agreements relating to our derivative instruments consist of a number of major, high credit quality, international financial institutions. We do not believe that there is significant risk of nonperformance by these counterparties because we monitor their credit ratings and limit 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 our obligations to the counterparties.

NOTE 6. INCOME TAXES

Benefit for income taxes consists of:

(Thousands)	1998	1997	1996
Current:			
U.S. Federal	$ 1,706	$(43,053)	$(102,213)
U.S. State and Local	1,772	(1,959)	(1,026)
Foreign National and Local	11,505	8,423	1,097
Deferred:			
U.S. Federal	(89,997)	(12,902)	16,280
U.S. State and Local	(16,869)	(7,872)	854
Foreign National and Local	5	2,208	-
Benefit for income taxes	$(91,878)	$(55,155)	$ (85,008)

Tax benefits resulting from the exercise of nonqualified stock options and the disqualifying disposition of shares acquired under our incentive stock option and stock purchase plans reduced taxes currently payable as shown above by approximately $2 million in 1996. We credited such benefits to capital in excess of par value when realized. Tax benefits generated in 1998 and 1997 did not reduce taxes currently payable.

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 amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 27, 1998 and December 28, 1997 are as follows:

(Thousands)	1998	1997
Deferred tax assets:		
Net operating loss carryovers	$ 237,767	$ 99,424
Deferred distributor income	28,940	36,898
Inventory reserves	25,655	30,085
Accrued expenses not currently deductible	29,462	26,345
Federal and state tax credit carryovers	92,879	74,535
Other	86,895	60,927
Total deferred tax assets	501,598	328,214
Less: valuation allowance	(73,243)	(44,221)
	428,355	283,993
Deferred tax liabilities:		
Depreciation	(196,293)	(175,177)
Other	(60,887)	(44,502)
Total deferred tax liabilities	(257,180)	(219,679)
Net deferred tax assets	$ 171,175	$ 64,314

Realization of our net deferred tax assets is dependent on future taxable income. We believe that it is more likely than not that such assets will be realized. However, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time.

The valuation allowance increased $29 million in 1998 from 1997. The valuation allowance for deferred tax assets includes $29 million attributable to stock option deductions, the benefit of which will be credited to equity when realized.

Pretax loss from foreign operations was approximately $36 million in 1998. Pretax income from foreign operations was approximately $10 million in 1997 and $33 million in 1996.

A portion of the net operating loss carryovers are subject to limitation. Availability of $11 million of tax effected net operating loss carryovers occurs primarily in 2000. The federal and state tax credit and net operating loss carryovers expire beginning in the year 2002 through 2013.

The following is a reconciliation between statutory federal income taxes and the total benefit for income taxes.

	1998		1997		1996	
(Thousands except percent)	Tax	Rate	Tax	Rate	Tax	Rate
Statutory federal income tax benefit	$(72,598)	(35.0)%	$(35,291)	(35.0)%	$(73,065)	(35.0)%
State taxes net of federal benefit	(8,000)	(3.9)	(7,500)	(7.4)	(520)	(0.2)
Tax exempt Foreign Sales Corporation income	(940)	(0.5)	(1,369)	(1.4)	(2,283)	(1.1)
Foreign income at other than U.S. rates	(3,949)	(1.9)	(10,228)	(10.1)	(9,782)	(4.7)
Tax credits	(6,200)	(3.0)	(4,077)	(4.0)	(1,886)	(0.9)
Other	(191)	-	3,310	3.2	2,528	1.2
	$(91,878)	(44.3)%	$(55,155)	(54.7)%	$(85,008)	(40.7)%

We have made no provision for income taxes on approximately $363 million of cumulative undistributed earnings of certain foreign subsidiaries because it is our intention to permanently invest such earnings. If such earnings were distributed, we would accrue additional taxes of approximately $117 million.

Note 7. Debt

Significant elements of revolving lines of credit are:

(Thousands except percent)	1998	1997
Committed:		
Three-year secured revolving line of credit	$ 150,000	$ 150,000
Uncommitted:		
Portion of unsecured lines of credit available to foreign subsidiaries	68,980	67,052
Amounts outstanding at year-end under lines of credit:		
Short-term	6,017	6,601
Short-term borrowings:		
Average daily borrowings	5,386	10,795
Maximum amount outstanding at any month-end	6,017	13,846
Weighted-average interest rate	1.18%	1.75%
Average interest rate on amounts outstanding at year-end	1.06%	2.01%

Interest on foreign and short-term domestic borrowings is negotiated at the time of the borrowing. Information with respect to our long-term debt, capital lease obligations and other at year-end is:

(Thousands)	1998	1997
6% Convertible Subordinated Notes with interest payable semiannually and principal due on May 15, 2005	$ 517,500	$ -
11% Senior Secured Notes with interest payable semiannually and principal due on August 1, 2003, secured by the Fab 25 facility and equipment	400,000	400,000
Term loans under the Dresden Loan Agreements with weighted-average interest of 5.37% and principal due between 2001 and 2003, secured by the Dresden Fab 30 facility and equipment	299,679	-
Secured term loan with interest at LIBOR plus 2.5% (8.06% at December 27, 1998) payable quarterly and principal payable quarterly from October 1998 through May 2000, secured by the Fab 25 facility and equipment	218,750	250,000
Obligations under capital leases	42,812	68,997
Mortgage with principal and 9.88% interest payable in monthly installments through April 2007	1,657	1,781
Promissory notes	-	6,577
Obligations secured by equipment	-	1,668
Other debt	-	30
	1,480,398	729,053
Other	37,582	-
	1,517,980	729,053
Less: current portion	(145,564)	(66,364)
Long-term debt, capital lease obligations and other, less current portion	$1,372,416	$ 662,689

In May 1998, we sold $517.5 million of Convertible Subordinated Notes due May 15, 2005 under our $1 billion shelf registration declared effective by the Securities and Exchange Commission on April 20, 1998. Interest on the Convertible Subordinated Notes accrues at the rate of 6 percent per annum and is payable semiannually in arrears on May 15 and November 15 of each year, commencing November 15, 1998. The Convertible Subordinated Notes are redeemable at our option on and after May 15, 2001. The Notes are convertible at the option of the holder at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, into shares of common stock at a conversion price of $37.00 per share, subject to adjustment in certain circumstances.

Included in other is a deferred gain of $34 million recorded during 1998 as a result of the sale and leaseback of our corporate marketing, general and administrative facility. The deferred gain will be amortized over the lease term, which is 20 years (see Note 12).

For each of the next five years and beyond, our long-term debt and capital lease obligations are:

(Thousands)	Long-term debt (Principal only)	Capital leases
1999	$ 125,283	$19,231
2000	93,901	13,628
2001	53,611	8,886
2002	178,332	3,876
2003	468,290	3,056
Beyond 2003	518,169	557
Total	1,437,586	49,234
Less: amount representing interest	-	(6,422)
Total at present value	$1,437,586	$42,812

Obligations under the lease agreements are collateralized by the assets leased. We leased total assets of approximately $97 million and $138 million at December 27, 1998 and December 28, 1997, respectively. Accumulated amortization of these leased assets was approximately $60 million and $85 million at December 27, 1998 and December 28, 1997, respectively.

The above debt agreements limit our and our subsidiaries' ability to engage in various transactions and require satisfaction of specified financial performance criteria.

At December 27, 1998, we were in compliance with all restrictive covenants of such debt agreements and all retained earnings were restricted as to payments of cash dividends on common stock.

Under certain circumstances, cross-defaults result under the Convertible Subordinated Notes, the Indenture to the Senior Secured Notes 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.

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

INTEREST EXPENSE

(Thousands)	1998	1997	1996
Total interest charges	$ 96,206	$ 74,716	$ 32,507
Interest capitalized	(29,712)	(29,440)	(17,670)
Interest expense	$ 66,494	$ 45,276	$ 14,837

In 1998, interest expense primarily consisted of interest expense incurred on our Senior Secured Notes sold in August 1996, interest on our Convertible Subordinated Notes sold in May 1998 and interest on our $250 million four-year secured term loan, net of interest capitalized primarily related to the facilitization of Fab 25 and construction of Dresden Fab 30. In 1997, interest expense primarily consisted of interest expense incurred on our Senior Secured Notes sold in August 1996 and interest on our $250 million four-year secured term loan, net of interest capitalized primarily related to the second phase of construction of Fab 25 and Dresden Fab 30. In 1996, interest expense primarily consisted of interest expense incurred on our Senior Secured Notes sold in August 1996, net of interest capitalized primarily related to equipment installation in Fab 25.

INTEREST INCOME AND OTHER, NET

(Thousands)	1998	1997	1996
Interest income	$31,478	$28,975	$19,564
Other income, net	2,729	6,122	39,827
	$34,207	$35,097	$59,391

In 1998, other income, net primarily consisted of gains resulting from the sale of an investment. Other income, net primarily consisted of gains resulting from the sales of equity investments for 1997 and 1996. We also included the net loss on the sale of fixed assets in other income, net for all years presented.

NOTE 9. SEGMENT REPORTING

In June 1997, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information," which we have adopted in the current year.

As required by SFAS 131, we have determined that we have two principle businesses and operate in two segments: (1) our AMD segment, which consists of our three product groups - Computation Products Group, Memory Group and Communications Group and (2) our Vantis segment, which consists of Vantis. Our reportable segments are organized as discrete and separate functional units with separate management teams and separate performance assessment and resource allocation processes. The AMD segment produces microprocessors, core logic products, Flash memory devices, EPROMs, telecommunication products, networking and I/O products and embedded processors. The Vantis segment produces complex and simple, high-performance CMOS PLDs.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate performance and allocate resources based on segment operating income (loss).

The AMD segment did not have intersegment sales prior to the fourth quarter of 1997. The Vantis segment did not have intersegment sales for any of the years presented below.

(Thousands)	1998	1997	1996
Net sales:			
AMD segment			
External customers	$2,337,144	$2,113,276	$1,704,925
Intersegment	88,455	25,896	-
	2,425,599	2,139,172	1,704,925
Vantis segment external customers	204,997	243,099	248,094
Elimination of intersegment sales	(88,455)	(25,896)	-
Net sales	$2,542,141	$2,356,375	$1,953,019
Segment income (loss):			
AMD segment	$ (185,242)	$ (127,406)	$ (270,270)
Vantis segment	21,600	36,753	16,960
Total operating loss	(163,642)	(90,653)	(253,310)
Litigation settlement	(11,500)	-	-
Interest income and other, net	34,207	35,097	59,391
Interest expense	(66,494)	(45,276)	(14,837)
Benefit for income taxes	91,878	55,155	85,008
Equity in net income of FASL (AMD segment)	11,591	24,587	54,798
Net loss	$ (103,960)	$ (21,090)	$ (68,950)
Total assets:			
AMD segment			
Assets excluding investment in FASL	$3,881,268	$3,187,506	$2,886,689
Investment in FASL	236,820	204,031	197,205
	4,118,088	3,391,537	3,083,894
Vantis segment assets	134,880	123,734	61,389
Total assets	$4,252,968	$3,515,271	$3,145,283
Expenditures for long-lived assets:			
AMD segment	$ 993,679	$ 683,346	$ 480,746
Vantis segment	2,491	1,754	4,272
Total expenditures for long-lived assets	$ 996,170	$ 685,100	$ 485,018
Depreciation and amortization expense:			
AMD segment	$ 463,719	$ 390,577	$ 343,053
Vantis segment	3,802	3,888	3,721
Total depreciation and amortization expense	$ 467,521	$ 394,465	$ 346,774

Our operations outside the United States include both manufacturing and sales. Our manufacturing subsidiaries are located in Germany, Malaysia, Thailand, Singapore and China. Our sales subsidiaries are in Europe and Asia Pacific.

The following is a summary of operations by entities within geographic areas for the three years ended December 27, 1998:

(Thousands)	1998	1997	1996
Sales to external customers:			
United States	$1,148,610	$1,024,718	$ 917,174
Germany	265,429	219,255	142,339
Other Europe	464,760	464,105	393,444
Asia Pacific	663,342	648,297	500,062
	$2,542,141	$2,356,375	$ 1,953,019
Long-lived assets:			
United States	$1,718,435	$1,705,084	$ 1,613,286
Germany	333,851	102,810	12,586
Other Europe	3,927	3,735	4,492
Asia Pacific	212,255	179,060	157,038
	$2,268,468	$1,990,689	$ 1,787,402

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

We market and sell our products primarily to a broad base of customers comprised of distributors and Original Equipment Manufacturers (OEMs) of computation and communication equipment. One of our OEMs accounted for approximately 12 percent of 1998 net sales. One of our distributors accounted for approximately 12 percent and 13 percent of 1997 and 1996 net sales, respectively. No other distributor or OEM customer accounted for 10 percent or more of net sales in 1998, 1997 or 1996.

NOTE 10. Stock-Based Benefit Plans

STOCK OPTION PLANS We have several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase our common stock. Generally, options are exercisable within 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 at the date of grant. Exercise prices of NSOs range from $0.01 to the fair market value of the common stock at the date of grant.

On September 10, 1998, the Compensation Committee of our Board of Directors approved a stock option repricing program pursuant to which our employees (excluding officers and vice presidents) could elect to cancel certain unexercised stock options in exchange for new stock options with an exercise price of $19.43, which was equal to 20 percent above the closing price of our common stock on the New York Stock Exchange on September 10, 1998. Approximately 2 million options were eligible for repricing, of which we repriced approximately 1.7 million. We extended the vesting schedules and expiration dates of repriced stock options by one year.

On July 10, 1996, the Compensation Committee of our Board of Directors approved a stock option repricing program pursuant to which our employees (excluding officers) could elect to cancel certain unexercised stock options in exchange for new stock options with an exercise price of $11.88, equal to the closing price of our common stock on the New York Stock Exchange on July 15, 1996. Approximately 6.1 million options were eligible for repricing, of which we repriced approximately 5.3 million. We extended the vesting schedules and expiration dates of repriced stock options by one year, and certain employees canceled stock options for four shares of common stock in exchange for repriced options for three shares of common stock.

The following is a summary of stock option activity and related information (the repriced options are shown as canceled and granted options in the year they were repriced):

(Shares in thousands)	1998 Options	1998 Weighted-average exercise price	1997 Options	1997 Weighted-average exercise price	1996 Options	1996 Weighted-average exercise price
Options:						
Outstanding at beginning of year	17,780	$ 17.07	18,651	$12.17	16,329	$16.77
Granted	6,555	19.84	3,392	34.33	11,245	12.96
Canceled	(2,666)	31.17	(782)	16.05	(7,042)	26.64
Exercised	(1,394)	8.38	(3,481)	8.03	(1,881)	4.07
Outstanding at end of year	20,275	16.71	17,780	17.07	18,651	12.17
Excercisable at end of year	9,697	14.60	8,299	13.28	7,440	9.80
Available for grant at beginning of year	966		3,845		751	
Available for grant at end of year	5,653		966		3,845	

The following table summarizes information about options outstanding at December 27, 1998:

(Shares in thousands) Range of exercise prices	Options outstanding: Number outstanding at 12/27/98	Options outstanding: Weighted-average remaining contractual life (years)	Options outstanding: Weighted-average exercise price	Options exercisable: Number exercisable at 12/27/98	Options exercisable: Weighted-average exercise price
$ 0.01-$11.88	6,228	5.74	$ 9.52	4,703	$ 9.47
12.13- 14.88	5,268	6.68	14.16	3,189	14.11
15.00- 23.38	5,553	9.33	18.84	316	18.30
24.06- 44.00	3,226	7.72	31.05	1,489	31.04
$ 0.01-$44.00	20,275	7.28	16.71	9,697	14.60

STOCK PURCHASE PLAN We have an employee stock purchase plan (ESPP) that allows participating U.S. employees to purchase, through payroll deductions, shares of our common stock at 85 percent of the fair market value at specified dates. At December 27, 1998, 427,361 common shares remained available for issuance under the plan. A summary of stock purchased under the plan is shown below:

(Thousands except employee participants)	1998	1997	1996
Aggregate purchase price	$14,949	$14,470	$13,138
Shares purchased	952	673	1,035
Employee participants	3,037	3,046	2,963

STOCK APPRECIATION RIGHTS We 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 option plans. We 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 option plans, including exercise prices, exercise dates and expiration dates. To date, we have granted only limited SARs, which become exercisable in the event of certain changes in control of AMD.

RESTRICTED STOCK AWARDS We established the 1987 restricted stock award plan under which we were authorized to issue up to two million shares of common stock to employees, subject to terms and conditions determined at the discretion of the Board of Directors. We entered into agreements to issue 15,000 and 320,609 shares in 1997 and 1996, respectively. The 1987 plan expired in 1997. To date, we have canceled agreements covering 269,397 shares without issuance and we have issued 1,714,524 shares pursuant to prior agreements. At December 27, 1998, agreements covering 253,291 shares were outstanding. Outstanding awards vest under varying terms within five years.

In 1998, we adopted the 1998 stock incentive plan under which we are authorized to issue one million shares of common stock to employees who are not covered by Section 16 of the Securities and Exchange Act of 1934, as amended (the Exchange Act), subject to terms and conditions determined at the discretion of the Board of Directors. We did not enter into agreements to issue restricted stock during 1998 under this plan.

SHARES RESERVED FOR ISSUANCE As of December 27, 1998, we had a total of approximately 41,595,138 shares of common stock reserved for issuance related to our Convertible Subordinated Notes, the employee stock option plans, the ESPP and the restricted stock awards.

STOCK-BASED COMPENSATION As permitted under SFAS 123, we have elected to follow APB 25 and related Interpretations in accounting for stock-based awards to employees. Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 123 for awards granted after December 31, 1994, as if we had accounted for our stock-based awards to employees under the fair value method of SFAS 123. We estimated the fair value of our stock-based awards to employees using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including the 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		
	1998	1997	1996	1998	1997	1996
Expected life (years)	3.33	3.35	3.16	0.25	0.25	0.25
Expected stock price volatility	64.34%	54.69%	48.02%	76.09%	68.41%	47.81%
Risk-free interest rate	5.42%	6.21%	6.44%	5.18%	5.37%	5.29%

For pro forma purposes, the estimated fair value of our stock-based awards to employees is amortized over the options' 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)	1998	1997	1996
Net loss - as reported	$(103,960)	$(21,090)	$(68,950)
Net loss - pro forma	(129,721)	(44,304)	(89,451)
Basic and diluted net loss per share - as reported	(0.72)	(0.15)	(0.51)
Basic and diluted net loss per share - pro forma	(0.90)	(0.32)	(0.66)

Because SFAS 123 is applicable only to awards granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until approximately 1999. We granted a total of 4,342,824 stock-based awards during 1998 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 $20.16 and $9.80, respectively. We granted a total of 2,060,591 stock-based awards during 1998 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 $20.44 and $3.51, respectively. We granted a total of 150,990 stock-based awards during 1998 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 $3.36 and $17.88, respectively. We granted a total of 3,172,820 stock-based awards during 1997 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 $36.11 and $16.07, respectively. We granted a total of 234,285 stock-based awards during 1997 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 $8.09 and $23.82, respectively. We granted a total of 10,332,224 options during 1996 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 options were $13.44 and $5.15, respectively. We granted a total of 912,994 options during 1996 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 options were $7.49 and $12.14, respectively.

The weighted-average fair value of stock purchase rights during 1998, 1997 and 1996 was $6.21 per share, $8.42 per share and $4.07 per share, respectively.

Note 11. Other Employee Benefit Plans

Profit Sharing Program We have a profit sharing program to which the Board of Directors has authorized semiannual contributions. Profit sharing contributions were approximately $5 million in 1998 and $4 million in 1997. There were no profit sharing contributions in 1996.

Retirement Savings Plan We have a retirement savings plan, commonly known as a 401(k) plan, that allows participating United States employees to contribute from 1 percent to 15 percent of their pretax salary subject to I.R.S. limits. We make a matching contribution calculated at 50 cents on each dollar of the first 3 percent of participant contributions, to a maximum of 1.5 percent of eligible compensation. Our contributions to the 401(k) plan were approximately $5 million for each of the years 1998, 1997 and 1996.

Note 12. Commitments

We lease certain of our facilities under agreements which expire at various dates through 2018. We also lease certain of our manufacturing and office equipment for terms ranging from one to five years. Rent expense was approximately $54 million, $48 million and $40 million in 1998, 1997 and 1996, 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
1999	$ 45,409	$ 38,251
2000	39,788	32,601
2001	30,005	7,660
2002	26,096	5,059
2003	25,308	5,059
Beyond 2003	230,933	19,934
	$397,539	$ 108,564

The operating lease of our corporate marketing, general and administrative facility expired in December 1998. At the end of the lease term, we were 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, we arranged for the sale of the facility to a third party and leased it back under a new operating lease. We realized a gain of $34 million as a part of this transaction. We have deferred the gain and will amortize 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 annual rent will be adjusted by 200 percent of the cumulative increase in the consumer price index over the prior three-year period.

In addition to the purchase commitments above, we had commitments of approximately $205 million for the construction or acquisition of additional property, plant and equipment at December 27, 1998.

AMD Saxony has constructed and is installing equipment in Dresden Fab 30, a 900,000-square-foot submicron integrated circuit manufacturing and design facility. 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, which were amended in February 1998 to reflect upgrades in wafer production technology as well as the decline in the deutsche mark relative to the U.S. dollar, require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, we have invested $270 million to date in the form of subordinated loans and equity in AMD Saxony, which includes $100 million in subordinated loans in 1998 ($60 million of which was paid after fiscal 1998 but before December 31, 1998). We are required to make additional subordinated loans to, or equity investments in, AMD Saxony totaling $170 million in 1999, $70 million of which must be funded through the sale of at least $200 million of our stock by June 30, 1999.

In addition to support from AMD, the consortium of banks referred to above has made available $989 million in loans (denominated in deutsche marks) to AMD Saxony to help fund Dresden Fab 30 project costs. AMD Saxony had $300 million of such loans outstanding at December 27, 1998.

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

- guarantees of 65 percent of AMD Saxony bank debt up to a maximum amount of $989 million;
- capital investment grants and allowances totaling $289 million; and
- interest subsidies totaling $180 million.

Of these amounts (which are denominated in deutsche marks), AMD Saxony has received $275 million in capital investment grants and $8 million in interest subsidies as of December 27, 1998.

The Dresden Loan Agreements also require that we:

- provide interim funding to AMD Saxony if either the remaining capital investment allowances or the remaining interest subsidies are delayed, 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;
- guarantee a portion of AMD Saxony's obligations under the Dresden Loan Agreements up to a maximum of $130 million (denominated in deutsche marks) until Dresden Fab 30 has been completed;
- fund certain contingent obligations including various obligations to fund project cost overruns, if any; and
- make funds available to AMD Saxony, after completion of Dresden Fab 30, up to approximately $87 million (denominated in deutsche marks) if AMD Saxony does not meet its fixed charge coverage ratio covenant.

Because our obligations under the Dresden Loan Agreements are denominated in deutsche marks, the dollar amounts set forth herein are subject to change based on applicable conversion rates. At the end of the fourth quarter of 1998, the exchange rate was approximately 1.67 deutsche marks to 1 U.S. dollar (which we used to calculate our obligations denominated in deutsche marks).

In December 1995, we signed a five-year, comprehensive cross-license agreement with Intel. The cross-license is royalty-bearing for products that use certain Intel technologies. We are required to pay Intel minimum nonrefundable royalties through 2000.

A license agreement between AMD and the Lemelson Medical, Education & Research Foundation, Limited Partnership was successfully negotiated and signed in the first quarter of 1999, as a result of a previously filed complaint against Vantis, that protects AMD and Vantis from the case being refiled against them.

NOTE 13. INVESTMENT IN JOINT VENTURE

In 1993, we formed a joint venture, FASL, with Fujitsu Limited, for the development and manufacture of non-volatile memory devices. Through FASL, the two companies have constructed and are operating an advanced IC manufacturing facility in Aizu-Wakamatsu, Japan, to produce Flash memory devices. Our share of FASL is 49.992 percent and the investment is being accounted for under the equity method. Our share of FASL net income during 1998 was $12 million, net of income taxes of approximately $11 million. At December 27, 1998, the cumulative adjustment related to the translation of the FASL financial statements into U.S. dollars resulted in a decrease of approximately $25 million to the investment in FASL.

The following table presents the significant FASL related party transactions and balances:

Three Years Ended December 27, 1998 (Thousands)	1998	1997	1996
Royalty income	$ 21,136	$ 19,322	$ 20,832
Purchases	211,640	242,161	233,656

December 27, 1998 and December 28, 1997 (Thousands)	1998	1997
Royalty receivable	$ 6,027	$ 5,614
Accounts payable	39,424	40,002

Pursuant to a cross-equity provision between AMD and Fujitsu Limited, we purchased shares of Fujitsu Limited common stock and own approximately 0.5 million shares at December 27, 1998. Under the same provision, Fujitsu Limited has purchased 4 million shares of our common stock, and is required to purchase an additional 0.5 million shares during 1999, for a total investment not to exceed $100 million.

In the third quarter of 1997, FASL completed construction of the building for a second Flash memory device wafer fabrication facility, FASL II, at a site contiguous to the existing FASL facility in Aizu-Wakamatsu, Japan. Equipment installation is in progress and the facility is expected to cost approximately $1 billion when fully equipped. Capital expenditures for FASL II construction to date have been funded by cash generated from FASL operations and local borrowings by FASL. To the extent that FASL is unable to secure the necessary funds for FASL II, we may be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL. At December 27, 1998, we had loan guarantees of $81 million outstanding with respect to such loans.
The following is condensed financial data of FASL:

Three Years Ended December 27, 1998 (Thousands)	1998	1997	1996
Net sales	$427,140	$423,251	$459,075
Gross profit	25,432	105,691	200,255
Operating income	20,758	94,863	185,825
Net income	13,104	46,000	121,119

December 27, 1998 and December 28, 1997 (Thousands)	1998	1997
Current assets	$118,140	$134,499
Non-current assets	640,040	627,965
Current liabilities	278,309	339,151
Non-current liabilities	1,774	662

Our share of the above FASL net income differs from the equity in net income of joint venture reported on the consolidated statements of operations due to adjustments resulting from the related party relationship between FASL and AMD, which are reflected on our consolidated statements of operations.

Note 14. Contingencies

I. Litigation

A. McDaid v. Sanders, et al.; Kozlowski, et al. v. Sanders, et al. We entered into a Memorandum of Understanding during 1998, which settled this class action lawsuit against us and certain of our current and former officers and directors for $11.5 million. Our Board of Directors approved the settlement on April 30, 1998. The Federal Court approved the settlement on November 2, 1998 and dismissed the case.

B. AMD v. Altera Corporation. This litigation, which began in 1994, involves multiple claims and counterclaims for patent infringement relating to our and Altera Corporation's programmable logic devices. In a trial held in May 1996, a jury found that at least five of the eight AMD patents-in-suit were licensed to Altera. As a result of the bench trial held in August 1997, the Court held that Altera is licensed to the three remaining AMD patents-in-suit. Seven patents were asserted by Altera in its counterclaim against AMD. The court determined that we are licensed to five of the seven patents and two remain in suit. Altera filed a motion to recover attorneys' fees in November 1997. We then filed, and the Court granted, a motion to stay determination of the attorneys' fees motion until resolution of its appeal. We have filed an appeal of the rulings of the jury and Court determinations that Altera is licensed to each of our eight patents-in-suit. Both parties filed briefs and the Federal Court of Appeal heard oral argument on our appeal on November 3, 1998. Based upon information presently known to management, we do not believe that the ultimate resolution of this lawsuit will have a material adverse effect on our financial condition or results of operations.

C. Ellis Investment Co., Ltd v. AMD, et al. This class action complaint was filed against AMD and an individual officer of AMD on March 10, 1999. The complaint alleges that we made misleading statements about the design and production of the AMD-K6 microprocessor in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The plaintiff seeks to represent a class comprised of all persons who purchased our common stock during the period from November 12, 1998 through March 8, 1999. The complaint seeks unspecified damages, cost and fees. Following the filing of this complaint, several law firms published press releases announcing that they had filed, or intend to file, substantially similar class action complaints. As of March 12, 1999, we had not seen or been served with those complaints. Based upon information presently known to management, we do not believe that the ultimate resolution of these lawsuits will have a material adverse effect on our financial condition or results of operations.

II. Environmental Matters

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

In 1991, we received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board, San Francisco Bay Region, relating to the three sites. One of the orders named AMD as well as TRW Microwave, Inc. and Philips Semiconductors Corporation. In January 1999, we entered into a settlement with Philips, whereby Philips will assume costs allocated to AMD under this order, although we would be respon-sible 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.

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

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

We 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 had arranged for disposal of hazardous substances at a site located in Santa Barbara County, California. We believe that this matter

will not have a material adverse effect on our business.

III. Other Matters

We are 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 our financial condition or results of operations.

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 27, 1998 and December 28, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 27, 1998. 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 generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. at December 27, 1998 and December 28, 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 27, 1998, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

San Jose, California
January 12, 1999
except for the third paragraph of Note 14,
as to which the date is
March 12, 1999

1998 and 1997 by Quarter (Unaudited)

(Thousands except per share and market price amounts)	Dec. 27, 1998	Sept. 27, 1998	June 28, 1998	Mar. 29, 1998	Dec. 28, 1997	Sept. 28, 1997	June 29, 1997	Mar. 30, 1997
NET SALES	$ 788,820	$ 685,927	$ 526,538	$ 540,856	$ 613,171	$ 596,644	$594,561	$551,999
Expenses:								
Cost of sales	481,987	422,985	390,140	423,591	428,856	428,240	372,266	349,076
Research and development	156,459	143,665	139,158	128,120	127,031	125,917	110,021	104,908
Marketing, general and administrative	120,498	109,768	101,198	88,214	102,296	100,915	102,983	94,519
	758,944	676,418	630,496	639,925	658,183	655,072	585,270	548,503
Operating income (loss)	29,876	9,509	(103,958)	(99,069)	(45,012)	(58,428)	9,291	3,496
Litigation settlement	-	-	-	(11,500)	-	-	-	-
Interest income and other, net	10,037	10,071	8,518	5,581	6,525	5,532	9,718	13,322
Interest expense	(15,177)	(21,182)	(17,663)	(12,472)	(11,757)	(14,151)	(9,958)	(9,410)
Income (loss) before income taxes and equity in joint venture	24,736	(1,602)	(113,103)	(117,460)	(50,244)	(67,047)	9,051	7,408
Provision (benefit) for income taxes	(136)	(635)	(44,110)	(46,997)	(29,861)	(30,072)	2,630	2,148
Income (loss) before equity in joint venture	24,872	(967)	(68,993)	(70,463)	(20,383)	(36,975)	6,421	5,260
Equity in net income (loss) of joint venture	(2,551)	1,973	4,433	7,736	8,049	5,300	3,547	7,691
NET INCOME (LOSS)	$ 22,321	$ 1,006	$ (64,560)	$ (62,727)	$ (12,334)	$ (31,675)	$ 9,968	$ 12,951
NET INCOME (LOSS) PER SHARe								
Basic	$ 0.15	$ 0.01	$ (0.45)	$ (0.44)	$ (0.09)	$ (0.22)	$ 0.07	$ 0.09
Diluted	$ 0.15	$ 0.01	$ (0.45)	$ (0.44)	$ (0.09)	$ (0.22)	$ 0.07	$ 0.09
Shares used in per share calculation								
Basic	144,926	143,915	143,462	142,503	141,889	141,055	140,255	138,616
Diluted	149,949	146,642	143,462	142,503	141,889	141,055	147,919	146,758
Common stock market price range								
High	$ 32.00	$ 20.94	$ 30.50	$ 25.13	$ 32.75	$ 42.50	$ 45.00	$ 47.38
Low	$ 14.00	$ 13.00	$ 16.88	$ 17.13	$ 17.56	$ 31.25	$ 35.50	$ 25.75

Five Years Ended December 28, 1998 (Thousands except per share amounts)	1998	1997	1996	1995	1994
NET SALES	$2,542,141	$2,356,375	$1,953,019	$2,468,379	$2,155,453
Expenses:					
Cost of sales	1,718,703	1,578,438	1,440,828	1,417,007	1,013,589
Research and development	567,402	467,877	400,703	416,521	295,326
Marketing, general and administrative	419,678	400,713	364,798	412,651	377,503
	2,705,783	2,447,028	2,206,329	2,246,179	1,686,418
Operating income (loss)	(163,642)	(90,653)	(253,310)	222,200	469,035
Litigation settlement	(11,500)	-	-	-	(58,000)
Interest income and other, net	34,207	35,097	59,391	32,465	17,134
Interest expense	(66,494)	(45,276)	(14,837)	(3,059)	(4,410)
Income (loss) before income taxes and equity in joint venture	(207,429)	(100,832)	(208,756)	251,606	423,759
Provision (benefit) for income taxes	(91,878)	(55,155)	(85,008)	70,206	142,232
Income (loss) before equity in joint venture	(115,551)	(45,677)	(123,748)	181,400	281,527
Equity in net income (loss) of joint venture	11,591	24,587	54,798	34,926	(10,585)
NET INCOME (LOSS)	(103,960)	(21,090)	(68,950)	216,326	270,942
Preferred stock dividends	-	-	-	10	10,350
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ (103,960)	$ (21,090)	$ (68,950)	$ 216,316	$ 260,592
NET INCOME (LOSS) PER COMMON SHARE					
Basic	$ (0.72)	$ (0.15)	$ (0.51)	$ 1.69	$ 2.22
Diluted	$ (0.72)	$ (0.15)	$ (0.51)	$ 1.57	$ 2.03
Shares used in per share calculation					
Basic	143,668	140,453	135,126	127,680	117,597
Diluted	143,668	140,453	135,126	137,698	133,674
Long-term debt, capital lease obligations and other, less current portion	$1,372,416	$ 662,689	$ 444,830	$ 214,965	$ 75,752
Total assets	$4,252,968	$3,515,271	$3,145,283	$3,078,467	$2,525,721

AMD's common stock (symbol AMD) is listed on the New York Stock Exchange. The company has never paid cash dividends on common stock and is restricted from doing so. Refer to the notes to consolidated financial statements. The number of stockholders of record at January 29, 1999 was 9,734.

CORPORATE DIRECTORY

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
of Blalack and Company,
Investment Advisors

Dr. R. Gene Brown
Private Investor and Financial
and Management Consultant

Richard Previte
President and Co-Chief Operating
Officer and Member of the
Office of the CEO, AMD

S. Atiq Raza
Co-Chief Operating Officer and
Chief Technical Officer and Member
of the Office of the CEO, AMD

Joe L. Roby
President and Chief Executive Officer,
Donaldson, Lufkin & Jenrette, Inc.

Dr. Leonard M. Silverman
Dean, School of Engineering,
University of Southern California

CORPORATE OFFICERS

W.J. Sanders III
Chief Executive Officer and
Chairman of the Board

Richard Previte
President and
Co-Chief Operating Officer

S. Atiq Raza
Co-Chief Operating Officer and
Chief Technical Officer

Gene Conner
Executive Vice President,
Strategic Relations

Fran Barton
Sr. Vice President,
Chief Financial Officer

Robert R. Herb
Sr. Vice President,
Co-Chief Marketing Executive

Thomas M. McCoy
Sr. Vice President, General
Counsel and Secretary

William Siegle
Sr. Vice President,
Technology Development and
Wafer Fabrication Operations;
Chief Scientist

Stan Winvick
Sr. Vice President,
Human Resources

Stephen Zelencik
Sr. Vice President,
Co-Chief Marketing Executive

GROUP VICE PRESIDENTS

Donald M. Brettner

Group Vice President,
Manufacturing Services Group

Tom Eby
Group Vice President,
Communications Group

Gary O. Heerssen
Group Vice President,
Wafer Fabrication Group

Larry Hollatz
Group Vice President,
Computation Products Group

Walid Maghribi
Group Vice President, Memory Group

Daryl Ostrander
Group Vice President,
Wafer Fabrication Technology Implementation

VICE PRESIDENTS

Benjamin M. Anixter
Vice President, External Affairs

James Ashby
Vice President, Controller

Gary Ashcraft
Vice President and General Manager,
Communication Products Division

Kathryn Brandt
Vice President,
Worldwide Headquarter Sales

Randy Burdick
Vice President,
Chief Information Officer

James Doran
Vice President, Fab 25
and Submicron Development
Center Operations

Gino Giannotti
Vice President, Business Marketing,
Computation Products Group

Richard Heye
Vice President and General Manager,
Texas Microprocessor Division

Mike Johnson
Vice President, Advanced
Research and Development

Dana Krelle
Vice President, Strategic Marketing,
Computation Products Group

Gerald A. Lynch
Vice President, Sales and Marketing,
Asia Pacific - Japan

Robert McConnell
Vice President and General Manager,
Embedded Products Division and
CAD Technology Systems

Amir Mashkoori
Vice President, Operations,
Memory Group

Giuliano Meroni
Vice President, Sales and Marketing, Europe

Laila Razouk
Vice President and General Manager,
Network Products Division

Jack Saltich
Vice President and General Manager,
AMD Saxony Manufacturing GmbH

Craig Sander
Vice President, Technology Development

Dave Sheffler
Vice President, Sales, Americas

Danne Smith
Vice President, Corporate Quality

Michael Van Buskirk
Vice President, Design Engineering,
Non-Volatile Memory Products Division

Jerry Vogel
Vice President and General Manager,
California Microprocessor Division

Michael Woollems
Vice President, Tax and Treasury

EXHIBIT 21

ADVANCED MICRO DEVICES, INC.

LIST OF SUBSIDIARIES

Name of Subsidiary	State or Jurisdiction in Which Incorporated or Organized
Domestic Subsidiaries	
Advanced Micro Ltd.	California
AMD Corporation	California
AMD Far East Ltd.	Delaware
AMD International Sales & Service, Ltd.	Delaware
AMD Texas Properties, LLC.	Delaware
Vantis Corporation	Delaware
Vantis International Limited (1)	Delaware
Foreign Subsidiaries	
Advanced Micro Devices S.A.N.V.	Belgium
AMD Trading Company Limited	Bermuda
AMD South America Limitada (2)	Brazil
Advanced Micro Devices (Canada) Limited	Canada
Advanced Micro Devices (Suzhou) Limited (3)	China
Advanced Micro Devices S.A.	France
Vantis SAS (1)	France
Advanced Micro Devices GmbH	Germany
AMD Saxony Holding GmbH	Germany
AMD Saxony Manufacturing GmbH (4)	Germany
Vantis GmbH	Germany
AMD Foreign Sales Corporation	Guam
Advanced Micro Devices S.p.A.	Italy
Vantis S.r.l. (1)	Italy
AMD Japan Ltd.	Japan
Vantis Japan K.K. (1)	Japan
Advanced Micro Devices Sdn. Bhd.	Malaysia
Advanced Micro Devices Export Sdn. Bhd. (5)	Malaysia
Advanced Micro Devices Services Sdn. Bhd. (6)	Malaysia
AMD (Netherlands) B.V. (7)	Netherlands
Advanced Micro Devices (Singapore) Pte. Ltd.	Singapore
AMD Holdings (Singapore) Pte. Ltd. (8)	Singapore
Advanced Micro Devices AB	Sweden
Advanced Micro Devices S.A. (9)	Switzerland
AMD (Thailand) Limited (7)	Thailand
Advanced Micro Devices (U.K.) Limited	United Kingdom
Vantis (UK) Limited (1)	United Kingdom
Vantis II (UK) Limited (1)	United Kingdom

(1) Subsidiary of Vantis Corporation
(2) Subsidiary of AMD International Sales & Service, Ltd. and AMD Far East Ltd.
(3) Subsidiary of AMD Holdings (Singapore) Pte. Ltd.
(4) Subsidiary of AMD Saxony Holding GmbH
(5) Subsidiary of Advanced Micro Devices Sdn. Bhd.
(6) Subsidiary of AMD Trading Company Limited
(7) Subsidiary of Advanced Micro Devices Export Sdn. Bhd.
(8) Subsidiary of Advanced Micro Devices (Singapore) Pte. Ltd.
(9) Subsidiary of AMD International Sales & Service, Ltd.

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints W. J. Sanders III and Francis P. Barton, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Advanced Micro Devices, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 27, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ W.J. Sanders III W. J. Sanders III	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 11, 1999
/s/ Francis P. Barton Francis P. Barton	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 1999
/s/ Friedrich Baur Friedrich Baur	Director	February 11, 1999
/s/ Charles M. Blalack Charles M. Blalack	Director	February 11, 1999
/s/ R. Gene Brown R. Gene Brown	Director	February 11, 1999
/s/ Richard Previte Richard Previte	Director, President and Co-Chief Operating Officer	February 11, 1999
/s/ S. Atiq Raza S. Atiq Raza	Director, Co-Chief Operating Officer and Chief Technical Officer	February 11, 1999
/s/ Joe L. Roby Joe L. Roby	Director	February 11, 1999
/s/ Leonard Silverman Leonard Silverman	Director	February 11, 1999

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