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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 4, 2015

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 1-10658

**Micron Technology, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**75-1618004**

(IRS Employer Identification No.)

**8000 S. Federal Way, Boise, Idaho**

(Address of principal executive offices)

**83716-9632**

(Zip Code)

Registrant's telephone number, including area code

**(208) 368-4000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of outstanding shares of the registrant's common stock as of July 6, 2015, was 1,083,435,628.

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## Definitions of Commonly Used Terms

As used herein, "we," "our," "us," and similar terms include Micron Technology, Inc. and its subsidiaries, unless the context indicates otherwise. Abbreviations, terms, or acronyms are commonly used or found in multiple locations throughout this report and include the following:

| Term        | Definition                               | Term          | Definition                          |
|-------------|--|---------------|-------------------------------------|
| 2014 Notes  | 1.875% Senior Notes due 2014             | LPDRAM        | Low Power DRAM                      |
| 2023 Notes  | 5.250% Senior Notes due 2023             | MAI           | Micron Akita, Inc.                  |
| 2024 Notes  | 5.250% Senior Notes due 2024             | MMJ           | Micron Memory Japan, Inc.           |
| 2026 Notes  | 5.625% Senior Notes due 2026             | MMJ Companies | MMJ and MAI                         |
| 2027 Notes  | 1.875% Convertible Senior Notes due 2027 | MMJ Group     | MMJ and its Subsidiaries            |
| 2031A Notes | 1.500% Convertible Senior Notes due 2031 | MMT           | Micron Memory Taiwan Co., Ltd.      |
| 2031B Notes | 1.875% Convertible Senior Notes due 2031 | MP Mask       | MP Mask Technology Center, LLC      |
| 2032 Notes  | The 2032C Notes and 2032D Notes          | MTI           | Micron Technology, Inc.             |
| 2032C Notes | 2.375% Convertible Senior Notes due 2032 | Nanya         | Nanya Technology Corporation        |
| 2032D Notes | 3.125% Convertible Senior Notes due 2032 | PSRAM         | Pseudo-Static DRAM                  |
| 2033 Notes  | The 2033E Notes and 2033F Notes          | Photonics     | Photonics, Inc.                     |
| 2033E Notes | 1.625% Convertible Senior Notes due 2033 | Qimonda       | Qimonda AG                          |
| 2033F Notes | 2.125% Convertible Senior Notes due 2033 | Rambus        | Rambus, Inc.                        |
| 2043G Notes | 3.00% Convertible Senior Notes due 2043  | R&D           | Research and Development            |
| DRAM        | Dynamic Random Access Memory             | RLDRAM        | Reduced Latency DRAM                |
| Elpida      | Elpida Memory, Inc.                      | SG&A          | Selling, General and Administration |
| IMFT        | IM Flash Technologies, LLC               | SSD           | Solid-State Drive                   |
| Inotera     | Inotera Memories, Inc.                   | Tera Probe    | Tera Probe, Inc.                    |
| Intel       | Intel Corporation                        | VIE           | Variable Interest Entity            |
| Japan Court | Tokyo District Court                     |               |                                     |

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### MICRON TECHNOLOGY, INC.

#### CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions except per share amounts)

(Unaudited)

|  | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| Net sales  | \$ 3,853        | \$ 3,982        | \$ 12,592         | \$ 12,131       |
| Cost of goods sold   | 2,651           | 2,614           | 8,347             | 8,079           |
| Gross margin   | 1,202           | 1,368           | 4,245             | 4,052           |
| Selling, general and administrative                        | 169             | 174             | 549               | 527             |
| Research and development                                   | 406             | 349             | 1,161             | 1,013           |
| Other operating (income) expense, net                      | (4)             | 6               | (36)              | 253             |
| Operating income   | 631             | 839             | 2,571             | 2,259           |
| Interest income  | 9               | 5               | 24                | 16              |
| Interest expense   | (97)            | (80)            | (270)             | (264)           |
| Other non-operating income (expense), net                  | (16)            | (21)            | (71)              | (223)           |
|  | 527             | 743             | 2,254             | 1,788           |
| Income tax (provision) benefit                             | (104)           | (72)            | (226)             | (215)           |
| Equity in net income of equity method investees            | 68              | 135             | 400               | 355             |
| Net income   | 491             | 806             | 2,428             | 1,928           |
| Net (income) loss attributable to noncontrolling interests | —               | —               | —                 | (33)            |
| Net income attributable to Micron                          | \$ 491          | \$ 806          | \$ 2,428          | \$ 1,895        |
| Earnings per share:  |                 |                 |                   |                 |
| Basic  | \$ 0.46         | \$ 0.76         | \$ 2.26           | \$ 1.79         |
| Diluted  | 0.42            | 0.68            | 2.05              | 1.58            |
| Number of shares used in per share calculations:           |                 |                 |                   |                 |
| Basic  | 1,073           | 1,067           | 1,072             | 1,058           |
| Diluted  | 1,170           | 1,190           | 1,185             | 1,196           |

*See accompanying notes to consolidated financial statements.*

**MICRON TECHNOLOGY, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions)

(Unaudited)

|  | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| Net income   | \$ 491          | \$ 806          | \$ 2,428          | \$ 1,928        |
| Other comprehensive income (loss), net of tax:                       |                 |                 |                   |                 |
| Foreign currency translation adjustments                             | 17              | (13)            | (57)              | (17)            |
| Pension liability adjustments  | 1               | —               | 19                | 2               |
| Gain (loss) on investments, net                                      | (2)             | —               | (3)               | 2               |
| Gain (loss) on derivatives, net                                      | (1)             | (2)             | (19)              | (6)             |
| Other comprehensive income (loss)                                    | 15              | (15)            | (60)              | (19)            |
| Total comprehensive income   | 506             | 791             | 2,368             | 1,909           |
| Comprehensive (income) loss attributable to noncontrolling interests | —               | —               | 1                 | (33)            |
| Comprehensive income attributable to Micron                          | <u>\$ 506</u>   | <u>\$ 791</u>   | <u>\$ 2,369</u>   | <u>\$ 1,876</u> |

*See accompanying notes to consolidated financial statements.*

**MICRON TECHNOLOGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions except par value amounts)  
(Unaudited)

| As of  | June 4,<br>2015 | August 28,<br>2014 |
|--|-----------------|--------------------|
| <b>Assets</b>  |                 |                    |
| Cash and equivalents   | \$ 3,694        | \$ 4,150           |
| Short-term investments   | 1,166           | 384                |
| Receivables  | 2,530           | 2,906              |
| Inventories  | 2,381           | 2,455              |
| Other current assets   | 237             | 350                |
| Total current assets   | 10,008          | 10,245             |
| Long-term marketable investments   | 2,470           | 819                |
| Property, plant and equipment, net   | 9,857           | 8,682              |
| Equity method investments  | 1,324           | 971                |
| Intangible assets, net   | 431             | 468                |
| Deferred tax assets  | 553             | 816                |
| Other noncurrent assets  | 493             | 497                |
| Total assets   | \$ 25,136       | \$ 22,498          |
| <b>Liabilities and equity</b>  |                 |                    |
| Accounts payable and accrued expenses  | \$ 3,204        | \$ 2,864           |
| Deferred income  | 214             | 309                |
| Current debt   | 1,148           | 1,638              |
| Total current liabilities  | 4,566           | 4,811              |
| Long-term debt   | 6,403           | 4,955              |
| Other noncurrent liabilities   | 764             | 1,102              |
| Total liabilities  | 11,733          | 10,868             |
| <b>Commitments and contingencies</b>   |                 |                    |
| Redeemable convertible notes   | 48              | 57                 |
| <b>Micron shareholders' equity:</b>  |                 |                    |
| Common stock, \$0.10 par value, 3,000 shares authorized, 1,083 shares issued and outstanding (1,073 as of August 28, 2014) | 108             | 107                |
| Additional capital   | 7,428           | 7,879              |
| Retained earnings  | 5,117           | 2,729              |
| Treasury stock   | (192)           | —                  |
| Accumulated other comprehensive income (loss)  | (3)             | 56                 |
| Total Micron shareholders' equity  | 12,458          | 10,771             |
| Noncontrolling interests in subsidiaries   | 897             | 802                |
| Total equity   | 13,355          | 11,573             |
| Total liabilities and equity   | \$ 25,136       | \$ 22,498          |

*See accompanying notes to consolidated financial statements.*

**MICRON TECHNOLOGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(Unaudited)

| <b>Nine Months Ended</b>  | <b>June 4,<br/>2015</b> | <b>May 29,<br/>2014</b> |
|---|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>                                       |                         |                         |
| Net income  | \$ 2,428                | \$ 1,928                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                         |
| Depreciation expense and amortization of intangible assets                        | 1,957                   | 1,550                   |
| Amortization of debt discount and other costs                                     | 105                     | 130                     |
| Stock-based compensation  | 127                     | 81                      |
| Loss on restructure of debt   | 48                      | 182                     |
| Equity in net income of equity method investees                                   | (400)                   | (355)                   |
| Change in operating assets and liabilities:                                       |                         |                         |
| Receivables   | 337                     | (330)                   |
| Inventories   | 75                      | 117                     |
| Accounts payable and accrued expenses   | (533)                   | 646                     |
| Other noncurrent liabilities  | (8)                     | 185                     |
| Deferred income taxes, net  | 248                     | 184                     |
| Other   | (206)                   | 34                      |
| Net cash provided by operating activities   | <u>4,178</u>            | <u>4,352</u>            |
| <b>Cash flows from investing activities</b>                                       |                         |                         |
| Purchases of available-for-sale securities  | (3,809)                 | (475)                   |
| Expenditures for property, plant and equipment                                    | (2,256)                 | (1,800)                 |
| Payments to settle hedging activities   | (94)                    | (25)                    |
| Proceeds from sales and maturities of available-for-sale securities               | 1,386                   | 442                     |
| Decrease in restricted cash   | —                       | 559                     |
| Other   | 51                      | 95                      |
| Net cash provided by (used for) investing activities                              | <u>(4,722)</u>          | <u>(1,204)</u>          |
| <b>Cash flows from financing activities</b>                                       |                         |                         |
| Proceeds from issuance of debt  | 2,172                   | 1,062                   |
| Proceeds from sale-leaseback transactions   | 291                     | 14                      |
| Proceeds from issuance of stock under equity plans                                | 64                      | 247                     |
| Repayments of debt  | (2,051)                 | (3,134)                 |
| Cash paid to acquire treasury stock   | (245)                   | (75)                    |
| Other   | (16)                    | (67)                    |
| Net cash provided by (used for) financing activities                              | <u>215</u>              | <u>(1,953)</u>          |
| Effect of changes in currency exchange rates on cash and equivalents              | (127)                   | (13)                    |
| Net increase (decrease) in cash and equivalents                                   | (456)                   | 1,182                   |
| Cash and equivalents at beginning of period                                       | 4,150                   | 2,880                   |
| Cash and equivalents at end of period   | <u>\$ 3,694</u>         | <u>\$ 4,062</u>         |
| <b>Noncash investing and financing activities</b>                                 |                         |                         |
| Exchange of convertible notes   | \$ —                    | \$ 756                  |
| Acquisition of noncontrolling interest  | —                       | 127                     |

*See accompanying notes to consolidated financial statements.*

## MICRON TECHNOLOGY, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts in millions except per share amounts)

(Unaudited)

#### Business and Basis of Presentation

Micron Technology, Inc., including its consolidated subsidiaries, is a global leader in advanced semiconductor systems. Our broad portfolio of high-performance memory technologies, including DRAM, NAND Flash, and NOR Flash, is the basis for solid state drives, modules, multichip packages, and other system solutions. Our memory solutions enable the world's most innovative computing, consumer, enterprise storage, networking, mobile, embedded, and automotive applications. The accompanying financial statements include the accounts of MTI and its consolidated subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended August 28, 2014. In the opinion of our management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, consisting of a normal recurring nature, to fairly state the financial information set forth herein.

Certain reclassifications have been made to prior period amounts to conform to current period presentation. In addition, amounts for certain equipment purchases were reclassified from financing to investing within the statement of cash flows to better reflect the current nature of these transactions and to improve comparability with our industry peers.

Our fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. Fiscal year 2015 contains 53 weeks and the third quarter and first nine months of 2015, which ended on June 4, 2015, contained 13 weeks and 40 weeks, respectively. Fiscal year 2014 contained 52 weeks and the third quarter and first nine months of 2014, which ended on May 29, 2014, contained 13 weeks and 39 weeks, respectively. All period references are to our fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended August 28, 2014.

#### Variable Interest Entities

We have interests in entities that are VIEs. If we are the primary beneficiary of a VIE, we are required to consolidate it. To determine if we are the primary beneficiary, we evaluate whether we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our evaluation includes identification of significant activities and an assessment of our ability to direct those activities based on governance provisions and arrangements to provide or receive product and process technology, product supply, operations services, equity funding, financing, and other applicable agreements and circumstances. Our assessments of whether we are the primary beneficiary of our VIEs require significant assumptions and judgments.

#### Unconsolidated VIEs

**Inotera:** Inotera is a VIE because its equity is not sufficient to permit it to finance its activities without additional support from its shareholders and because of the terms of its supply agreement with us. We have determined that we do not have the power to direct the activities of Inotera that most significantly impact its economic performance, primarily due to limitations on our governance rights that require the consent of other parties for key operating decisions and due to Inotera's dependence on Nanya for financing and the ability of Inotera to operate in Taiwan. Therefore, we do not consolidate Inotera and we account for our interest under the equity method. (See "Equity Method Investments – Inotera" note.)

**EQUVO:** EQUVO HK Limited ("EQUVO") is a special purpose entity created to facilitate an equipment sale-leaseback financing transaction between us and a consortium of financial institutions. Neither we nor the financing entities have an equity interest in EQUVO. EQUVO is a VIE because its equity is not sufficient to permit it to finance its activities without additional support from the financing entities and because the third-party equity holder lacks characteristics of a controlling financial interest. By design, the arrangement with EQUVO is merely a financing vehicle and we do not bear any significant risks from variable interests with EQUVO. Therefore, we have determined that we do not have the power to direct the activities of EQUVO that most significantly impact its economic performance and we do not consolidate EQUVO.

**SC Hiroshima Energy Corporation:** SC Hiroshima Energy Corporation ("SCHE") is an entity created to construct and operate a cogeneration, electrical power plant to support our wafer manufacturing facility in Hiroshima, Japan. SCHE is a VIE due to the nature of its tolling agreements with us and our purchase and call options for SCHE's assets. We do not have an equity ownership interest in SCHE. We do not control the operation and maintenance of the plant, which we have determined are the activities of SCHE that most significantly impact its economic performance. Therefore, we do not consolidate SCHE.

#### **Consolidated VIEs**

**IMFT:** IMFT is a VIE because all of its costs are passed to us and its other member, Intel, through product purchase agreements and because IMFT is dependent upon us or Intel for additional cash requirements. The primary activities of IMFT are driven by the constant introduction of product and process technology. Because we perform a significant majority of the technology development, we have the power to direct its key activities. In addition, IMFT manufactures certain products exclusively for us using our technology. We consolidate IMFT because we have the power to direct the activities of IMFT that most significantly impact its economic performance and because we have the obligation to absorb losses and the right to receive benefits from IMFT that could potentially be significant to it.

**MP Mask:** MP Mask is a VIE because substantially all of its costs are passed to us and its other member, Photronics, through product purchase agreements and MP Mask is dependent upon us or Photronics for any additional cash requirements. We have tie-breaking voting rights over key operating decisions and nearly all key MP Mask activities are driven by our supply needs. We consolidate MP Mask because we have the power to direct the activities of MP Mask that most significantly impact its economic performance and because we have the obligation to absorb losses and the right to receive benefits from MP Mask that could potentially be significant to it.

(See "Equity – Noncontrolling Interests in Subsidiaries" note.)

#### **Recently Issued Accounting Standards**

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05 – *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides additional guidance to customers about whether a cloud computing arrangement includes a software license. Under ASU 2015-05, if a software cloud computing arrangement contains a software license, customers should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, customers should account for the arrangement as a service contract. ASU 2015-05 also removes the requirement to analogize to ASC 840-10 – *Leases* to determine the asset acquired in a software licensing arrangement. This ASU will be effective for us beginning in our first quarter of 2017 and early adoption is permitted. We are evaluating the effects of the adoption of this ASU on our financial statements.

In April 2015, the FASB issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and will be effective for us beginning in our first quarter of 2017. Early adoption is permitted. We do not expect this adoption to have a material impact on our financial statements.

In February 2015, the FASB issued ASU 2015-02 – *Amendments to the Consolidation Analysis*, which amends the consolidation requirements in Accounting Standards Codification 810 – *Consolidation*. ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs, which could change consolidation conclusions. This ASU will be effective for us beginning in our first quarter of 2017 and early adoption is permitted. We are evaluating the effects of the adoption of this ASU on our financial statements.



In May 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under generally accepted accounting principles in the U.S. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for us in our first quarter of 2018. Early adoption is not permitted. This ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transition method we will elect and the effects of the adoption of this ASU on our financial statements.

## Cash and Investments

Cash and the fair values of our available-for-sale investments, which approximated amortized costs, were as follows:

|                              | June 4, 2015         |                        |   |                  | August 28, 2014      |                        |   |                  |
|------------------------------|----------------------|------------------------|---|------------------|----------------------|------------------------|---|------------------|
|                              | Cash and Equivalents | Short-term Investments | Long-term Marketable Investments <sup>(3)</sup> | Total Fair Value | Cash and Equivalents | Short-term Investments | Long-term Marketable Investments <sup>(3)</sup> | Total Fair Value |
| Cash                         | \$ 1,727             | \$ —                   | \$ —  | \$ 1,727         | \$ 2,445             | \$ —                   | \$ —  | \$ 2,445         |
| Level 1 <sup>(1)</sup>       |                      |                        |   |                  |                      |                        |   |                  |
| Money market funds           | 1,371                | —                      | —   | 1,371            | 1,281                | —                      | —   | 1,281            |
| Marketable equity securities | —                    | —                      | —   | —                | —                    | —                      | 1   | 1                |
|                              | 1,371                | —                      | —   | 1,371            | 1,281                | —                      | 1   | 1,282            |
| Level 2 <sup>(2)</sup>       |                      |                        |   |                  |                      |                        |   |                  |
| Corporate bonds              | 9                    | 558                    | 1,350   | 1,917            | —                    | 154                    | 407   | 561              |
| Government securities        | 192                  | 160                    | 435   | 787              | —                    | 136                    | 284   | 420              |
| Asset-backed securities      | —                    | 5                      | 651   | 656              | —                    | 1                      | 127   | 128              |
| Commercial paper             | 184                  | 397                    | —   | 581              | 22                   | 85                     | —   | 107              |
| Certificates of deposit      | 211                  | 46                     | 34  | 291              | 402                  | 8                      | —   | 410              |
|                              | 596                  | 1,166                  | 2,470   | 4,232            | 424                  | 384                    | 818   | 1,626            |
|                              | \$ 3,694             | \$ 1,166               | \$ 2,470  | \$ 7,330         | \$ 4,150             | \$ 384                 | \$ 819  | \$ 5,353         |

<sup>(1)</sup> The fair value of Level 1 securities is measured based on quoted prices in active markets for identical assets.

<sup>(2)</sup> The fair value of Level 2 securities is measured using information obtained from pricing services, which obtain quoted market prices for similar instruments, non-binding market consensus prices that are corroborated by observable market data, or various other methodologies, to determine the appropriate value at the measurement date. We perform supplemental analysis to validate information obtained from these pricing services. As of June 4, 2015, no adjustments were made to such pricing information.

<sup>(3)</sup> The maturities of our long-term marketable securities generally range from one to four years.

Proceeds from the sales of available-for-sale securities were \$562 million and \$938 million for the third quarter and first nine months of 2015, respectively, and \$78 million and \$301 million for the third quarter and first nine months of 2014, respectively. Gross realized gains and losses for the third quarter and first nine months of 2015 and 2014 were not significant. As of June 4, 2015, none of our available-for-sale securities had been in a loss position for longer than 12 months.

## Receivables

|                        | June 4,<br>2015 | August 28,<br>2014 |
|------------------------|-----------------|--------------------|
| Trade receivables, net | \$ 2,261        | \$ 2,524           |
| Income and other taxes | 81              | 104                |
| Other                  | 188             | 278                |
|                        | <u>\$ 2,530</u> | <u>\$ 2,906</u>    |

As of June 4, 2015 and August 28, 2014, other receivables included \$64 million and \$70 million, respectively, due from Intel for amounts related to product design and process development activities under cost-sharing agreements for NAND Flash and certain emerging memory technologies. (See "Equity – Noncontrolling Interests in Subsidiaries – IMFT" note.)

## Inventories

|                            | June 4,<br>2015 | August 28,<br>2014 |
|----------------------------|-----------------|--------------------|
| Finished goods             | \$ 774          | \$ 898             |
| Work in process            | 1,364           | 1,372              |
| Raw materials and supplies | 243             | 185                |
|                            | <u>\$ 2,381</u> | <u>\$ 2,455</u>    |

## Property, Plant and Equipment

|   | August 28, 2014 | Additions       | Retirements and<br>Other | June 4,<br>2015 |
|---|-----------------|-----------------|--------------------------|-----------------|
| Land                                    | \$ 86           | \$ 2            | \$ —                     | \$ 88           |
| Buildings                               | 5,093           | 174             | (2)                      | 5,265           |
| Equipment <sup>(1)</sup>                | 17,781          | 2,718           | (445)                    | 20,054          |
| Construction in progress <sup>(2)</sup> | 114             | 136             | (1)                      | 249             |
| Software                                | 358             | 23              | (23)                     | 358             |
|   | <u>23,432</u>   | <u>3,053</u>    | <u>(471)</u>             | <u>26,014</u>   |
| Accumulated depreciation                | (14,750)        | (1,868)         | 461                      | (16,157)        |
|   | <u>\$ 8,682</u> | <u>\$ 1,185</u> | <u>\$ (10)</u>           | <u>\$ 9,857</u> |

<sup>(1)</sup> Included costs related to equipment not placed into service of \$1.07 billion and \$826 million, as of June 4, 2015 and August 28, 2014, respectively.

<sup>(2)</sup> Included building-related construction and tool installation costs on assets not placed into service.

Depreciation expense was \$644 million and \$1.87 billion for the third quarter and first nine months of 2015, respectively, and \$508 million and \$1.46 billion for the third quarter and first nine months of 2014, respectively.

## Equity Method Investments

|                        | June 4, 2015       |                      | August 28, 2014    |                      |
|------------------------|--------------------|----------------------|--------------------|----------------------|
|                        | Investment Balance | Ownership Percentage | Investment Balance | Ownership Percentage |
| Inotera <sup>(1)</sup> | \$ 1,273           | 33%                  | \$ 914             | 33%                  |
| Tera Probe             | 35                 | 40%                  | 48                 | 40%                  |
| Other                  | 16                 | Various              | 9                  | Various              |
|                        | <u>\$ 1,324</u>    |                      | <u>\$ 971</u>      |                      |

<sup>(1)</sup> Entity is a variable interest entity.

As of June 4, 2015, substantially all of our maximum exposure to loss from our VIEs that were not consolidated was the \$1.27 billion carrying value of our investment in Inotera. We may also incur losses in connection with our rights and obligations to purchase all of Inotera's wafer production capacity under our supply agreements with Inotera.

We recognize our share of earnings or losses from our equity method investees generally on a two-month lag. Included in our share of earnings for the first nine months of 2015 was \$65 million related to Inotera's full release of its valuation allowance against net deferred tax assets related to its net operating loss carryforward. Equity in net income of equity method investees, net of tax, included the following:

|            | Quarter Ended |               | Nine Months Ended |               |
|------------|---------------|---------------|-------------------|---------------|
|            | June 4, 2015  | May 29, 2014  | June 4, 2015      | May 29, 2014  |
| Inotera    | \$ 67         | \$ 134        | \$ 402            | \$ 349        |
| Tera Probe | 3             | 2             | (3)               | 8             |
| Other      | (2)           | (1)           | 1                 | (2)           |
|            | <u>\$ 68</u>  | <u>\$ 135</u> | <u>\$ 400</u>     | <u>\$ 355</u> |

### Inotera

We have partnered with Nanya in Inotera, a Taiwan DRAM memory company, since 2009. As of June 4, 2015, we held a 33% ownership interest in Inotera, Nanya and certain of its affiliates held a 33% ownership interest, and the remaining ownership interest in Inotera was publicly held.

As of June 4, 2015, the market value of our equity interest in Inotera was \$2.26 billion based on the closing trading price in an active market of 32.40 New Taiwan dollars per share. As of June 4, 2015 and August 28, 2014, there were losses of \$2 million and gains of \$44 million, respectively, in accumulated other comprehensive income for cumulative translation adjustments from our equity investment in Inotera.

Since January 2013, we have purchased all of Inotera's DRAM output at prices reflecting discounts from market prices for our comparable components under a supply agreement (the "2013 Supply Agreement"). In the second quarter of 2015, we executed a supply agreement, to be effective beginning on January 1, 2016 (the "2016 Supply Agreement"), which will replace the 2013 Supply Agreement. Under the 2016 Supply Agreement, the price for DRAM products sold to us will be based on a formula that equally shares margin between Inotera and us. The 2016 Supply Agreement has an initial two-year term, followed by a three-year wind-down period, and contemplates negotiations in late 2016 with respect to a two-year extension, and annual negotiations thereafter with respect to successive one-year extensions. Upon termination of the initial two-year term of the 2016 Supply Agreement, or any extensions, we would purchase DRAM from Inotera during the wind-down period. Our share of Inotera's capacity would decline over the wind-down period. In the first nine months of 2015 and in 2014, our cost of products purchased from Inotera was significantly higher than our cost of similar products manufactured in our wholly-owned facilities. We purchased \$533 million and \$1.89 billion of DRAM products from Inotera in the third quarter and first nine months of 2015, respectively, and \$700 million and \$2.00 billion in the third quarter and first nine months of 2014, respectively.

## **Tera Probe**

In 2013, we acquired a 40% interest in Tera Probe, which provides semiconductor wafer testing and probe services to us and others. As of June 4, 2015, the market value of our equity interest in Tera Probe was \$45 million based on the closing trading price in an active market of 1,528 yen per share. During the first quarter of 2015, we recorded an impairment charge of \$10 million within equity in net income of equity method investees to write down the carrying value of our investment in Tera Probe to its fair value, based on its trading price (Level 1 fair value measurement). As of June 4, 2015, the difference between our investment balance and our proportionate share of underlying equity in Tera Probe was \$29 million and is accreted as income to our earnings through equity in net income of equity method investees over a weighted-average period of seven years. We incurred manufacturing costs for services performed by Tera Probe of \$19 million and \$66 million for the third quarter and first nine months of 2015, respectively, and \$24 million and \$88 million for the third quarter and first nine months of 2014, respectively.

## **Intangible Assets**

|                                | <b>June 4, 2015</b> |                                 | <b>August 28, 2014</b> |                                 |
|--------------------------------|---------------------|---------------------------------|------------------------|---------------------------------|
|                                | <b>Gross Amount</b> | <b>Accumulated Amortization</b> | <b>Gross Amount</b>    | <b>Accumulated Amortization</b> |
| Product and process technology | \$ 834              | \$ (404)                        | \$ 809                 | \$ (341)                        |
| Other                          | 2                   | (1)                             | 1                      | (1)                             |
|                                | <u>\$ 836</u>       | <u>\$ (405)</u>                 | <u>\$ 810</u>          | <u>\$ (342)</u>                 |

During the first nine months of 2015 and 2014, we capitalized \$51 million and \$29 million, respectively, for product and process technology with weighted-average useful lives of seven years and ten years, respectively. Amortization expense was \$29 million and \$89 million for the third quarter and first nine months of 2015, respectively, and \$34 million and \$88 million for the third quarter and first nine months of 2014, respectively. Annual amortization expense is estimated to be \$117 million for 2015, \$107 million for 2016, \$95 million for 2017, \$83 million for 2018 and \$35 million for 2019.

## **Accounts Payable and Accrued Expenses**

|  | <b>June 4, 2015</b> | <b>August 28, 2014</b> |
|--|---------------------|------------------------|
| Accounts payable                       | \$ 1,000            | \$ 996                 |
| Property, plant and equipment payables | 1,018               | 289                    |
| Related party payables                 | 387                 | 673                    |
| Salaries, wages and benefits           | 340                 | 456                    |
| Income and other taxes                 | 82                  | 71                     |
| Customer advances                      | 79                  | 98                     |
| Other                                  | 298                 | 281                    |
|  | <u>\$ 3,204</u>     | <u>\$ 2,864</u>        |

As of June 4, 2015 and August 28, 2014, related party payables included \$378 million and \$660 million, respectively, due to Inotera primarily for the purchase of DRAM products. As of June 4, 2015 and August 28, 2014, related party payables also included \$9 million and \$13 million, respectively, due to Tera Probe for testing and probe services performed. (See "Equity Method Investments" note.)

As of June 4, 2015 and August 28, 2014, customer advances included \$60 million and \$90 million, respectively, for amounts received from a customer in 2014 under a DRAM supply agreement to be applied to purchases at market pricing through September 2016. As of August 28, 2014, other noncurrent liabilities included \$90 million from this DRAM supply agreement.

## Debt

| Instrument <sup>(1)</sup>                     | Stated Rate | Effective Rate | June 4, 2015    |                 |                 | August 28, 2014 |                 |                 |
|---|-------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   |             |                | Current         | Long-Term       | Total           | Current         | Long-Term       | Total           |
| Capital lease obligations <sup>(2)</sup>      | N/A         | N/A            | \$ 325          | \$ 530          | \$ 855          | \$ 323          | \$ 588          | \$ 911          |
| MMJ creditor installment payments             | N/A         | 6.25%          | 154             | 669             | 823             | 192             | 939             | 1,131           |
| 1.258% senior notes                           | 1.258%      | 1.97%          | 92              | 278             | 370             | 92              | 324             | 416             |
| 2022 senior notes                             | 5.875%      | 6.14%          | —               | 600             | 600             | —               | 600             | 600             |
| 2023 senior notes                             | 5.250%      | 5.43%          | —               | 1,000           | 1,000           | —               | —               | —               |
| 2024 senior notes                             | 5.250%      | 5.38%          | —               | 550             | 550             | —               | —               | —               |
| 2025 senior notes                             | 5.500%      | 5.56%          | —               | 1,150           | 1,150           | —               | 1,150           | 1,150           |
| 2026 senior notes                             | 5.625%      | 5.73%          | —               | 450             | 450             | —               | —               | —               |
| 2031B convertible senior notes                | 1.875%      | 6.98%          | —               | —               | —               | 362             | —               | 362             |
| 2032C convertible senior notes <sup>(3)</sup> | 2.375%      | 5.95%          | —               | 198             | 198             | —               | 314             | 314             |
| 2032D convertible senior notes <sup>(3)</sup> | 3.125%      | 6.33%          | —               | 151             | 151             | —               | 288             | 288             |
| 2033E convertible senior notes <sup>(3)</sup> | 1.625%      | 4.50%          | 276             | —               | 276             | 278             | —               | 278             |
| 2033F convertible senior notes <sup>(3)</sup> | 2.125%      | 4.93%          | 270             | —               | 270             | 265             | —               | 265             |
| 2043G convertible senior notes                | 3.000%      | 6.76%          | —               | 646             | 646             | —               | 636             | 636             |
| Other notes payable                           | 2.241%      | 2.40%          | 31              | 181             | 212             | 126             | 116             | 242             |
|   |             |                | <u>\$ 1,148</u> | <u>\$ 6,403</u> | <u>\$ 7,551</u> | <u>\$ 1,638</u> | <u>\$ 4,955</u> | <u>\$ 6,593</u> |

<sup>(1)</sup> We have either the obligation or the option to pay cash for the principal amount due upon conversion for all of our convertible notes. Since it is our current intent to settle in cash the principal amount of all of our convertible notes upon conversion, the dilutive effect of such notes on earnings per share is computed under the treasury stock method.

<sup>(2)</sup> Weighted-average imputed rate of 3.8% and 4.3% as of June 4, 2015 and August 28, 2014, respectively.

<sup>(3)</sup> Since the closing price of our common stock for at least 20 trading days in the 30 trading day period ending on March 31, 2015 exceeded 130% of the conversion price per share, holders had the right to convert their notes at any time during the calendar quarter ended June 30, 2015. The closing price of our common stock also exceeded the thresholds for the calendar quarter ended June 30, 2015; therefore, these notes are convertible by the holders through September 30, 2015. The 2033 Notes are classified as current because the terms of these notes require us to pay cash for the principal amount of any converted notes.

## 2015 Debt Activity

In the first nine months of 2015, we consummated a number of transactions with respect to our debt, including conversions and settlements, repurchases, the issuances of non-convertible senior notes, and the early repayment of a note. As a result, we recognized losses of \$18 million and \$48 million in the third quarter and first nine months of 2015, respectively. The following table presents the effect of each of the actions in the first nine months of 2015:

|                              | Increase<br>(Decrease) in<br>Principal | Increase<br>(Decrease) in<br>Carrying Value | Increase (Decrease)<br>in Cash | (Decrease) in<br>Equity | (Loss) Gain <sup>(1)</sup> |
|------------------------------|--|---|--------------------------------|-------------------------|----------------------------|
| Conversions and settlements: |  |   |                                |                         |                            |
| 2031B Notes                  | \$ (114)                               | \$ (362)                                    | \$ (389)                       | \$ —                    | \$ (24)                    |
| 2033E Notes                  | (7)                                    | (7)   | (19)                           | (15)                    | 2                          |
|                              | <u>(121)</u>                           | <u>(369)</u>                                | <u>(408)</u>                   | <u>(15)</u>             | <u>(22)</u>                |
| Repurchases:                 |  |   |                                |                         |                            |
| 2032C Notes                  | (139)                                  | (122)                                       | (415)                          | (283)                   | (10)                       |
| 2032D Notes                  | (166)                                  | (141)                                       | (492)                          | (341)                   | (11)                       |
|                              | <u>(305)</u>                           | <u>(263)</u>                                | <u>(907)</u>                   | <u>(624)</u>            | <u>(21)</u>                |
| Issuances:                   |  |   |                                |                         |                            |
| 2023 Notes                   | 1,000                                  | 1,000                                       | 988                            | —                       | —                          |
| 2024 Notes                   | 550                                    | 550   | 545                            | —                       | —                          |
| 2026 Notes                   | 450                                    | 450   | 446                            | —                       | —                          |
|                              | <u>2,000</u>                           | <u>2,000</u>                                | <u>1,979</u>                   | <u>—</u>                | <u>—</u>                   |
| Early repayment of note      | (121)                                  | (120)                                       | (122)                          | —                       | (5)                        |
|                              | <u>\$ 1,453</u>                        | <u>\$ 1,248</u>                             | <u>\$ 542</u>                  | <u>\$ (639)</u>         | <u>\$ (48)</u>             |

<sup>(1)</sup> Included in other non-operating expense.

**Conversions and Settlements:** During the first nine months of 2015, we had the following debt conversions and settlements:

**2031B Notes** – On July 23, 2014, we called for the redemption of our remaining 2031B Notes effective on August 22, 2014. Prior to such effective date, substantially all of the holders of our 2031B Notes exercised their option to convert their notes and, in each case, we elected to settle the amount due upon conversion entirely in cash.

**2033E Notes** – During the first nine months of 2015, holders converted a portion of our 2033E Notes, and we elected to settle the amounts due upon conversion entirely in cash.

As a result of our elections to settle the amounts due upon conversion in cash, each of the settlement obligations became derivative debt liabilities subject to mark-to-market accounting treatment. Under the terms of the indentures for the above notes, cash settlement amounts for these derivative debt liabilities were determined based on the shares underlying the converted notes multiplied by the volume-weighted-average price of our common stock over a period of 20 consecutive trading days. Therefore, at the dates of our election to settle the conversion in cash, we reclassified the fair values of the equity components of each of the converted notes from additional capital to derivative debt liabilities within current debt in our consolidated balance sheet.

**Repurchases:** During the first nine months of 2015, we repurchased portions of our 2032C Notes and 2032D Notes. The liability and equity components of the repurchased notes had previously been stated separately within debt and additional capital in our consolidated balance sheet. As a result, our accounting for the repurchased notes affected debt and equity.

**Issuance:** On April 30, 2015, we issued \$550 million in principal amount of 2024 Notes due January 2024 and \$450 million in principal amount of 2026 Notes due January 2026. On February 3, 2015, we issued \$1.00 billion in principal amount of 2023 Notes due August 2023. Issuance costs for these notes totaled \$21 million.

These notes contain covenants that, among other things, limit, in certain circumstances, our ability and/or the ability of our domestic restricted subsidiaries (which are generally subsidiaries in the U.S. in which we own at least 80% of the voting stock) to (1) create or incur certain liens and enter into sale and lease-back transactions, (2) create, assume, incur, or guarantee certain additional secured indebtedness and unsecured indebtedness of certain of our domestic restricted subsidiaries, and (3) consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our assets, to another entity. These covenants are subject to a number of limitations, exceptions, and qualifications.

**Cash Redemption at Our Option:** We have the option to redeem these notes; however, the applicable redemption price will be determined as follows:

|            | Redemption Period Requiring Payment of: |                          | Redemption Up To 35% Using Cash Proceeds From An Equity Offering <sup>(3)</sup> : |                 |
|------------|---|--------------------------|---|-----------------|
|            | Make-Whole <sup>(1)</sup>               | Premium <sup>(2)</sup>   | Date  | Specified Price |
| 2023 Notes | Prior to Feb. 1, 2018                   | On or after Feb. 1, 2018 | Prior to Feb. 1, 2018   | 105.250%        |
| 2024 Notes | Prior to May 1, 2018                    | On or after May 1, 2018  | Prior to May 1, 2018  | 105.250%        |
| 2026 Notes | Prior to May 1, 2020                    | On or after May 1, 2020  | Prior to May 1, 2018  | 105.625%        |

- <sup>(1)</sup> If we redeem prior to the applicable date, the price is principal plus a make-whole premium equal to the present value of the remaining scheduled interest payments as described in the applicable indenture, together with accrued and unpaid interest.
- <sup>(2)</sup> If we redeem on or after the applicable date, the price is principal plus a premium which declines over time as specified in the applicable indenture, together with accrued and unpaid interest.
- <sup>(3)</sup> If we redeem prior to the applicable date with net cash proceeds of one or more equity offerings, the price is equal to the amount specified above, together with accrued and unpaid interest, subject to a maximum redemption of 35% of the aggregate principal amount of the respective note being redeemed.

**Early Repayment of Note:** On October 17, 2014, we repaid a note prior to its scheduled maturity.

#### **2014 Debt Activity**

Throughout 2014, we reduced the dilutive effects of our convertible notes by exchanging portions of these notes with less-dilutive convertible notes, or by converting or repurchasing portions of these notes using cash generated from operations and proceeds from issuing non-convertible debt. In the first nine months of 2014, we incurred losses related to these activities as follows:

- \$49 million (which included \$38 million in non-operating expense and \$11 million of interest expense from the payment of a make-whole premium) from the exchange of an aggregate principal amount of \$440 million of 2027 Notes, 2031A Notes, and 2031B Notes into 2043G Notes;
- \$121 million (which included \$115 million in non-operating expense and \$6 million of interest expense from the payment of a make-whole premium) from the conversion of \$770 million of aggregate principal amount of 2014 Notes, 2027 Notes, and 2031A Notes; and
- \$18 million in non-operating expense from the cash repurchase of \$263 million of aggregate principal amount of 2031B Notes, 2032C Notes, and 2032D Notes.

### Convertible Notes With Debt and Equity Components

As of June 4, 2015, the trading price of our common stock was higher than the conversion prices of our 2032 Notes and our 2033 Notes. As a result, the conversion values were in excess of principal amounts for such notes. The following table summarizes our convertible notes outstanding as of June 4, 2015:

|                            | <u>Holder Put Date<sup>(1)</sup></u> | <u>Outstanding Principal</u> | <u>Underlying Shares</u> | <u>Conversion Price Per Share</u> | <u>Conversion Price Per Share Threshold<sup>(2)</sup></u> | <u>Conversion Value in Excess of Principal<sup>(3)</sup></u> |
|----------------------------|--------------------------------------|------------------------------|--------------------------|-----------------------------------|---|--|
| 2032C Notes                | May 2019                             | \$ 224                       | 23                       | \$ 9.63                           | \$ 12.52  | \$ 403   |
| 2032D Notes                | May 2021                             | 177                          | 18                       | 9.98                              | 12.97   | 302  |
| 2033E Notes                | February 2018                        | 293                          | 27                       | 10.93                             | 14.21   | 430  |
| 2033F Notes                | February 2020                        | 300                          | 27                       | 10.93                             | 14.21   | 441  |
| 2043G Notes <sup>(4)</sup> | November 2028                        | 1,025                        | 35                       | 29.16                             | 37.91   | —  |
|                            |                                      | <u>\$ 2,019</u>              | <u>130</u>               |                                   |   | <u>\$ 1,576</u>  |

<sup>(1)</sup> The terms of our convertible notes give holders the right to require us to repurchase all or a portion of their notes at a date prior to the contractual maturities of the notes.

<sup>(2)</sup> Holders have the right to convert all or a portion of their notes at a date prior to the contractual maturity if, during any calendar quarter, the closing price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the conversion price. The closing price of our common stock exceeded the thresholds for the calendar quarter ended June 30, 2015 for our 2032 Notes and 2033 Notes; therefore, those notes are convertible by the holders through September 30, 2015.

<sup>(3)</sup> Based on our closing share price of \$26.99 as of June 4, 2015.

<sup>(4)</sup> The original principal amount of \$820 million accretes up to \$917 million at the holder put date in November 2028 and \$1.03 billion at maturity in 2043.

We amortize any initial debt discount or imputed interest over the period from issuance of the notes through the earliest date that holders can require us to repurchase all or a portion of their notes (see "Holder Put Date" in the table above). As a result, the period of amortization can be significantly shorter than the contractual maturity.

### Capital Lease Obligations

In the third quarter of 2015, we recorded a capital lease obligation of \$37 million, which related to an equipment sale-leaseback transaction, at a weighted-average effective interest rate of 2.8%, payable in periodic installments through May 2019. In the first nine months of 2015, we recorded capital lease obligations aggregating \$324 million, including \$291 million related to equipment sale-leaseback transactions, at a weighted-average effective interest rate of 3.2%, payable in periodic installments through May 2019.

### Other Notes Payable

On March 13, 2015, we borrowed \$47 million under a two-year note, collateralized by certain property, plant, and equipment. The note is payable in equal quarterly installments, plus interest at a variable rate equal to the 90-day Taipei Interbank Offered Rate ("TAIBOR") plus 1.65% per annum.



## Available Facilities

**Revolving Credit Facilities:** On February 12, 2015, we terminated our unused \$255 million senior secured three-year revolving credit facility and entered into a senior secured five-year revolving credit facility. Under this credit facility, we can draw up to the lesser of \$750 million or 80% of the net outstanding balance of certain trade receivables, as defined in the facility agreement. Any amounts drawn are collateralized by a security interest in such trade receivables. The revolving credit facility contains customary covenants and conditions, including as a funding condition the absence of any event or circumstance that has a material adverse effect on certain of our operations, assets, prospects, business, or condition, and including negative covenants that limit or restrict our ability to create liens on, or dispose of, the collateral securing the obligations under this facility. Interest is payable on any outstanding principal balance at a variable rate equal to the London Interbank Offered Rate ("LIBOR") plus an applicable margin ranging between 1.75% to 2.25%, depending upon the utilized portion of the facility. On April 16, 2015, we drew \$75 million under this facility at an interest rate equal to 2.15% per annum. As of June 4, 2015, \$75 million of principal was outstanding under this facility and \$518 million was available to us to be drawn.

On December 2, 2014, we terminated our unused \$153 million senior secured three-year revolving credit facility and entered into a senior secured five-year revolving credit facility, collateralized by a security interest in certain trade receivables and inventory. The credit facility has an aggregate revolving commitment which is subject to certain adjustments, including an availability block that effectively limits the maximum amount we could draw to \$540 million. Additionally, the maximum amount we could draw may decrease further if the value, as defined, of our trade receivables and inventory collateralizing the credit facility decreases below a specified threshold. The revolving credit facility contains customary covenants and conditions, including as a funding condition the absence of any event or circumstance that has a material adverse effect on our business or financial condition. Generally, interest is payable on any outstanding principal balance at a variable rate not to exceed LIBOR plus an applicable margin ranging between 1.25% to 1.75%, depending upon the utilized portion of the facility. On April 16, 2015, we drew \$50 million under this facility at an interest rate equal to 1.65% per annum. As of June 4, 2015, \$50 million of principal was outstanding under this facility and \$343 million was available to us to be drawn.

**Other Facilities:** On April 14, 2015, our IMFT venture entered into a commitment letter and progress payment agreement to obtain financing collateralized by semiconductor production equipment. Subject to customary conditions, IMFT can draw up to \$275 million under these agreements prior to March 31, 2016. Amounts drawn will be made subject to a five-year loan, with equal quarterly payments beginning three months after such amounts are made subject to the loan, which payments reflect an implicit interest rate equal to the three-year swap rate plus 1.64% per annum. As of June 4, 2015, IMFT had not utilized any amounts under this facility.

On May 28, 2015, we entered into a term loan agreement to obtain financing collateralized by certain property, plant, and equipment. Subject to customary conditions, we can draw up to 6.90 billion New Taiwan dollars or an equivalent amount in U.S. dollars (approximately \$225 million as of June 4, 2015). As of June 4, 2015, we had not drawn any amounts under this facility and subsequent to the third quarter of 2015, on June 18, 2015, we drew \$40 million under this arrangement. Subsequent draws must occur by December 18, 2015. Amounts drawn will be made subject to a three-year loan, with equal quarterly principal payments beginning six months after the initial draw. Amounts drawn in New Taiwan dollars will accrue interest at a variable rate equal to the three-month TAIBOR plus a margin not to exceed 2.0%. Amounts drawn in U.S. dollars will accrue interest at a variable rate equal to the three-month LIBOR plus a margin not to exceed 2.2%.

## **Contractual Maturities**

As of June 4, 2015, debt maturities and future minimum lease payments under capital lease obligations were as follows:

|  | <b>Notes Payable</b> | <b>Capital Lease Obligations</b> |
|--|----------------------|----------------------------------|
| Remainder of 2015                                | \$ 62                | \$ 83                            |
| 2016   | 305                  | 346                              |
| 2017   | 270                  | 170                              |
| 2018   | 545                  | 129                              |
| 2019   | 501                  | 90                               |
| 2020 and thereafter                              | 5,541                | 107                              |
| Unamortized discounts and interest, respectively | (528)                | (70)                             |
|  | <u>\$ 6,696</u>      | <u>\$ 855</u>                    |

## **Contingencies**

We have accrued a liability and charged operations for the estimated costs of adjudication or settlement of various asserted and unasserted claims existing as of the applicable balance sheet dates, including those described below. We are currently a party to other legal actions arising from the normal course of business, none of which is expected to have a material adverse effect on our business, results of operations, or financial condition.

### **Patent Matters**

As is typical in the semiconductor and other high technology industries, from time to time others have asserted, and may in the future assert, that our products or manufacturing processes infringe their intellectual property rights.

On September 1, 2011, HSM Portfolio LLC and Technology Properties Limited LLC filed a patent infringement action in the U.S. District Court for the District of Delaware against us and seventeen other defendants, including MMJ and Elpida Memory (USA) Inc. On August 22, 2013, the plaintiffs filed a third amended complaint. The third amended complaint alleges that certain of our DRAM and image sensor products infringe four U.S. patents and that certain MMJ and Elpida Memory (USA) Inc. DRAM products infringe two U.S. patents and seeks damages, attorneys' fees, and costs. Trial currently is scheduled for February 22, 2016. On March 23, 2012, MMJ and Elpida Memory (USA) Inc. filed a Notice of Filing and Hearing on Petition Under Chapter 15 of the U.S. Bankruptcy Code and Issuance of Provisional Relief that included an order of the U.S. Bankruptcy Court for the District of Delaware staying judicial proceedings against MMJ and Elpida Memory (USA) Inc. Accordingly, the plaintiffs' case against MMJ and Elpida Memory (USA) was stayed. On June 25, 2013, the U.S. Bankruptcy Court for the District of Delaware entered its Order (1) granting recognition of the Japanese reorganization plan of MMJ and the Japan Court's confirmation orders, (2) entrusting MMJ's U.S. assets to foreign representatives and approving certain plan transactions, (3) granting permanent injunction, and (4) granting related relief (the "Recognition Order"). Pursuant to the Recognition Order, the plaintiffs are permanently enjoined from continuing their case against MMJ and Elpida Memory (USA) Inc. in respect of any claim or claims arising prior to the commencement of the Japan Proceeding (as defined in the Recognition Order).

On December 5, 2011, the Board of Trustees for the University of Illinois (the "University") filed a patent infringement action against us in the U.S. District Court for the Central District of Illinois. The complaint alleges that unspecified semiconductor products of ours infringe three U.S. patents and seeks injunctive relief, damages, attorneys' fees, and costs. We have filed three petitions for inter-partes review by the Patent and Trademark Office, challenging the validity of each of the patents in suit. The Patent Trial and Appeal Board ("PTAB") held a hearing on December 9, 2013 in connection with the three petitions. On March 10, 2014, the PTAB issued written decisions finding that each and every claim in the three patents in suit is invalid, and cancelled all claims. The University appealed the PTAB rulings to the U.S. Court of Appeals for the Federal Circuit, and a hearing was held on March 4, 2015. On March 12, 2015, the appeals court issued orders that summarily affirm the PTAB ruling that all claims of each patent are invalid.

On April 27, 2012, Semcon Tech, LLC filed a patent infringement action against us in the U.S. District Court for the District of Delaware. The complaint alleges that our use of various chemical mechanical planarization systems purchased from Applied Materials, Inc. infringes a single U.S. patent and seeks injunctive relief, damages, attorneys' fees, and costs. Trial currently is scheduled for August 31, 2015.

On November 21, 2014, Elm 3DS Innovations, LLC ("Elm") filed a patent infringement action against MTI, Micron Semiconductor Products, Inc., and Micron Consumer Products Group, Inc. in the U.S. District Court for the District of Delaware. On March 27, 2015, Elm filed an amended complaint against the same entities. The amended complaint alleges that unspecified semiconductor products of ours that incorporate multiple stacked die infringe thirteen U.S. patents and seeks damages, attorneys' fees, and costs.

On December 15, 2014, Innovative Memory Solutions, Inc. filed a patent infringement action against us in the U.S. District Court for the District of Delaware. The complaint alleges that a variety of our NAND Flash products infringe eight U.S. patents and seeks damages, attorneys' fees, and costs.

Among other things, the above lawsuits pertain to certain of our DDR DRAM, DDR2 DRAM, DDR3 DRAM, DDR4 DRAM, SDR SDRAM, PSRAM, RLDRAM, LPDRAM, NAND Flash, image sensor products, and certain other memory products we manufacture, which account for a significant portion of our net sales.

We are unable to predict the outcome of assertions of infringement made against us and therefore cannot estimate the range of possible loss. A determination that our products or manufacturing processes infringe the intellectual property rights of others or entering into a license agreement covering such intellectual property could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. Any of the foregoing could have a material adverse effect on our business, results of operations, or financial condition.

#### **Antitrust Matters**

At least sixty-eight purported class action price-fixing lawsuits have been filed against us and other DRAM suppliers in various federal and state courts in the United States and in Puerto Rico on behalf of indirect purchasers alleging a conspiracy to increase DRAM prices in violation of federal and state antitrust laws and state unfair competition law, and/or unjust enrichment relating to the sale and pricing of DRAM products during the period from April 1999 through at least June 2002. The complaints seek joint and several damages, trebled, in addition to restitution, costs, and attorneys' fees. A number of these cases were removed to federal court and transferred to the U.S. District Court for the Northern District of California for consolidated pre-trial proceedings. In July 2006, the Attorneys General for approximately forty U.S. states and territories filed suit in the U.S. District Court for the Northern District of California. The complaints allege, among other things, violations of the Sherman Act, Cartwright Act, and certain other states' consumer protection and antitrust laws and seek joint and several damages, trebled, as well as injunctive and other relief. On October 3, 2008, the California Attorney General filed a similar lawsuit in California Superior Court, purportedly on behalf of local California government entities, alleging, among other things, violations of the Cartwright Act and state unfair competition law. On June 23, 2010, we executed a settlement agreement resolving these purported class-action indirect purchaser cases and the pending cases of the Attorneys General relating to alleged DRAM price-fixing in the United States. Subject to certain conditions, including final court approval of the class settlements, we agreed to pay approximately \$67 million in aggregate in three equal installments over a two-year period. We paid the full amount into an escrow account by the end of the first quarter of 2013 in accordance with the settlement agreement.

On June 21, 2010, the Brazil Secretariat of Economic Law of the Ministry of Justice ("SDE") announced that it had initiated an investigation relating to alleged anticompetitive activities within the DRAM industry. The SDE's Notice of Investigation names various DRAM manufacturers and certain executives, including us, and focuses on the period from July 1998 to June 2002.

We are unable to predict the outcome of these matters and therefore cannot estimate the range of possible loss, except as noted in the above discussion of the U.S. indirect purchaser cases. The final resolution of these alleged violations of antitrust laws could result in significant liability and could have a material adverse effect on our business, results of operations, or financial condition.

## **Securities Matters**

On July 12, 2013, seven former shareholders of Elpida (now known as MMJ) filed a complaint against Messrs. Sakamoto, Adachi, Gomi, Shirai, Tsay-Jiu, Wataki, Kinoshita, and Takahasi in their capacity as members of the board of directors of MMJ as of February 2012. The complaint alleges that the defendants engaged in various acts and misrepresentations to hide the financial condition of MMJ and deceive shareholders prior to MMJ filing a petition for corporate reorganization on February 27, 2012. The plaintiffs seek joint and several damages equal to the market value of shares owned by each of the plaintiffs on February 23, 2012, along with attorneys' fees and interest. At a hearing on September 25, 2013, the plaintiffs withdrew the complaint against Mr. Tsay-Jiu.

We are unable to predict the outcome of this matter and therefore cannot estimate the range of possible loss. The final resolution of this matter could result in significant liability and could have a material adverse effect on our business, results of operations, or financial condition.

## **Qimonda**

On January 20, 2011, Dr. Michael Jaffé, administrator for Qimonda insolvency proceedings, filed suit against MTI and Micron Semiconductor B.V., our Netherlands subsidiary ("Micron B.V."), in the District Court of Munich, Civil Chamber. The complaint seeks to void under Section 133 of the German Insolvency Act a share purchase agreement between Micron B.V. and Qimonda signed in fall 2008 pursuant to which Micron B.V. purchased substantially all of Qimonda's shares of Inotera Memories, Inc. (the "Inotera Shares"), representing approximately 55% of our total shares in Inotera as of June 4, 2015, and seeks an order requiring us to re-transfer those shares to the Qimonda estate. The complaint also seeks, among other things, to recover damages for the alleged value of the joint venture relationship with Inotera and to terminate under Sections 103 or 133 of the German Insolvency Code a patent cross-license between us and Qimonda entered into at the same time as the share purchase agreement.

Following a series of hearings with pleadings, arguments and witnesses on behalf of the Qimonda estate, on March 13, 2014, the Court issued judgments: (1) ordering Micron B.V. to pay approximately \$1 million in respect of certain Inotera shares sold in connection with the original share purchase; (2) ordering Micron B.V. to disclose certain information with respect to any Inotera Shares sold by it to third parties; (3) ordering Micron B.V. to disclose the benefits derived by it from ownership of the Inotera Shares, including in particular, any profits distributed on such shares and all other benefits; (4) denying Qimonda's claims against MTI for any damages relating to the joint venture relationship with Inotera; and (5) determining that Qimonda's obligations under the patent cross-license agreement are cancelled. In addition, the Court issued interlocutory judgments ordering, among other things: (1) that Micron B.V. transfer to the Qimonda estate the Inotera Shares still owned by it and pay to the Qimonda estate compensation in an amount to be specified for any Inotera Shares sold to third parties; and (2) that Micron B.V. pay the Qimonda estate as compensation an amount to be specified for benefits derived by it from ownership of the Inotera Shares. The interlocutory judgments have no immediate, enforceable effect on us, and, accordingly, we expect to be able to continue to operate with full control of the Inotera Shares subject to further developments in the case. We have filed a notice of appeal, and the parties have submitted briefs to the appeals court. A hearing on the matter was held on July 9, 2015 during which an additional hearing was scheduled for September 29, 2015.

We are unable to predict the outcome of the matter and therefore cannot estimate the range of possible loss. The final resolution of this lawsuit could result in the loss of the Inotera Shares or monetary damages, unspecified damages based on the benefits derived by Micron B.V. from the ownership of the Inotera Shares, and/or the termination of the patent cross-license, which could have a material adverse effect on our business, results of operation, or financial condition. As of June 4, 2015, the Inotera Shares had a carrying value in equity method investments for purposes of our financial reporting of \$703 million and a market value of \$1.25 billion.

## **Other**

In the normal course of business, we are a party to a variety of agreements pursuant to which we may be obligated to indemnify the other party. It is not possible to predict the maximum potential amount of future payments under these types of agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, our payments under these types of agreements have not had a material adverse effect on our business, results of operations, or financial condition.

## Redeemable Convertible Notes

Under the terms of the indentures governing the 2033 Notes, upon conversion, we would be required to pay cash equal to the lesser amount of (1) the aggregate principal amount or (2) the conversion value of the notes being converted. To the extent the conversion value exceeds the principal amount, we could pay cash, shares of common stock, or a combination thereof, at our option, for the amount of such excess. The 2033 Notes were convertible at the option of the holders as of June 4, 2015 and August 28, 2014. Therefore, the 2033 Notes were classified as current debt and the aggregate difference between the principal amount and the carrying value of \$48 million as of June 4, 2015 and \$57 million as of August 28, 2014, was classified as redeemable convertible notes in the mezzanine section of the accompanying consolidated balance sheets. (See "Debt" note.)

## Equity

Changes in the components of equity were as follows:

|   | Nine Months Ended June 4, 2015 |                          |              | Nine Months Ended May 29, 2014 |                          |              |
|---|--------------------------------|--------------------------|--------------|--------------------------------|--------------------------|--------------|
|   | Attributable to Micron         | Noncontrolling Interests | Total Equity | Attributable to Micron         | Noncontrolling Interests | Total Equity |
| Beginning balance                                     | \$ 10,771                      | \$ 802                   | \$ 11,573    | \$ 9,142                       | \$ 864                   | \$ 10,006    |
| Net income  | 2,428                          | —                        | 2,428        | 1,895                          | 33                       | 1,928        |
| Other comprehensive income (loss)                     | (59)                           | (1)                      | (60)         | (19)                           | —                        | (19)         |
| Comprehensive income (loss)                           | 2,369                          | (1)                      | 2,368        | 1,876                          | 33                       | 1,909        |
| Contributions from noncontrolling interests           | —                              | 102                      | 102          | —                              | 59                       | 59           |
| Distributions to noncontrolling interests             | —                              | (6)                      | (6)          | —                              | (19)                     | (19)         |
| Acquisition of noncontrolling interests in MMT        | —                              | —                        | —            | 34                             | (180)                    | (146)        |
| Capital and other transactions attributable to Micron | (682)                          | —                        | (682)        | (1,112)                        | —                        | (1,112)      |
| Ending balance  | \$ 12,458                      | \$ 897                   | \$ 13,355    | \$ 9,940                       | \$ 757                   | \$ 10,697    |

### Micron Shareholders' Equity

**Common Stock Repurchases:** Our Board of Directors has authorized the repurchase of up to \$1.00 billion of our outstanding common stock. Any repurchases under the authorization may be made in open market purchases, block trades, privately-negotiated transactions, and/or derivative transactions. Repurchases are subject to market conditions and our ongoing determination of the best use of available cash. During the second quarter of 2015, we repurchased 7 million shares for \$192 million through open market transactions. As of June 4, 2015, the repurchased shares were held as treasury stock and \$808 million of the authorization remained available for future stock repurchases.

Employees can elect to have shares withheld for taxes or exercise prices upon the release of restricted awards or exercise of stock options. We repurchased and retired 2 million and 7 million shares of our common stock that our employees elected to withhold in the first nine months of 2015 and 2014, respectively, and paid \$53 million and \$75 million, respectively, for taxes and exercise prices.

**Issued and Outstanding Capped Calls:** We have capped calls (with strike prices that range from \$9.50 to \$10.93 and cap prices that range from \$12.67 to \$16.04), which are intended to reduce the effect of potential dilution from our convertible notes. These capped calls provide for the receipt of cash or shares, at our election, from counterparties if the trading price of our stock is above the specified initial strike prices on various dates ranging from July 2015 to February 2020, the expiration dates of the capped calls. The cash value received would be based on the trading price of our stock and would range from \$0 (if the trading price of our stock is below the initial strike prices for all of the capped calls on each expiration date) to \$864 million (if the trading price of our stock is at or above the cap prices for all of the capped calls on each expiration date).

**Restrictions on Net Assets:** As a result of the reorganization proceedings of the MMJ Companies initiated on March 23, 2012, and for so long as such proceedings are continuing, the MMJ Group is subject to certain restrictions on dividends, loans, and advances. In addition, our ability to access IMFT's cash and other assets through dividends, loans, or advances, including to finance our other operations, is subject to agreement by Intel. As a result, our total restricted net assets (net assets less intercompany balances and noncontrolling interests) as of June 4, 2015 were \$3.07 billion for the MMJ Group and \$874 million for IMFT, which included cash and equivalents of \$1.26 billion for the MMJ Group and \$238 million for IMFT.

**Accumulated Other Comprehensive Income (Loss):** Changes in accumulated other comprehensive income (loss) by component for the first nine months of 2015 were as follows:

|   | Cumulative<br>Foreign Currency<br>Translation<br>Adjustments | Gains (Losses) on<br>Derivative<br>Instruments, Net | Gains (Losses) on<br>Investments, Net | Pension Liability<br>Adjustments | Total  |
|---|--|---|---------------------------------------|----------------------------------|--------|
| Balance as of August 28, 2014                                     | \$ 42  | \$ 12   | \$ 1                                  | \$ 1                             | \$ 56  |
| Other comprehensive income before reclassifications               | (57)   | (13)  | (1)                                   | 32                               | (39)   |
| Amount reclassified out of accumulated other comprehensive income | —  | (5)   | (2)                                   | (2)                              | (9)    |
| Tax effects   | —  | —   | —                                     | (11)                             | (11)   |
| Other comprehensive income (loss)                                 | (57)   | (18)  | (3)                                   | 19                               | (59)   |
| Balance as of June 4, 2015  | \$ (15)  | \$ (6)  | \$ (2)                                | \$ 20                            | \$ (3) |

#### Noncontrolling Interests in Subsidiaries

|                        | June 4, 2015                       |                                       | August 28, 2014                    |                                       |
|------------------------|------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
|                        | Noncontrolling<br>Interest Balance | Noncontrolling<br>Interest Percentage | Noncontrolling<br>Interest Balance | Noncontrolling<br>Interest Percentage |
| IMFT <sup>(1)</sup>    | \$ 790                             | 49%                                   | \$ 693                             | 49%                                   |
| MP Mask <sup>(1)</sup> | 93                                 | 50%                                   | 93                                 | 50%                                   |
| Other                  | 14                                 | Various                               | 16                                 | Various                               |
|                        | <u>\$ 897</u>                      |                                       | <u>\$ 802</u>                      |                                       |

<sup>(1)</sup> Entity is a variable interest entity.

**IMFT:** Since its inception in 2006, we have owned 51% of IMFT, a venture between us and Intel to manufacture NAND Flash memory products and certain emerging memory technologies exclusively for the members. IMFT is governed by a Board of Managers, for which the number of managers appointed by each member varies based on the members' respective ownership interests. The IMFT joint venture agreement extends through 2024 and includes certain buy-sell rights. Commencing in January 2015, Intel can put to us, and commencing in January 2018, we can call from Intel, Intel's interest in IMFT, in either case, for an amount equal to the noncontrolling interest balance for Intel at that time. If Intel elects to sell to us, we can elect to set the closing date of the transaction to be any time within two years following such election by Intel and can elect to receive financing of the purchase price from Intel for one to two years from the closing date.

IMFT manufactures NAND Flash memory products using designs and technology we develop with Intel. We generally share with Intel the costs of product design, other NAND Flash R&D costs, and R&D costs of certain emerging memory technologies. Our R&D expenses were reduced by reimbursements from Intel of \$58 million and \$158 million for the third quarter and first nine months of 2015, respectively, and \$36 million and \$100 million for the third quarter and first nine months of 2014, respectively.

We sell a portion of our products to Intel through IMFT at long-term negotiated prices approximating cost. Sales of NAND Flash products to Intel under this arrangement were \$101 million and \$309 million for the third quarter and first nine months of 2015, respectively, and \$107 million and \$312 million for the third quarter and first nine months of 2014, respectively. Receivables from Intel as of June 4, 2015 and August 28, 2014, were \$62 million and \$66 million, respectively for these sales.

The following table presents the assets and liabilities of IMFT included in our consolidated balance sheets:

|                                       | June 4,<br>2015 | August 28,<br>2014 |
|---------------------------------------|-----------------|--------------------|
| <b>Assets</b>                         |                 |                    |
| Cash and equivalents                  | \$ 238          | \$ 84              |
| Receivables                           | 72              | 73                 |
| Inventories                           | 56              | 48                 |
| Other current assets                  | 4               | 5                  |
| Total current assets                  | 370             | 210                |
| Property, plant and equipment, net    | 1,686           | 1,545              |
| Other noncurrent assets               | 48              | 47                 |
| Total assets                          | \$ 2,104        | \$ 1,802           |
| <b>Liabilities</b>                    |                 |                    |
| Accounts payable and accrued expenses | \$ 253          | \$ 106             |
| Deferred income                       | 9               | 8                  |
| Current debt                          | 21              | 21                 |
| Total current liabilities             | 283             | 135                |
| Long-term debt                        | 54              | 71                 |
| Other noncurrent liabilities          | 103             | 110                |
| Total liabilities                     | \$ 440          | \$ 316             |

*Amounts exclude intercompany balances that were eliminated in our consolidated balance sheets.*

Creditors of IMFT have recourse only to its assets and do not have recourse to any other of our assets.

The following table presents IMFT's distributions to and contributions from its members:

|                              | Quarter Ended   |                 | Nine Months Ended |                 |
|------------------------------|-----------------|-----------------|-------------------|-----------------|
|                              | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| IMFT distributions to Micron | \$ —            | \$ —            | \$ 6              | \$ 10           |
| IMFT distributions to Intel  | —               | —               | 6                 | 10              |
| Micron contributions to IMFT | 85              | 10              | 106               | 61              |
| Intel contributions to IMFT  | 82              | 10              | 102               | 59              |

**MP Mask:** In 2006, we formed a joint venture with Photronics to produce photomasks for leading-edge and advanced next-generation semiconductors. On March 24, 2015, we notified Photronics of our election to terminate MP Mask effective in May 2016. Upon termination, we have the right to acquire Photronics' interest in MP Mask for an amount equal to the noncontrolling interest balance. Since its inception, we have owned approximately 50% and Photronics has owned approximately 50% of MP Mask. We purchase a substantial majority of the photomasks produced by MP Mask pursuant to a supply arrangement.

The assets and liabilities of MP Mask included in our consolidated balance sheets were as follows:

|   | June 4,<br>2015 | August 28,<br>2014 |
|---|-----------------|--------------------|
| Current assets  | \$ 21           | \$ 24              |
| Noncurrent assets (primarily property, plant and equipment) | 185             | 203                |
| Current liabilities   | 24              | 28                 |
| Noncurrent liabilities                                      | —               | 14                 |

*Amounts exclude intercompany balances that were eliminated in our consolidated balance sheets.*

Creditors of MP Mask have recourse only to its assets and do not have recourse to any other of our assets.

## Fair Value Measurements

Accounting standards establish three levels of inputs that may be used to measure fair value: quoted prices in active markets for identical assets or liabilities (referred to as Level 1), inputs other than Level 1 that are observable for the asset or liability either directly or indirectly (referred to as Level 2), and unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities (referred to as Level 3).

All of our marketable debt and equity investments were classified as available-for-sale and carried at fair value. In addition to the fair value measurements disclosed in the cash and investments note, as of June 4, 2015 and August 28, 2014, we had certificates of deposit classified as restricted cash (included in other noncurrent assets) of \$28 million and \$27 million, respectively, valued using Level 2 fair value measurements.

In connection with our repurchases of debt in the first nine months of 2015, we determined the fair value of the debt components of our convertible notes as if they were stand-alone instruments, using interest rates for similar nonconvertible debt issued by entities with credit ratings comparable to ours (Level 2).

Amounts reported as cash and equivalents, receivables, and accounts payable and accrued expenses approximate fair value. The estimated fair value and carrying value of debt instruments (carrying value excludes the equity and mezzanine components of our convertible notes) were as follows:

|   | June 4, 2015 |                | August 28, 2014 |                |
|---|--------------|----------------|-----------------|----------------|
|   | Fair Value   | Carrying Value | Fair Value      | Carrying Value |
| Notes and MMJ creditor installment payments | \$ 5,166     | \$ 5,155       | \$ 3,634        | \$ 3,539       |
| Convertible notes                           | 3,747        | 1,541          | 5,886           | 2,143          |

The fair values of our convertible notes were determined based on inputs that were observable in the market or that could be derived from, or corroborated with, observable market data, including the trading price of our convertible notes, when available, our stock price, and interest rates based on similar debt issued by parties with credit ratings similar to ours (Level 2). The fair value of our other debt instruments was estimated based on discounted cash flows using inputs that were observable in the market or that could be derived from, or corroborated with, observable market data, including the trading price of our notes, when available, and interest rates based on similar debt issued by parties with credit ratings similar to ours (Level 2).

## Derivative Instruments

We use derivative instruments to manage a portion of our exposure to changes in currency exchange rates from our monetary assets and liabilities denominated in currencies other than the U.S. dollar. We have also had convertible note settlement obligations which were accounted for as derivative instruments as a result of our elections to settle conversions in cash. We do not use derivative instruments for speculative purpose.



### **Derivative Instruments without Hedge Accounting Designation**

**Currency Derivatives:** We use derivative instruments to manage a portion of our exposure to changes in currency exchange rates from our monetary assets and liabilities. Our primary objective for entering into currency derivatives is to reduce the volatility that changes in currency exchange rates have on our earnings.

To hedge our exposures to monetary assets and liabilities, we generally utilize a rolling hedge strategy with currency forward contracts that mature within 35 days. At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the U.S. dollar are remeasured in U.S. dollars and the associated outstanding forward contracts are marked to market. Currency forward contracts are valued at fair values based on the middle of bid and ask prices of dealers or exchange quotations (Level 2 fair value measurements). To mitigate the risk of the yen strengthening against the U.S. dollar on the MMJ creditor installment payments due in December 2014 and December 2015, we entered into forward contracts to purchase 20 billion yen on November 28, 2014 and 10 billion yen on November 27, 2015. In the first quarter of 2015, we paid \$33 million to settle the 20 billion yen forward contracts.

Realized and unrealized gains and losses on currency derivatives without hedge accounting designation as well as the change in the underlying monetary assets and liabilities due to changes in currency exchange rates are included in other non-operating income (expense), net.

**Convertible Notes Settlement Obligations:** In connection with our debt restructure activities in the fourth quarter of 2014 and the first nine months of 2015, holders elected to convert the remaining outstanding 2031B Notes and a portion of the 2033E Notes. In the first nine months of 2014, holders elected to convert substantially all of the outstanding 2014 Notes, 2027 Notes, and 2031A Notes. As a result of our elections to settle the amounts due upon conversion in cash, each of the settlement obligations became derivative debt liabilities subject to mark-to-market accounting treatment for a period of approximately 30 days, beginning on the dates we notified the holder of our intention to settle the obligation in cash through the settlement dates. The fair values of the underlying derivative settlement obligations were initially determined using the Black-Scholes option valuation model (Level 2 fair value measurements). The Black-Scholes model requires the input of assumptions, including the stock price, expected stock-price volatility, estimated option life, risk-free interest rate, and dividend rate. The subsequent measurements and final settlement amounts of our convertible note settlement obligations were based on the volume-weighted average stock price (Level 2 fair value measurements). Changes in fair values of the derivative settlement obligations were included in other non-operating income (expense), net.

Total gross notional amounts and fair values for derivative instruments without hedge accounting designation were as follows:

|  | Notional Amount <sup>(1)</sup> | Fair Value of                 |                                    |                                       |
|--|--------------------------------|-------------------------------|------------------------------------|---------------------------------------|
|  |                                | Current Assets <sup>(2)</sup> | Current Liabilities <sup>(3)</sup> | Noncurrent Liabilities <sup>(4)</sup> |
| <b>As of June 4, 2015</b>                |                                |                               |                                    |                                       |
| Currency forward contracts:              |                                |                               |                                    |                                       |
| Yen                                      | \$ 878                         | \$ —                          | \$ (35)                            | \$ —                                  |
| Singapore dollar                         | 404                            | —                             | (3)                                | —                                     |
| Euro                                     | 359                            | 6                             | (2)                                | —                                     |
| New Taiwan dollar                        | 62                             | —                             | —                                  | —                                     |
| Shekel                                   | 57                             | —                             | —                                  | —                                     |
| British Pound                            | 19                             | —                             | —                                  | —                                     |
|  | <u>\$ 1,779</u>                | <u>\$ 6</u>                   | <u>\$ (40)</u>                     | <u>\$ —</u>                           |
| <b>As of August 28, 2014</b>             |                                |                               |                                    |                                       |
| Currency forward contracts:              |                                |                               |                                    |                                       |
| Yen                                      | \$ 554                         | \$ —                          | \$ (12)                            | \$ (6)                                |
| Singapore dollar                         | 330                            | —                             | —                                  | —                                     |
| Euro                                     | 245                            | —                             | (1)                                | —                                     |
| Shekel                                   | 62                             | —                             | (1)                                | —                                     |
|  | <u>\$ 1,191</u>                |                               |                                    |                                       |
| Convertible notes settlement obligations | 12                             | —                             | (389)                              | —                                     |
|  |                                | <u>\$ —</u>                   | <u>\$ (403)</u>                    | <u>\$ (6)</u>                         |

<sup>(1)</sup> Notional amounts of forward contracts in U.S. dollars and convertible notes settlement obligations in shares.

<sup>(2)</sup> Included in receivables – other.

<sup>(3)</sup> Included in accounts payable and accrued expenses for forward contracts and in current debt for convertible notes settlement obligations.

<sup>(4)</sup> Included in other noncurrent liabilities.

Net gains (losses) for derivative instruments without hedge accounting designation were included in other non-operating income (expense), net as follows:

|  | Quarter Ended |              | Nine Months Ended |                |
|--|---------------|--------------|-------------------|----------------|
|  | June 4, 2015  | May 29, 2014 | June 4, 2015      | May 29, 2014   |
| Foreign exchange contracts               | \$ (10)       | \$ 2         | \$ (83)           | \$ (19)        |
| Convertible notes settlement obligations | 1             | (2)          | 7                 | (54)           |
|  | <u>\$ (9)</u> | <u>\$ —</u>  | <u>\$ (76)</u>    | <u>\$ (73)</u> |

#### **Derivative Instruments with Cash Flow Hedge Accounting Designation**

**Currency Derivatives:** We utilize currency forward contracts that generally mature within 12 months to hedge our exposure to changes in cash flows from changes in currency exchange rates for certain capital expenditures. Currency forward contracts are measured at fair value based on market-based observable inputs including currency exchange spot and forward rates, interest rate, and credit risk spread (Level 2 fair value measurements).

For derivative instruments designated as cash flow hedges, the effective portion of the realized and unrealized gain or loss on the derivatives is included as a component of accumulated other comprehensive income (loss). Amounts in accumulated other comprehensive income (loss) are reclassified into earnings in the same line items of the consolidated statements of operation and in the same periods in which the underlying transactions affect earnings. The ineffective or excluded portion of the realized and unrealized gain or loss is included in other non-operating income (expense), net. Total gross notional amounts and fair values for derivative instruments with cash flow hedge accounting designation were as follows:

|                              | <b>Notional Amount<br/>(in U.S. Dollars)</b> | <b>Fair Value of Current<br/>Liabilities<sup>(1)</sup></b> |
|------------------------------|--|--|
| <b>As of June 4, 2015</b>    |  |  |
| Yen                          | \$ 43  | \$ (1)   |
| <b>As of August 28, 2014</b> |  |  |
| Yen                          | \$ 94  | \$ (2)   |
| Euro                         | 24   | —  |
|                              | <u>\$ 118</u>                                | <u>\$ (2)</u>  |

<sup>(1)</sup> Included in accounts payable and accrued expenses.

For the third quarter and first nine months of 2015, we recognized gains of \$1 million and losses of \$14 million, respectively, in accumulated other comprehensive income (loss) from the effective portion of cash flow hedges. For the first nine months of 2014, we recognized losses of \$2 million in accumulated other comprehensive income (loss) from the effective portion of cash flow hedges. The ineffective and excluded portions of cash flow hedges are recognized in other non-operating income (expense) and were not significant for the third quarter and first nine months of 2015 and 2014. In the first nine months of 2015 and 2014, we reclassified gains of \$5 million and \$3 million, respectively, from accumulated other comprehensive income (loss) to earnings. As of June 4, 2015, \$4 million of gains from cash flow hedges included in accumulated other comprehensive income (loss) is expected to be reclassified into earnings in the next 12 months.

#### **Derivative Counterparty Credit Risk and Master Netting Arrangements**

Our derivative instruments expose us to credit risk to the extent counterparties may be unable to meet the terms of the contracts. Our maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts would generally equal the fair value of assets for these contracts as listed in the tables above. We seek to mitigate such risk by limiting our counterparties to major financial institutions and by spreading risk across multiple financial institutions.

We enter into master netting arrangements with our counterparties to mitigate credit risk in derivative hedge transactions. These master netting arrangements allow us and our counterparties to net settle amounts owed to each other. Derivative assets and liabilities that can be net settled with each counterparty under these arrangements have been presented in our consolidated balance sheets on a net basis. As of June 4, 2015 and August 28, 2014, amounts netted were not significant.

#### **Equity Plans**

As of June 4, 2015, our equity plans permit us to issue an aggregate of up to 171 million shares of common stock, of which 111 million shares were available for future awards. Awards are subject to terms and conditions as determined by our Board of Directors.

## Stock Options

Stock options granted and assumptions used in the Black-Scholes option valuation model were as follows:

|  | Quarter Ended |              | Nine Months Ended |              |
|--|---------------|--------------|-------------------|--------------|
|  | June 4, 2015  | May 29, 2014 | June 4, 2015      | May 29, 2014 |
| Stock options granted                            | —             | 1            | 8                 | 12           |
| Weighted-average grant-date fair value per share | \$10.89       | \$11.35      | \$14.86           | \$9.38       |
| Average expected life in years                   | 5.6           | 5.7          | 5.6               | 4.9          |
| Weighted-average expected volatility             | 42%           | 52%          | 45%               | 48%          |
| Weighted-average risk-free interest rate         | 1.6%          | 1.8%         | 1.7%              | 1.6%         |

The expected volatilities utilized were based on implied volatilities from traded options on our stock and on our historical volatility. The expected lives of options granted were based, in part, on historical experience and on the terms and conditions of the options. The risk-free interest rates utilized were based on the U.S. Treasury yield in effect at each grant date. No dividends were assumed in estimated option values.

## Restricted Stock and Restricted Stock Units ("Restricted Stock Awards")

As of June 4, 2015, there were 14 million shares of Restricted Stock Awards outstanding, of which 1 million were performance-based or market-based Restricted Stock Awards. For service-based Restricted Stock Awards, restrictions generally lapse in one-fourth increments during each year of employment after the grant date. Vesting for performance-based awards is contingent upon meeting a specified return on assets ("ROA"), as defined, over a three-year performance period and vesting for market-based Restricted Stock Awards is contingent upon achieving total shareholder return ("TSR") relative to the companies included in the S&P 500 over a three-year performance period. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts, depending upon the achievement level of the specified ROA or TSR. Restricted Stock Awards activity for the third quarters and first nine months of 2015 and 2014 are summarized as follows:

|   | Quarter Ended |              | Nine Months Ended |              |
|---|---------------|--------------|-------------------|--------------|
|   | June 4, 2015  | May 29, 2014 | June 4, 2015      | May 29, 2014 |
| Restricted stock awards granted                   | —             | —            | 6                 | 7            |
| Weighted-average grant-date fair values per share | \$ 27.34      | \$ 22.73     | \$ 33.93          | \$ 21.39     |

## Stock-based Compensation Expense

|  | Quarter Ended |              | Nine Months Ended |              |
|--|---------------|--------------|-------------------|--------------|
|  | June 4, 2015  | May 29, 2014 | June 4, 2015      | May 29, 2014 |
| Stock-based compensation expense by caption:       |               |              |                   |              |
| Cost of goods sold                                 | \$ 17         | \$ 12        | \$ 48             | \$ 27        |
| Selling, general and administrative                | 15            | 12           | 48                | 36           |
| Research and development                           | 11            | 7            | 31                | 17           |
| Other  | —             | 1            | —                 | 1            |
|  | <u>\$ 43</u>  | <u>\$ 32</u> | <u>\$ 127</u>     | <u>\$ 81</u> |
| Stock-based compensation expense by type of award: |               |              |                   |              |
| Stock options                                      | \$ 20         | \$ 16        | \$ 61             | \$ 44        |
| Restricted stock awards                            | 23            | 16           | 66                | 37           |
|  | <u>\$ 43</u>  | <u>\$ 32</u> | <u>\$ 127</u>     | <u>\$ 81</u> |

As of June 4, 2015, \$432 million of total unrecognized compensation costs, net of estimated forfeitures, related to non-vested awards was expected to be recognized through the third quarter of 2019, resulting in a weighted-average period of 1.4 years. Stock-based compensation expense in the above presentation does not reflect any significant income tax benefits, which is consistent with our treatment of income or loss from our U.S. operations.

### Other Operating (Income) Expense, Net

|   | Quarter Ended   |                 | Nine Months Ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| (Gain) loss on disposition of property, plant and equipment | \$ (4)          | \$ 2            | \$ (14)           | \$ 11           |
| Rambus settlement   | —               | —               | —                 | 233             |
| Other   | —               | 4               | (22)              | 9               |
|   | <u>\$ (4)</u>   | <u>\$ 6</u>     | <u>\$ (36)</u>    | <u>\$ 253</u>   |

In December 2013, we settled all pending litigation between us and Rambus, including all antitrust and patent matters. As a result, other operating expense for the first nine months of 2014 included a \$233 million charge to accrue a liability, which reflects the discounted value of amounts due under this arrangement.

### Other Non-Operating Income (Expense), Net

|   | Quarter Ended   |                 | Nine Months Ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| Loss on restructure of debt                         | \$ (18)         | \$ (16)         | \$ (48)           | \$ (171)        |
| Gain (loss) from changes in currency exchange rates | 1               | (5)             | (26)              | (25)            |
| Adjustment to gain on MMJ Acquisition               | —               | —               | —                 | (33)            |
| Other   | 1               | —               | 3                 | 6               |
|   | <u>\$ (16)</u>  | <u>\$ (21)</u>  | <u>\$ (71)</u>    | <u>\$ (223)</u> |

### Income Taxes

Income taxes included \$22 million and \$93 million for the third quarter and first nine months of 2015, respectively, and \$49 million and \$177 million for the third quarter and first nine months of 2014, respectively, related to the utilization of deferred tax assets by the MMJ Group. Income taxes for the third quarter of 2015 also included \$45 million to write down the value of MMJ's deferred tax assets as a result of changes in Japan tax laws that reduced the corporate tax rate for tax years beginning on or after April 1, 2015 and expanded the taxable base with higher limits on future net operating loss deductions. Remaining taxes for the third quarter and first nine months of 2015 and 2014 primarily reflect taxes on our non-U.S. operations.

We have a full valuation allowance for our net deferred tax asset associated with our U.S. operations. Management continues to evaluate future projected financial performance to determine whether such performance is sufficient evidence to support a reduction in or reversal of the valuation allowances. The amount of the deferred tax asset considered realizable could be adjusted if significant positive evidence increases. Income taxes on U.S. operations for the third quarter and first nine months of 2015 and 2014 were substantially offset by changes in the valuation allowance.

As of June 4, 2015, we estimate our unrecognized tax benefits may increase for 2015 by approximately \$130 million, primarily due to transfer pricing matters, which we would expect to be substantially offset by a change in our valuation allowance. The resolution of tax audits or lapses of statute of limitations could also reduce our unrecognized tax benefits. Although the timing of final resolution is uncertain, the estimated potential reduction in our unrecognized tax benefits in the next 12 months ranges from \$0 to \$70 million, including interest and penalties.

We operate in a number of locations outside the U.S., including Singapore, where we have tax incentive agreements that are conditional upon meeting certain business operations and employment thresholds. The effect of tax incentive arrangements, which expire in whole or in part at various dates through 2026, reduced our tax provision for the third quarter and first nine months of 2015 by \$52 million (benefitting our diluted earnings per share by \$0.04) and \$289 million (\$0.24 per diluted share), respectively. These arrangements reduced our tax provision for the third quarter and first nine months of 2014 by \$88 million (\$0.07 per diluted share) and \$232 million (\$0.19 per diluted share), respectively.

## Earnings Per Share

|   | Quarter Ended   |                 | Nine Months Ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014 |
| Net income available to Micron shareholders – Basic   | \$ 491          | \$ 806          | \$ 2,428          | \$ 1,895        |
| Dilutive effect related to equity method investment   | (1)             | (1)             | (3)               | (1)             |
| Net income available to Micron shareholders – Diluted | \$ 490          | \$ 805          | \$ 2,425          | \$ 1,894        |
| Weighted-average common shares outstanding – Basic    | 1,073           | 1,067           | 1,072             | 1,058           |
| Dilutive effect of equity plans and convertible notes | 97              | 123             | 113               | 138             |
| Weighted-average common shares outstanding – Diluted  | 1,170           | 1,190           | 1,185             | 1,196           |
| Earnings per share:                                   |                 |                 |                   |                 |
| Basic   | \$ 0.46         | \$ 0.76         | \$ 2.26           | \$ 1.79         |
| Diluted   | 0.42            | 0.68            | 2.05              | 1.58            |

Antidilutive potential common shares that could dilute basic earnings per share in the future were 55 million and 27 million for the third quarter and first nine months of 2015, respectively, and 45 million and 43 million for the third quarter and first nine months of 2014, respectively.

## Segment Information

Segment information reported herein is consistent with how it is reviewed and evaluated by our chief operating decision makers. We have the following four business units, which are our reportable segments:

**Compute and Networking Business Unit ("CNBU"):** Includes DRAM and NOR Flash products sold to the compute, networking, graphics, and cloud server markets.

**Mobile Business Unit ("MBU"):** Includes DRAM, NAND Flash, and NOR Flash products sold to the smartphone, feature phone, and tablet mobile-device markets.

**Storage Business Unit ("SBU"):** Includes NAND Flash components and SSDs sold into enterprise and client storage, cloud, and removable storage markets. SBU also includes NAND Flash products sold to Intel through our IMFT joint venture.

**Embedded Business Unit ("EBU"):** Includes DRAM, NAND Flash, and NOR Flash products sold into automotive and industrial applications, as well as the connected home and consumer electronics markets.

Certain operating expenses directly associated with the activities of a specific segment are charged to that segment. Other indirect operating expenses (income) are generally allocated to segments based on their respective percentage of cost of goods sold or forecasted wafer production. The unallocated amount of operating expense for the first nine months of 2014 related to the Rambus settlement.

We do not identify or report internally our assets or capital expenditures by segment, nor do we allocate gains and losses from equity method investments, interest, other non-operating income or expense items, or taxes to segments. There are no differences in the accounting policies for segment reporting and our consolidated results of operations.

|                          | Quarter Ended   |                 | Nine Months Ended |                  |
|--------------------------|-----------------|-----------------|-------------------|------------------|
|                          | June 4,<br>2015 | May 29,<br>2014 | June 4,<br>2015   | May 29,<br>2014  |
| Net sales:               |                 |                 |                   |                  |
| CNBU                     | \$ 1,514        | \$ 1,857        | \$ 5,424          | \$ 5,436         |
| MBU                      | 938             | 757             | 2,734             | 2,717            |
| SBU                      | 901             | 867             | 2,839             | 2,573            |
| EBU                      | 483             | 467             | 1,524             | 1,298            |
| All Other                | 17              | 34              | 71                | 107              |
|                          | <u>\$ 3,853</u> | <u>\$ 3,982</u> | <u>\$ 12,592</u>  | <u>\$ 12,131</u> |
| Operating income (loss): |                 |                 |                   |                  |
| CNBU                     | \$ 266          | \$ 531          | \$ 1,382          | \$ 1,462         |
| MBU                      | 296             | 135             | 864               | 479              |
| SBU                      | (33)            | 55              | (43)              | 228              |
| EBU                      | 98              | 96              | 331               | 254              |
| All Other                | 4               | 22              | 37                | 69               |
| Unallocated              | —               | —               | —                 | (233)            |
|                          | <u>\$ 631</u>   | <u>\$ 839</u>   | <u>\$ 2,571</u>   | <u>\$ 2,259</u>  |

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

*The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made in "Operating Expenses and Other" regarding SG&A and R&D expenses for the fourth quarter of 2015; in "Liquidity and Capital Resources" regarding our pursuit of additional financing and debt restructuring, regarding the sufficiency of our cash and investments, cash flows from operations, and available financing to meet our requirements for at least the next 12 months, regarding capital spending in 2015 and future periods, regarding the expansion of our clean room space in Singapore, and regarding the timing of payments for certain contractual obligations; and in "Recently Issued Accounting Standards" regarding the impact of adopting these new standards. Our actual results could differ materially from our historical results and those discussed in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those identified in "Part II. Other Information – Item 1A. Risk Factors." This discussion should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended August 28, 2014. All period references are to our fiscal periods unless otherwise indicated. Our fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. Our fiscal 2015 contains 53 weeks and the third and second quarters of fiscal 2015 each contained 13 weeks. Our fiscal 2014 contained 52 weeks. All production data includes the production of IMFT and Inotera. All tabular amounts are in millions except per share amounts.*

Our Management's Discussion and Analysis ("MD&A") is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- **Overview:** Overview of our operations and business.
- **Results of Operations:** An analysis of our financial results consisting of the following:
  - Consolidated results;
  - Operating results by business segment;
  - Operating results by product; and
  - Operating expenses and other.
- **Liquidity and Capital Resources:** An analysis of changes in our balance sheet and cash flows and discussion of our financial condition and potential sources of liquidity.
- **Recently Issued Accounting Standards**

### Overview

We are a global leader in advanced semiconductor systems. Our broad portfolio of high-performance memory technologies, including DRAM, NAND Flash, and NOR Flash, is the basis for solid state drives, modules, multichip packages, and other system solutions. Our memory solutions enable the world's most innovative computing, consumer, enterprise storage, networking, mobile, embedded, and automotive applications. We market our products through our internal sales force, independent sales representatives, and distributors, primarily to Original Equipment Manufacturers ("OEMs") and retailers located around the world. Our success is largely dependent on the market acceptance of our diversified portfolio of semiconductor products, efficient utilization of our manufacturing infrastructure, successful ongoing development of advanced product and process technologies, and generating a return on R&D investments.

We obtain products for sale to our customers from our wholly-owned manufacturing facilities and our joint ventures. In recent years, we have increased our manufacturing scale and product diversity through strategic acquisitions and various partnering arrangements.



We make significant investments to develop the proprietary product and process technologies that are implemented in our worldwide manufacturing facilities and our joint ventures. These investments enable our production of semiconductor products with increasing functionality and performance at lower costs. We generally reduce the manufacturing cost of each generation of product through advancements in product and process technologies, such as our leading-edge line-width process technology. We continue to introduce new generations of products that offer improved performance characteristics, such as higher data transfer rates, reduced package size, lower power consumption, improved read/write reliability, and increased memory density. To leverage our significant investments in R&D, we have formed, and may continue to form, strategic joint ventures that allow us to share the costs of developing memory product and process technologies with joint venture partners. In addition, from time to time, we also sell and/or license technology to other parties. We continue to pursue additional opportunities to monetize our investment in intellectual property through partnering and other arrangements.

### Business Segments

We have the following four business units, which are our reportable segments:

**Compute and Networking Business Unit ("CNBU"):** Includes DRAM and NOR Flash products sold to the compute, networking, graphics, and cloud server markets.

**Mobile Business Unit ("MBU"):** Includes DRAM, NAND Flash, and NOR Flash products sold to the smartphone, feature phone, and tablet mobile-device markets.

**Storage Business Unit ("SBU"):** Includes NAND Flash components and SSDs sold into enterprise and client storage, cloud, and removable storage markets. SBU also includes NAND Flash products sold to Intel through our IMFT joint venture.

**Embedded Business Unit ("EBU"):** Includes DRAM, NAND Flash, and NOR Flash products sold into automotive and industrial applications, as well as the connected home and consumer electronics markets.

## Results of Operations

### Consolidated Results

|  | Third Quarter |                |          |                | Second Quarter |                | Nine Months |                |           |                |
|--|---------------|----------------|----------|----------------|----------------|----------------|-------------|----------------|-----------|----------------|
|  | 2015          | % of Net Sales | 2014     | % of Net Sales | 2015           | % of Net Sales | 2015        | % of Net Sales | 2014      | % of Net Sales |
| Net sales  | \$ 3,853      | 100 %          | \$ 3,982 | 100 %          | \$ 4,166       | 100 %          | \$ 12,592   | 100 %          | \$ 12,131 | 100 %          |
| Cost of goods sold   | 2,651         | 69 %           | 2,614    | 66 %           | 2,761          | 66 %           | 8,347       | 66 %           | 8,079     | 67 %           |
| Gross margin   | 1,202         | 31 %           | 1,368    | 34 %           | 1,405          | 34 %           | 4,245       | 34 %           | 4,052     | 33 %           |
| SG&A   | 169           | 4 %            | 174      | 4 %            | 187            | 4 %            | 549         | 4 %            | 527       | 4 %            |
| R&D  | 406           | 11 %           | 349      | 9 %            | 379            | 9 %            | 1,161       | 9 %            | 1,013     | 8 %            |
| Other operating (income) expense, net                      | (4)           | — %            | 6        | — %            | (16)           | — %            | (36)        | — %            | 253       | 2 %            |
| Operating income   | 631           | 16 %           | 839      | 21 %           | 855            | 21 %           | 2,571       | 20 %           | 2,259     | 19 %           |
| Interest income (expense), net                             | (88)          | (2)%           | (75)     | (2)%           | (75)           | (2)%           | (246)       | (2)%           | (248)     | (2)%           |
| Other non-operating income (expense), net                  | (16)          | — %            | (21)     | (1)%           | (6)            | — %            | (71)        | (1)%           | (223)     | (2)%           |
| Income tax (provision) benefit                             | (104)         | (3)%           | (72)     | (2)%           | (47)           | (1)%           | (226)       | (2)%           | (215)     | (2)%           |
| Equity in net income of equity method investees            | 68            | 2 %            | 135      | 3 %            | 208            | 5 %            | 400         | 3 %            | 355       | 3 %            |
| Net (income) loss attributable to noncontrolling interests | —             | — %            | —        | — %            | (1)            | — %            | —           | — %            | (33)      | — %            |
| Net income attributable to Micron                          | \$ 491        | 13 %           | \$ 806   | 20 %           | \$ 934         | 22 %           | \$ 2,428    | 19 %           | \$ 1,895  | 16 %           |

## Net Sales

|           | Third Quarter   |                                     |                 |                                     | Second Quarter  |                                     | Nine Months      |                                     |                  |                                     |
|-----------|-----------------|-------------------------------------|-----------------|-------------------------------------|-----------------|-------------------------------------|------------------|-------------------------------------|------------------|-------------------------------------|
|           | 2015            | % of Total Net Sales <sup>(1)</sup> | 2014            | % of Total Net Sales <sup>(1)</sup> | 2015            | % of Total Net Sales <sup>(1)</sup> | 2015             | % of Total Net Sales <sup>(1)</sup> | 2014             | % of Total Net Sales <sup>(1)</sup> |
| CNBU      | \$ 1,514        | 39%                                 | \$ 1,857        | 47%                                 | \$ 1,822        | 44%                                 | \$ 5,424         | 43%                                 | \$ 5,436         | 45%                                 |
| MBU       | 938             | 24%                                 | 757             | 19%                                 | 856             | 21%                                 | 2,734            | 22%                                 | 2,717            | 22%                                 |
| SBU       | 901             | 23%                                 | 867             | 22%                                 | 954             | 23%                                 | 2,839            | 23%                                 | 2,573            | 21%                                 |
| EBU       | 483             | 13%                                 | 467             | 12%                                 | 502             | 12%                                 | 1,524            | 12%                                 | 1,298            | 11%                                 |
| All Other | 17              | —%                                  | 34              | 1%                                  | 32              | 1%                                  | 71               | 1%                                  | 107              | 1%                                  |
|           | <u>\$ 3,853</u> |                                     | <u>\$ 3,982</u> |                                     | <u>\$ 4,166</u> |                                     | <u>\$ 12,592</u> |                                     | <u>\$ 12,131</u> |                                     |

<sup>(1)</sup> Percentages reflect rounding and may not total 100%.

Total net sales for the third quarter of 2015 decreased 8% as compared to the second quarter of 2015 primarily due to decreases in DRAM sales as a result of declines in average selling prices and lower gigabit sales volumes.

Total net sales for the third quarter of 2015 decreased 3% as compared to the third quarter of 2014 primarily due to declines in DRAM sales as a result of declines in average selling prices, partially offset by higher NAND Flash sales as a result of increases in gigabit sales volumes. Total net sales for the first nine months of 2015 increased 4% as compared to the first nine months of 2014 primarily due to increases in NAND Flash sales as a result of higher gigabit sales volumes partially offset by decreases in DRAM sales as declines in average selling prices outpaced increases in gigabit sales volumes. The increases in gigabit sales volumes for the third quarter and first nine months of 2015 was primarily attributable to higher manufacturing output due to improvements in product and process technologies.

## Gross Margin

Our overall gross margin percentage declined to 31% for the third quarter of 2015 from 34% for the second quarter of 2015 primarily due to a decline in the gross margin for DRAM products as decreases in average selling prices outpaced manufacturing cost reductions.

Since January 2013, we have purchased all of Inotera's DRAM output at prices reflecting discounts from market prices for our comparable components under a supply agreement (the "2013 Supply Agreement"). In the second quarter of 2015, we executed a supply agreement, to be effective beginning on January 1, 2016 (the "2016 Supply Agreement"), which will replace the 2013 Supply Agreement. Under the 2016 Supply Agreement, the price for DRAM products sold to us will be based on a formula that equally shares margin between Inotera and us. The 2016 Supply Agreement has an initial two-year term, followed by a three-year wind-down period, and contemplates negotiations in late 2016 with respect to a two-year extension, and annual negotiations thereafter with respect to successive one-year extensions. Upon termination of the initial two-year term of the 2016 Supply Agreement, or any extensions, we would purchase DRAM from Inotera during the wind-down period. Our share of Inotera's capacity would decline over the wind-down period. In the first nine months of 2015 and in 2014, our cost of products purchased from Inotera was significantly higher than our cost of similar products manufactured in our wholly-owned facilities, due to the pricing formula of the 2013 Supply Agreement and strong market conditions. Under the market conditions prevailing in the third quarter of 2015, costs of products purchased under the 2013 Supply Agreement were higher than they would have been under the pricing formula of the 2016 Supply Agreement. We purchased \$533 million, \$628 million, and \$700 million of DRAM products from Inotera in the third quarter of 2015, second quarter of 2015, and third quarter of 2014, respectively. We purchased \$1.89 billion and \$2.00 billion of DRAM products from Inotera in the first nine months of 2015 and 2014, respectively.

Our overall gross margin percentage declined to 31% for the third quarter of 2015 from 34% for the third quarter of 2014 as declines in average selling prices outpaced manufacturing cost reductions. Our overall gross margin percentage improved to 34% for the first nine months of 2015 from 33% for the first nine months of 2014 primarily due to manufacturing cost reductions partially offset by declines in average selling prices.

## **Operating Results by Business Segment**

### ***CNBU***

|                  | <b>Third Quarter</b> |             | <b>Second Quarter</b> |             | <b>Nine Months</b> |  |
|------------------|----------------------|-------------|-----------------------|-------------|--------------------|--|
|                  | <b>2015</b>          | <b>2014</b> | <b>2015</b>           | <b>2015</b> | <b>2014</b>        |  |
| Net sales        | \$ 1,514             | \$ 1,857    | \$ 1,822              | \$ 5,424    | \$ 5,436           |  |
| Operating income | 266                  | 531         | 493                   | 1,382       | 1,462              |  |

CNBU sales and operating results are significantly impacted by average selling prices, gigabit sales volumes, and cost per gigabit of our DRAM products. (See "Operating Results by Product – DRAM" for further details.) CNBU sales for the third quarter of 2015 decreased 17% as compared to the second quarter of 2015 primarily due to declines in average selling prices and decreases in sales volumes as a result of weakness in the PC market. CNBU operating income for the third quarter of 2015 decreased from the second quarter of 2015 primarily due to the declines in average selling prices and sales volumes, mitigated by manufacturing cost reductions.

CNBU sales for the third quarter of 2015 decreased 18% from the third quarter of 2014 primarily due to declines in average selling prices. CNBU sales for the first nine months of 2015 were relatively unchanged from the first nine months of 2014 as declines in average selling prices were offset by increases in gigabits sold. CNBU operating income for the third quarter and first nine months of 2015 declined from the corresponding periods of 2014 as decreases in average selling prices outpaced manufacturing cost reductions.

### ***MBU***

|                  | <b>Third Quarter</b> |             | <b>Second Quarter</b> |             | <b>Nine Months</b> |  |
|------------------|----------------------|-------------|-----------------------|-------------|--------------------|--|
|                  | <b>2015</b>          | <b>2014</b> | <b>2015</b>           | <b>2015</b> | <b>2014</b>        |  |
| Net sales        | \$ 938               | \$ 757      | \$ 856                | \$ 2,734    | \$ 2,717           |  |
| Operating income | 296                  | 135         | 262                   | 864         | 479                |  |

In the third quarter of 2015, MBU sales were primarily composed of DRAM and NAND Flash, with mobile DRAM products accounting for a significant majority of the sales. MBU sales for the third quarter of 2015 increased 10% as compared to the second quarter of 2015 primarily due to increases in mobile NAND Flash gigabit sales volumes as a result of higher sales of managed NAND Flash and multi-chip package ("MCP") products. MBU operating income for the third quarter of 2015 increased as compared to the second quarter of 2015 primarily due to increased sales volumes of mobile NAND Flash products and cost reductions, partially offset by declines in average selling prices.

MBU sales for the third quarter and first nine months of 2015 increased 24% and 1%, respectively, as compared to the corresponding periods of 2014 primarily due to increases in mobile NAND Flash gigabit sales volumes as a result of higher sales of managed NAND Flash and MCP products. MBU sales of mobile DRAM products for the first nine months of 2015 decreased as compared to the first nine months of 2014 due to declines in average selling prices and sales volumes. MBU operating income for the third quarter and first nine months of 2015 improved from the corresponding periods of 2014 as cost reductions outpaced declines in average selling prices.

**SBU**

|                         | Third Quarter |        | Second Quarter |          | Nine Months |      |
|-------------------------|---------------|--------|----------------|----------|-------------|------|
|                         | 2015          | 2014   | 2015           | 2015     | 2014        | 2014 |
| Net sales               | \$ 901        | \$ 867 | \$ 954         | \$ 2,839 | \$ 2,573    |      |
| Operating income (loss) | (33)          | 55     | (36)           | (43)     | 228         |      |

SBU sales and operating results are significantly impacted by average selling prices, gigabit sales volumes, and cost per gigabit of our NAND Flash products. (See "Operating Results by Product – NAND Flash" for further details.) SBU sales for the third quarter of 2015 decreased 6% from the second quarter of 2015 primarily due to declines in gigabits sold as we shifted production of NAND Flash to mobile and embedded products. SBU sells a portion of its products to Intel through our IMFT joint venture at long-term negotiated prices approximating cost. SBU sales of NAND Flash products to Intel under this arrangement were \$101 million for the third quarter of 2015, \$100 million for the second quarter of 2015, and \$107 million for the third quarter of 2014. All other SBU products are sold to OEMs, resellers, retailers, and other customers (including Intel), which we collectively refer to as "trade customers."

SBU sales of NAND Flash products to trade customers for the third quarter of 2015 decreased 7% as compared to the second quarter of 2015 primarily due to declines in gigabits sold. SBU operating income (loss) for the third quarter of 2015 was relatively unchanged from the second quarter of 2015 as declines in sales volumes were offset by manufacturing cost reductions.

SBU sales of NAND Flash products to trade customers for the third quarter and first nine months of 2015 increased 5% and 12%, respectively, as compared to the corresponding periods of 2014 primarily due to increases in gigabits sold partially offset by declines in average selling prices. Increases in gigabits sold for the third quarter and first nine months of 2015 compared to the corresponding periods of 2014 were primarily due to higher manufacturing output. SBU operating income (loss) for the third quarter and first nine months of 2015 declined from the corresponding periods of 2014 as declines in average selling prices outpaced manufacturing cost reductions and R&D costs increased in connection with increased spending on controllers, firmware, and engineering for SSDs and managed NAND Flash products.

**EBU**

|                  | Third Quarter |        | Second Quarter |          | Nine Months |      |
|------------------|---------------|--------|----------------|----------|-------------|------|
|                  | 2015          | 2014   | 2015           | 2015     | 2014        | 2014 |
| Net sales        | \$ 483        | \$ 467 | \$ 502         | \$ 1,524 | \$ 1,298    |      |
| Operating income | 98            | 96     | 115            | 331      | 254         |      |

In the third quarter of 2015, EBU sales were composed of DRAM, NAND Flash, and NOR Flash in decreasing order of revenue. EBU sales for the third quarter of 2015 decreased 4% as compared to the second quarter of 2015 primarily due to declines in average selling prices partially offset by increases in sales volumes. EBU operating income for the third quarter of 2015 decreased from the second quarter of 2015 as declines in average selling prices outpaced manufacturing cost reductions and increases in sales volumes.

EBU sales for the third quarter and first nine months of 2015 increased 3% and 17%, respectively, as compared to the corresponding periods of 2014 primarily due to increased sales volumes of DRAM and NAND Flash products. EBU operating income for the third quarter and first nine months of 2015 improved from the corresponding periods of 2014 primarily due to the higher sales volumes.

## Operating Results by Product

### Net Sales by Product

|            | Third Quarter   |                                     |                 |                                     | Second Quarter  |                                     | Nine Months      |                                     |                  |                                     |
|------------|-----------------|-------------------------------------|-----------------|-------------------------------------|-----------------|-------------------------------------|------------------|-------------------------------------|------------------|-------------------------------------|
|            | 2015            | % of Total Net Sales <sup>(1)</sup> | 2014            | % of Total Net Sales <sup>(1)</sup> | 2015            | % of Total Net Sales <sup>(1)</sup> | 2015             | % of Total Net Sales <sup>(1)</sup> | 2014             | % of Total Net Sales <sup>(1)</sup> |
| DRAM       | \$ 2,359        | 61%                                 | \$ 2,729        | 69%                                 | \$ 2,697        | 65%                                 | \$ 8,166         | 65%                                 | \$ 8,308         | 68%                                 |
| NAND Flash | 1,359           | 35%                                 | 1,097           | 28%                                 | 1,325           | 32%                                 | 3,987            | 32%                                 | 3,309            | 27%                                 |
| Other      | 135             | 4%                                  | 156             | 4%                                  | 144             | 3%                                  | 439              | 3%                                  | 514              | 4%                                  |
|            | <u>\$ 3,853</u> |                                     | <u>\$ 3,982</u> |                                     | <u>\$ 4,166</u> |                                     | <u>\$ 12,592</u> |                                     | <u>\$ 12,131</u> |                                     |

<sup>(1)</sup> Percentages are calculated based on amounts presented and therefore may produce results that do not total 100%.

Information regarding our MCP products, which combine both NAND Flash and DRAM components, is reported within NAND Flash.

### DRAM

|                                    | Third Quarter 2015<br>Versus              |                       | First Nine Months<br>2015 Versus |
|------------------------------------|---|-----------------------|----------------------------------|
|                                    | Second<br>Quarter<br>2015                 | Third Quarter<br>2014 | First Nine Months<br>2014        |
|                                    | (percentage change from period indicated) |                       |                                  |
| Net sales                          | (13)%                                     | (14)%                 | (2)%                             |
| Average selling prices per gigabit | (10)%                                     | (15)%                 | (8)%                             |
| Gigabits sold                      | (2)%                                      | 2 %                   | 6 %                              |
| Cost per gigabit                   | (6)%                                      | (13)%                 | (12)%                            |

Gigabit sales of DRAM products for the third quarter of 2015 were relatively unchanged from the second quarter of 2015 and third quarter of 2014, reflecting relatively stable levels of gigabit production and inventories. DRAM gigabit production was impacted by a shift to a higher mix of mobile and DDR4 products, which have larger die sizes and therefore produce fewer bits per wafer. The increase in gigabit sales volumes of DRAM products for the first nine months of 2015 as compared to the first nine months of 2014 was primarily due to increases in gigabit production. Increases in gigabit production of DRAM products for the third quarter and first nine months of 2015 were constrained by our continued preparation of fabrication facilities for production of the next technology node.

In the first nine months of 2015 and in 2014, our cost of products purchased from Inotera was significantly higher than our cost of similar products manufactured in our wholly-owned facilities, due to the pricing formula of the 2013 Supply Agreement and strong market conditions. Under the market conditions prevailing in the third quarter of 2015, costs of products purchased under the 2013 Supply Agreement were higher than they would have been under the pricing formula of the 2016 Supply Agreement. DRAM products acquired from Inotera accounted for 33% of our DRAM gigabit production for the third quarter of 2015 as compared to 35% for the second quarter of 2015 and 40% for the third quarter of 2014.

Our gross margin percentage on sales of DRAM products for the third quarter of 2015 declined from the second quarter of 2015 and third quarter of 2014 as decreases in average selling prices outpaced manufacturing cost reductions. Our gross margin percentage on sales of DRAM products for the first nine months of 2015 increased from the first nine months of 2014 as manufacturing cost reductions outpaced declines in average selling prices.

## *NAND Flash*

The following discussion regarding NAND Flash excludes NAND Flash products manufactured and sold to Intel through IMFT at long-term negotiated prices approximating cost.

|                                    | <b>Third Quarter 2015<br/>Versus</b>      |                               | <b>First Nine Months<br/>2015 Versus</b> |
|------------------------------------|---|-------------------------------|--|
|                                    | <b>Second<br/>Quarter<br/>2015</b>        | <b>Third Quarter<br/>2014</b> | <b>First Nine Months<br/>2014</b>        |
| Sales to trade customers:          | (percentage change from period indicated) |                               |  |
| Net sales                          | 3 %                                       | 28 %                          | 23 %                                     |
| Average selling prices per gigabit | 6 %                                       | (15)%                         | (20)%                                    |
| Gigabits sold                      | (2)%                                      | 50 %                          | 54 %                                     |
| Cost per gigabit                   | 3 %                                       | (7)%                          | (12)%                                    |

Gigabit sales of NAND Flash products sold to trade customers for the third quarter of 2015 were relatively unchanged from the second quarter of 2015, reflecting relatively stable levels of gigabit production and inventories. The increase in NAND Flash gigabits sold to trade customers for the third quarter and first nine months of 2015 as compared to the corresponding periods of 2014 was primarily due to improved product and process technologies and the transition of our wafer fabrication facility in Singapore from DRAM to NAND Flash production. Increases in gigabit production of NAND Flash products for the third quarter and first nine months of 2015 as compared to the corresponding periods of 2014 were limited by a shift in product mix to higher levels of managed NAND Flash and MCP products, which have both higher average selling prices and costs per gigabit.

Our gross margin percentage on sales of trade NAND Flash products for the third quarter of 2015 increased from the second quarter of 2015 primarily due to a shift in product mix to a higher percentage of managed NAND Flash and MCP products. Our gross margin percentage on sales of trade NAND Flash products for the third quarter and first nine months of 2015 declined from the corresponding periods of 2014 as the declines in average selling prices outpaced manufacturing cost reductions.

## **Operating Expenses and Other**

### *Selling, General and Administrative*

SG&A expenses for the third quarter of 2015 decreased 10% as compared to the second quarter of 2015 primarily due to lower legal and payroll costs. We expect that SG&A expenses will approximate \$175 million to \$185 million for the fourth quarter of 2015.

SG&A expenses for the third quarter of 2015 decreased 3% as compared to third quarter of 2014 primarily due to lower legal costs, payroll costs, and amortization of intangible assets. SG&A expenses for the first nine months of 2015 increased 4% as compared to the first nine months of 2014 primarily due to an additional week in our first quarter of 2015 and higher legal costs.

### ***Research and Development***

R&D expenses for the third quarter of 2015 increased 7% from the second quarter of 2015 primarily due to a higher volume of development wafers processed. R&D expenses for the third quarter of 2015 increased 16% from the third quarter of 2014 primarily due to a higher volume of development wafers processed, an increase in depreciation expense due to R&D capital expenditures, and higher payroll costs partially offset by higher reimbursement under partnering arrangements. R&D expenses for the first nine months of 2015 increased 15% from the first nine months of 2014 primarily due to higher payroll costs, a higher volume of development wafers processed, an additional week in our first quarter of 2015, an increase in depreciation expense due to R&D capital expenditures, and higher subcontracted engineering and other professional service costs. Increases in R&D expenses for the third quarter and first nine months of 2015 as compared to the corresponding periods of 2014 were partly attributable to increased spending on controllers, firmware, and engineering to support system level products, including SSD, managed NAND Flash, and HMC products. We expect that R&D expenses, net of amounts reimbursable from our R&D partners, will approximate \$395 million to \$405 million for the fourth quarter of 2015.

As a result of amounts reimbursable from Intel under a joint development program for NAND Flash and certain emerging memory technologies, R&D expenses were reduced by \$58 million for the third quarter of 2015, \$46 million for the second quarter of 2015, and \$36 million for the third quarter of 2014.

Our process technology R&D efforts are focused primarily on development of successively smaller line-width process technologies which are designed to facilitate our transition to next generation memory products. Additional process technology R&D efforts focus on the enablement of advanced computing and mobile memory architectures, the investigation of new opportunities that leverage our core semiconductor expertise, and the development of new manufacturing materials. Product design and development efforts include our high density DDR3 and DDR4 DRAM, Mobile LPDRAM products, high density NAND Flash memory (including 3D NAND and multi-level cell and triple-level cell technologies), SSDs, Hybrid Memory Cubes, specialty memory, NOR Flash memory, and other memory technologies and systems.

### ***Interest Income (Expense)***

Net interest expense for the third quarter of 2015, second quarter of 2015, and third quarter of 2014, included amortization of debt discount and other costs of \$34 million, \$33 million, and \$36 million, respectively.

### ***Income Taxes***

Our effective tax rates were 19.7%, 6.1%, and 9.7% for the third quarter of 2015, second quarter of 2015, and third quarter of 2014, respectively. Our effective tax rates were 10.0% and 12.0% for the first nine months of 2015 and 2014, respectively. Included in the effective tax rate for the third quarter and first nine months of 2015 was \$45 million to write down the value of MMJ's deferred tax assets as a result of changes in Japan tax laws that reduced the corporate tax rate for tax years beginning on or after April 1, 2015, and expanded the taxable base with higher limits on future net operating loss deductions. Our effective tax rates reflect the following:

- operations in tax jurisdictions where our earnings are indefinitely reinvested and the effective tax rates in these jurisdictions are significantly lower than the U.S. statutory rate;
- operations outside the U.S., including Singapore, where we have tax incentive arrangements that decrease our effective tax rates; and
- a valuation allowance against substantially all of our U.S. net deferred tax assets.

Income taxes for the third quarter of 2015, second quarter of 2015, and third quarter of 2014 included \$22 million, \$33 million, and \$49 million, respectively, of expenses related to the utilization of deferred tax assets by the MMJ Group. Income taxes for the third quarter of 2015 also included the \$45 million write down of MMJ's deferred tax assets. The remaining tax provision for these periods primarily reflects taxes on our other non-U.S. operations. Income taxes on U.S. operations for 2015 and 2014 were substantially offset by changes in the valuation allowance.

We have a full valuation allowance for our net deferred tax asset associated with our U.S. operations. Management continues to evaluate future projected financial performance to determine whether such performance is sufficient evidence to support a reduction in or reversal of the valuation allowances. The amount of the deferred tax asset considered realizable could be adjusted if significant positive evidence increases.

The effect of tax incentive arrangements, which expire in whole or in part at various dates through 2026, reduced our tax provision for the third quarter, second quarter, and first nine months of 2015 by \$52 million (benefitting our diluted earnings per share by \$0.04), \$97 million (\$0.08 per diluted share), and \$289 million (\$0.24 per diluted share), respectively. These arrangements reduced our tax provision for the third quarter and first nine months of 2014 by \$88 million (\$0.07 per diluted share) and \$232 million (\$0.19 per diluted share), respectively.

#### ***Equity in Net Income of Equity Method Investees***

We recognize our share of earnings or losses from equity method investments, generally on a two-month lag. Equity in net income of equity method investees, net of tax, included the following:

|            | Third Quarter |               | Second Quarter |               | Nine Months   |  |
|------------|---------------|---------------|----------------|---------------|---------------|--|
|            | 2015          | 2014          | 2015           | 2015          | 2014          |  |
| Inotera    | \$ 67         | \$ 134        | \$ 206         | \$ 402        | \$ 349        |  |
| Tera Probe | 3             | 2             | 1              | (3)           | 8             |  |
| Other      | (2)           | (1)           | 1              | 1             | (2)           |  |
|            | <u>\$ 68</u>  | <u>\$ 135</u> | <u>\$ 208</u>  | <u>\$ 400</u> | <u>\$ 355</u> |  |

Included in our share of earnings for the second quarter of 2015 was \$65 million related to Inotera's full release of its valuation allowance against net deferred tax assets related to its net operating loss carryforward. As a result of the release, Inotera's future net income is subject to tax provisions. Our equity in net income of Inotera also declined for the third quarter of 2015 as compared the second quarter of 2015 due to a decrease in Inotera's operating results as a result of declines in average selling prices.

Since January 2013, we have purchased all of Inotera's DRAM output at prices reflecting a discount from market prices for our comparable components under the 2013 Supply Agreement. In the second quarter of 2015, we executed the 2016 Supply Agreement, effective on January 1, 2016, which will replace the 2013 Supply Agreement. Under the 2016 Supply Agreement, the price for DRAM products sold to us will be based on a formula that equally shares margin between Inotera and us. In the first nine months of 2015 and in 2014, our cost of products purchased from Inotera was significantly higher than our cost of similar products manufactured in our wholly-owned facilities, due to the pricing formula of the 2013 Supply Agreement and strong market conditions. Under the market conditions prevailing in the third quarter of 2015, costs of products purchased under the 2013 Supply Agreement were higher than they would have been under the pricing formula of the 2016 Supply Agreement.

During the first quarter of 2015, we recorded an impairment charge of \$10 million within equity in net income of equity method investees to write down the carrying value of our investment in Tera Probe to its fair value.

#### ***Other Operating and Non-Operating Activities***

In the first quarter of 2014, we settled all pending litigation between us and Rambus, including all antitrust and patent matters, and entered into a patent cross-license agreement. As a result, other operating expense for the first nine months of 2014 included a \$233 million charge to accrue a liability, which reflects the discounted value of amounts due under this arrangement.

Other non-operating income and expense included the following items:

- losses from the restructure of debt of \$18 million and \$16 million for the third quarter of 2015 and third quarter of 2014, respectively; and
- a loss of \$33 million in the second quarter of 2014 in connection with an adjustment to the gain on MMJ Acquisition.

Further discussion of other operating and non-operating income and expenses can be found in the following notes contained in "Item 1. Financial Statements – Notes to Consolidated Financial Statements":

- Equity Plans
- Other Operating (Income) Expense, Net
- Other Non-Operating Income (Expense), Net



## Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operations and financing obtained from capital markets. We generated cash from operations of \$4.18 billion in the first nine months of 2015 and \$5.70 billion in 2014. Cash generated from operations is highly dependent on selling prices for our products, which can vary significantly from period to period. We obtained \$2.46 billion from debt and lease financing in the first nine months of 2015 and \$2.21 billion in 2014. As of June 4, 2015, we had (1) revolving credit facilities available that provide for up to \$861 million of additional financing based on eligible receivables and inventories; (2) a term loan agreement available to obtain financing collateralized by certain property, plant, and equipment in the amount of 6.9 billion New Taiwan dollars or an equivalent amount in U.S. dollars (approximately \$225 million as of June 4, 2015), of which we drew \$40 million on June 18, 2015; and (3) a commitment letter and progress payment agreement through our IMFT venture to obtain up to \$275 million of financing to be collateralized by semiconductor production equipment. We are continuously evaluating alternatives for efficiently funding capital expenditures, dilution-management activities (including repurchases of convertible notes and equity), and ongoing operations. We expect, from time to time in the future, to engage in a variety of transactions for such purposes, including the issuance or incurrence of secured and unsecured debt and the refinancing and restructuring of existing debt.

To develop new product and process technologies, support future growth, achieve operating efficiencies, and maintain product quality, we must continue to invest in manufacturing technologies, facilities and capital equipment, and R&D. We estimate that cash expenditures in 2015 for property, plant, and equipment will be approximately \$3.6 billion to \$4.0 billion. In addition, as a result of the MMJ acquisition and our announced plan for expansion in Singapore, we expect our future capital spending will be higher than our historical levels. Cash expenditures for property, plant, and equipment for the first nine months of 2015 were \$2.26 billion. Total additions to property, plant, and equipment were \$3.05 billion, which, in comparison to cash expenditures, reflects differences in timing of receipts and payments for equipment as well as non-cash additions such as equipment leases. As of June 4, 2015, we had commitments of approximately \$1.83 billion for the acquisition of property, plant, and equipment, substantially all of which is expected to be paid within one year.

In December 2014, we announced plans to add approximately 255,000 square feet of clean room space to our fabrication facility in Singapore. This expansion would facilitate efficient implementation of 3D NAND Flash production at the Singapore facility and give us the flexibility to gradually add incremental capacity in response to market requirements. The additional space would enable production of storage class and other memory technologies. Construction of the additional space began in 2015 with initial manufacturing output likely in 2017. Through the third quarter of 2015, we have spent \$50 million for initial design and construction. At completion and subject to market conditions, we currently expect the total cost for this expansion to be approximately \$4 billion incurred over a number of years.

Our Board of Directors has authorized the discretionary repurchase of up to \$1.00 billion of our outstanding common stock. Any repurchases under the authorization may be made in open market purchases, block trades, privately-negotiated transactions, and/or derivative transactions. Repurchases are subject to market conditions and our ongoing determination of the best use of available cash. During the second quarter of 2015, we repurchased 7 million shares for \$192 million in the open market. As of June 4, 2015, \$808 million remained available for future stock repurchases.

We expect that our cash and marketable investments, cash flows from operations, and available financing will be sufficient to meet our requirements at least through the next 12 months.

| <b>As of</b>                                     | <b>June 4,<br/>2015</b> | <b>August 28,<br/>2014</b> |
|--|-------------------------|----------------------------|
| Cash and equivalents and short-term investments: |                         |                            |
| Bank deposits                                    | \$ 1,727                | \$ 2,445                   |
| Money market funds                               | 1,371                   | 1,281                      |
| Commercial paper                                 | 581                     | 107                        |
| Corporate bonds                                  | 567                     | 154                        |
| Government securities                            | 352                     | 136                        |
| Certificates of deposit                          | 257                     | 410                        |
| Asset-backed securities                          | 5                       | 1                          |
|  | <u>\$ 4,860</u>         | <u>\$ 4,534</u>            |
| Long-term marketable investments                 | <u>\$ 2,470</u>         | <u>\$ 819</u>              |

As of June 4, 2015, \$2.81 billion of our cash and equivalents and short-term investments was held by subsidiaries outside the U.S., of which \$667 million was denominated in currencies other than the U.S. dollar. To mitigate credit risk, we invest through high-credit-quality financial institutions and, by policy, generally limit the concentration of credit exposure by restricting the amount of investments with any single obligor.

#### **Limitations on the Use of Cash and Investments**

**MMJ Group:** Cash and equivalents and investments in the table above included an aggregate of \$1.26 billion held by the MMJ Group as of June 4, 2015. As a result of the corporate reorganization proceedings of the MMJ Companies entered into in March 2012, and for so long as such proceedings are continuing, the MMJ Companies and their subsidiaries are subject to certain restrictions on dividends, loans, and advances. The plans of reorganization of the MMJ Companies prohibit the MMJ Companies from paying dividends, including any cash dividends, to us and require that excess earnings be used in their businesses or to fund the MMJ Companies' installment payments. These prohibitions also effectively prevent the subsidiaries of the MMJ Companies from paying cash dividends. In addition, pursuant to an order of the Japan Court, the MMJ Companies cannot make loans or advances, other than certain ordinary course advances, to us without the consent of the Japan Court. Moreover, loans or advances by subsidiaries of the MMJ Companies may be considered outside of the ordinary course of business and subject to approval of the legal trustee and Japan Court. As a result, the assets of the MMJ Group are not available for use by us in our other operations. Moreover, certain uses of the assets of the MMJ Group, including investments in certain capital expenditures and in MMT, may require consent of MMJ's trustees and/or the Japan Court.

**IMFT:** Cash and equivalents and short-term investments in the table above included \$238 million held by IMFT as of June 4, 2015. Our ability to access funds held by IMFT to finance our other operations is subject to agreement by Intel and contractual limitations. Amounts held by IMFT are not anticipated to be available to finance our other operations.

**Indefinitely Reinvested:** As of June 4, 2015, \$2.68 billion of our cash and equivalents and short-term investments, including substantially all of the amounts held by the MMJ Group, were held by foreign subsidiaries whose earnings were considered to be indefinitely reinvested and repatriation of these funds to the U.S. would subject these funds to U.S. federal income taxes. Determination of the amount of unrecognized deferred tax liabilities related to investments in these foreign subsidiaries is not practicable.

#### **Operating Activities**

Net cash provided by operating activities was \$4.18 billion for the first nine months of 2015. Cash provided by operating activities was due primarily to net income generated by our operations, adjusted for certain non-cash items.

## **Investing Activities**

Net cash used for investing activities was \$4.72 billion for the first nine months of 2015, which consisted primarily of \$2.42 billion of net outflows for investments in available-for-sale securities and cash expenditures of \$2.26 billion for property, plant, and equipment.

## **Financing Activities**

Net cash provided by financing activities was \$215 million for the first nine months of 2015, which included inflows of \$2.00 billion in aggregate from the issuance of the 2023 Notes, 2024 Notes, and 2026 Notes, \$291 million from the proceeds of sale-leaseback transactions, and \$125 million from draws on our revolving credit facilities and outflows of \$2.05 billion for repayments of debt (including \$883 million for amounts in excess of principal of our converted and repurchased notes) and \$192 million for the repurchase of 7 million shares of our common stock.

### ***2015 Debt Activity***

In the first nine months of 2015, we reduced the dilutive effects of our convertible notes through conversions and repurchases. As a result, we eliminated convertible notes that were convertible into approximately 32 million shares of our common stock. The following table summarized our restructure activities in the first nine months of 2015.

|                             | <b>Increase<br/>(Decrease) in<br/>Principal</b> | <b>Increase<br/>(Decrease) in<br/>Carrying Value</b> | <b>Increase (Decrease)<br/>in Cash</b> | <b>(Decrease) in<br/>Equity</b> | <b>Loss<sup>(1)</sup></b> |
|-----------------------------|---|--|--|---------------------------------|---------------------------|
| Conversions and settlements | \$ (121)  | \$ (369)   | \$ (408)                               | \$ (15)                         | \$ (22)                   |
| Repurchases                 | (305)   | (263)  | (907)                                  | (624)                           | (21)                      |
| Issuance                    | 2,000   | 2,000  | 1,979                                  | —                               | —                         |
| Early repayment of note     | (121)   | (120)  | (122)                                  | —                               | (5)                       |
|                             | <u>\$ 1,453</u>                                 | <u>\$ 1,248</u>                                      | <u>\$ 542</u>                          | <u>\$ (639)</u>                 | <u>\$ (48)</u>            |

<sup>(1)</sup> Included in other non-operating expense.

(See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Debt" note.)

## **Potential Settlement Obligations of Convertible Notes**

Since the closing price of our common stock for at least 20 trading days in the 30 trading day periods ended on June 30, 2015 exceeded 130% of the conversion prices per share of our 2032 Notes and 2033 Notes, holders of those notes have the right to convert their notes at any time through September 30, 2015. For all of our convertible notes, we have either: (1) the requirement to pay cash for the principal amount and the option to pay either cash, shares of our common stock, or any combination thereof for any remaining conversion obligation, or (2) the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion.

The following table summarizes the potential settlements, as of June 4, 2015, that we could be required to make if all holders converted their 2032 Notes and 2033 Notes:

|             | Initial Conversion Price Per Share | Settlement Option for Principal Amount | Outstanding Principal | If Settled With Minimum Cash Required <sup>(1)</sup> |                     | If Settled Entirely With Cash <sup>(2)</sup> |
|-------------|------------------------------------|--|-----------------------|--|---------------------|--|
|             |                                    |  |                       | Cash   | Remainder in Shares | Cash   |
| 2032C Notes | \$ 9.63                            | Cash and/or shares                     | \$ 224                | \$ —   | 23                  | \$ 627                                       |
| 2032D Notes | 9.98                               | Cash and/or shares                     | 177                   | —  | 18                  | 479  |
| 2033E Notes | 10.93                              | Cash                                   | 293                   | 293  | 16                  | 723  |
| 2033F Notes | 10.93                              | Cash                                   | 300                   | 300  | 16                  | 741  |
|             |                                    |  | <u>\$ 994</u>         | <u>\$ 593</u>  | <u>73</u>           | <u>\$ 2,570</u>                              |

<sup>(1)</sup> We are required to settle the principal amount of the 2033 Notes in cash. The remaining conversion obligation if paid in shares is based on our closing share price of \$26.99 as of June 4, 2015.

<sup>(2)</sup> Based on our closing share price of \$26.99 as of June 4, 2015. Assumes we elect cash settlement for the entire obligation.

### Contractual Obligations

| As of June 4, 2015                       | Total            | Payments Due by Period |                 |               |                 |               | 2020 and Thereafter |
|--|------------------|------------------------|-----------------|---------------|-----------------|---------------|---------------------|
|  |                  | Remainder of 2015      | 2016            | 2017          | 2018            | 2019          |                     |
| Notes payable <sup>(1)(2)</sup>          | \$ 9,611         | \$ 157                 | \$ 571          | \$ 534        | \$ 804          | \$ 756        | \$ 6,789            |
| Capital lease obligations <sup>(2)</sup> | 925              | 83                     | 346             | 170           | 129             | 90            | 107                 |
| Operating leases <sup>(3)(4)</sup>       | 622              | 6                      | 198             | 265           | 96              | 15            | 42                  |
| Total                                    | <u>\$ 11,158</u> | <u>\$ 246</u>          | <u>\$ 1,115</u> | <u>\$ 969</u> | <u>\$ 1,029</u> | <u>\$ 861</u> | <u>\$ 6,938</u>     |

<sup>(1)</sup> Amounts include notes, convertible notes, and MMJ creditor installment payments. Any future redemptions, repurchases, or conversions of convertible debt could impact the amount and timing of our cash payments.

<sup>(2)</sup> Amounts reflect principal and interest.

<sup>(3)</sup> Amounts do not include contingent lease payments.

<sup>(4)</sup> Amounts for fiscal years 2016, 2017, and 2018 include minimum obligations related to the Inotera 2016 Supply Agreement.

### Recently Issued Accounting Standards

See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Recently Issued Accounting Standards" note.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

We are exposed to interest rate risk related to our indebtedness and our investment portfolio. Substantially all of our indebtedness is at fixed interest rates, and as a result, the fair value of our debt fluctuates based on changes in market interest rates. We estimate that, as of June 4, 2015 and August 28, 2014, a hypothetical decrease in market interest rates of 1% would increase the fair value of our notes by approximately \$354 million and \$250 million, respectively. The increase in interest expense caused by a 1% increase in the interest rates of our variable-rate debt would not be significant.

As of June 4, 2015 and August 28, 2014, we held investments in debt securities of \$4.26 billion and \$1.65 billion, respectively, that were subject to interest rate risk. We estimate that a 0.5% increase in market interest rates would decrease the fair value of these instruments by approximately \$12 million as of June 4, 2015 and \$6 million as of August 28, 2014.

## Foreign Currency Exchange Rate Risk

The information in this section should be read in conjunction with the information related to changes in the currency exchange rates in "Part II. Other Information – Item 1A. Risk Factors." Changes in currency exchange rates could materially adversely affect our results of operations or financial condition.

The functional currency for all of our consolidated subsidiaries is the U.S. dollar. The substantial majority of our revenues are transacted in the U.S. dollar; however, significant amounts of our operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the British pound, the euro, the shekel, the Singapore dollar, the New Taiwan dollar, the yen, and the yuan. We have established currency risk management programs for our operating expenditures and capital purchases to hedge against fluctuations in the fair value and volatility of future cash flows caused by changes in currency exchange rates. We utilize currency forward and option contracts in these hedging programs, which reduce, but do not always entirely eliminate, the impact of currency exchange rate movements. We do not use derivative financial instruments for trading or speculative purposes.

To hedge our exposure to changes in currency exchange rates from our monetary assets and liabilities, we utilize a rolling hedge strategy with currency forward contracts that generally mature within 35 days. Based on our foreign currency exposures from monetary assets and liabilities, offset by balance sheet hedges, we estimate that a 10% adverse change in exchange rates versus the U.S. dollar would result in losses of approximately \$4 million as of June 4, 2015 and \$7 million as of August 28, 2014. To hedge the exposure of changes in cash flows from changes in currency exchange rates for certain capital expenditures, we utilize currency forward contracts that generally mature within 12 months.

As of June 4, 2015, under the terms and conditions of their plans of reorganization, the MMJ Companies are obligated to pay 122 billion yen (or the equivalent of \$980 million based on exchange rates as of June 4, 2015) to their external creditors. The installment payments are due at the end of each calendar year from 2015 through 2019. For the MMJ Creditor Installment payment due in 2016, we entered into a forward contract to purchase 10 billion yen on November 27, 2015. In addition, the MMJ Companies' yen-denominated cash and equivalents and other asset balances mitigate the foreign currency exchange risk associated with the remaining installment payments.

## ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized, and reported, within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow timely decision regarding disclosure.

During the quarterly period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Reorganization Proceedings of the MMJ Companies

On July 31, 2013, we completed the acquisition of Elpida, now known as MMJ, a Japanese corporation, pursuant to the terms and conditions of an Agreement on Support for Reorganization Companies (as amended, the "Sponsor Agreement") that we entered into on July 2, 2012 with the trustees of the MMJ Companies' pending corporate reorganization proceedings under the Corporate Reorganization Act of Japan.

The MMJ Companies filed petitions for commencement of corporate reorganization proceedings with the Japan Court under the Corporate Reorganization Act of Japan on February 27, 2012, and the Japan Court issued an order to commence the reorganization proceedings (the "Japan Proceedings") on March 23, 2012. On July 2, 2012, we entered into the Sponsor Agreement with the legal trustees of the MMJ Companies and the Japan Court approved the Sponsor Agreement. Under the Sponsor Agreement, we agreed to provide certain support for the reorganization of the MMJ Companies and the trustees agreed to prepare and seek approval from the Japan Court and the MMJ Companies' creditors of plans of reorganization consistent with such support.

The trustees initially submitted the proposed plans of reorganization for the MMJ Companies to the Japan Court on August 21, 2012 and submitted final proposed plans on October 29, 2012. On October 31, 2012, the Japan Court approved submission of the trustees' proposed plans of reorganization to creditors for approval. On February 26, 2013, the MMJ Companies' creditors approved the reorganization plans and on February 28, 2013, the Japan Court issued an order approving the plans of reorganization. Appeals filed by certain creditors of MMJ in Japan challenging the plan approval order issued by the Japan Court were denied.

In a related action, MMJ filed a Verified Petition for Recognition and Chapter 15 Relief in the United States Bankruptcy Court for the District of Delaware (the "U.S. Court") on March 19, 2012 and, on April 24, 2012, the U.S. Court entered an order that, among other things, recognized MMJ's corporate reorganization proceeding as a foreign main proceeding pursuant to 11 U.S.C. § 1517(b). On June 25, 2013, the U.S. Court issued a recognition order, which recognized the order of the Japan Court approving MMJ's plan of reorganization. On November 19, 2013, the U.S. Court closed the U.S. Chapter 15 proceeding.

The plans of reorganization provide for payments by the MMJ Companies to their secured and unsecured creditors in an aggregate amount of 200 billion yen, less certain expenses of the reorganization proceedings and certain other items. The plans of reorganization also provided for the investment by us pursuant to the Sponsor Agreement of 60 billion yen (\$615 million) paid at closing in cash into MMJ in exchange for 100% ownership of MMJ's equity and the use of such investment to fund the initial installment payment by the MMJ Companies to their creditors of 60 billion yen, subject to reduction for certain items specified in the Sponsor Agreement and plans of reorganization.

Under MMJ's plan of reorganization, secured creditors will recover 100% of the amount of their fixed claims and unsecured creditors will recover at least 17.4% of the amount of their fixed claims. The actual recovery of unsecured creditors will be higher, however, based, in part, on events and circumstances occurring following the plan approval. The remaining portion of the unsecured claims will be discharged, without payment, over the period that payments are made pursuant to the plans of reorganization. The secured creditors will be paid in full on or before the sixth installment payment date, while the unsecured creditors will be paid in seven installments. MAI's plan of reorganization provides that secured creditors will recover 100% of the amount of their claims, whereas unsecured creditors will recover 19% of the amount of their claims. The secured creditors of MAI were paid in full on the first installment payment date, while the unsecured creditors will be paid in seven installments.

Because the plans of reorganization of the MMJ Companies provide for ongoing payments to creditors following the closing of the MMJ acquisition, the Japan Proceedings are continuing and the MMJ Companies remain subject to the oversight of the Japan Court and of the trustees (including a trustee designated by us, who we refer to as the business trustee, and a trustee designated by the Japan Court, who we refer to as the legal trustee), pending completion of the reorganization proceedings. The business trustee makes decisions in relation to the operation of the businesses of the MMJ Companies, other than decisions in relation to acts that need to be carried out in connection with the Japan Proceedings, which are the responsibility of the legal trustee. The Japan Proceedings and oversight of the Japan Court will continue until the final creditor payment is made under the MMJ Companies' plans of reorganization, which is scheduled to occur in December 2019, but may occur on a later date to the extent any claims of creditors remain unfixed on the final scheduled installment payment date. The MMJ Companies may petition the Japan Court for an early termination of the Japan Proceedings once two-thirds of all payments under the plans of reorganization are made. Although such early terminations are customarily granted, there can be no assurance that the Japan Court will grant any such petition in these particular cases.

During the pendency of the Japan Proceedings, the MMJ Companies are obligated to provide periodic financial reports to the Japan Court and may be required to obtain the consent of the Japan Court prior to taking a number of significant actions relating to their businesses, including transferring or disposing of, or acquiring, certain material assets, incurring or guaranteeing material indebtedness, settling material disputes, or entering into certain material agreements. The consent of the legal trustee may also be required for matters that would likely have a material impact on the operations or assets of the MMJ Companies and their subsidiaries or for transfers of material assets, to the extent the matters or transfers would reasonably be expected to materially and adversely affect execution of the plans of reorganization of the MMJ Companies. Accordingly, during the pendency of the Japan Proceedings, our ability to effectively integrate the MMJ Companies as part of our global operations or to cause the MMJ Companies to take certain actions that we deem advisable for their businesses could be adversely affected if the Japan Court or the legal trustee is unwilling to consent to various actions that we may wish to take with respect to the MMJ Companies.

For a discussion of legal proceedings, see "Part 1. Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Contingencies" and "Item 1A. Risk Factors."

## ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Form 10-Q, the following are important factors which could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of us.

### **We have experienced dramatic declines in average selling prices for our semiconductor memory products which have adversely affected our business.**

If average selling prices for our memory products decrease faster than we can decrease per gigabit costs, our business, results of operations, or financial condition could be materially adversely affected. For the first nine months of 2015, average selling prices per gigabit for our DRAM and Trade NAND Flash products declined 8% and 20%, respectively, compared to the first nine months of 2014. We have experienced significant decreases in our average selling prices per gigabit in previous years as noted in the table below and may continue to experience such decreases in the future. In some prior periods, average selling prices for our memory products have been below our manufacturing costs and we may experience such circumstances in the future.

|                | <b>DRAM</b>                                   | <b>Trade NAND Flash*</b> |
|----------------|---|--------------------------|
|                | (percentage change in average selling prices) |                          |
| 2014 from 2013 | 6 %   | (23)%                    |
| 2013 from 2012 | (11)%   | (18)%                    |
| 2012 from 2011 | (45)%   | (55)%                    |
| 2011 from 2010 | (39)%   | (12)%                    |

\* Trade NAND Flash excludes sales to Intel from IMFT.

**We may be unable to maintain or improve gross margins.**

Our gross margins are dependent upon continuing decreases in per gigabit manufacturing costs achieved through improvements in our manufacturing processes and product designs, including, but not limited to, process line-width, architecture, number of mask layers, number of fabrication steps, and yield. In future periods, we may be unable to reduce our per gigabit manufacturing costs at sufficient levels to maintain or improve gross margins. Factors that may limit our ability to reduce costs include, but are not limited to, strategic product diversification decisions affecting product mix, the increasing complexity of manufacturing processes, difficulty in transitioning to smaller line-width process technologies, technological barriers, and changes in process technologies or products that may require relatively larger die sizes. Per gigabit manufacturing costs may also be affected by the relatively smaller production quantities and shorter product lifecycles of certain specialty memory products.

**The semiconductor memory industry is highly competitive.**

We face intense competition in the semiconductor memory market from a number of companies, including Samsung Electronics Co., Ltd.; SanDisk Corporation; SK Hynix Inc. and Toshiba Corporation. Some of our competitors are large corporations or conglomerates that may have greater resources to invest in technology, capitalize on growth opportunities, and withstand downturns in the semiconductor markets in which we compete. Consolidation of industry competitors could put us at a competitive disadvantage. In addition, some governments, such as China, may be considering providing, or have provided, significant financial assistance to some of our competitors or to new entrants. Our competitors seek to increase silicon capacity, improve yields, reduce die size, and minimize mask levels in their product designs. Transitions to smaller line-width process technologies and product and process improvements have resulted in significant increases in the worldwide supply of semiconductor memory. Increases in worldwide supply of semiconductor memory also result from semiconductor memory fab capacity expansions, either by way of new facilities, increased capacity utilization, or reallocation of other semiconductor production to semiconductor memory production. Our competitors may increase capital expenditures resulting in future increases in worldwide supply. In recent periods, we and some of our competitors have announced plans to build new fabrication facilities. Increases in worldwide supply of semiconductor memory, if not accompanied by commensurate increases in demand, would lead to further declines in average selling prices for our products and would materially adversely affect our business, results of operations, or financial condition.

**Debt obligations could adversely affect our financial condition.**

In recent periods, our debt levels have increased due to the capital intensive nature of our business, business acquisitions, and restructuring of our capital structure. As of June 4, 2015, we had debt with a carrying value of \$7.55 billion. In addition, the conversion value in excess of principal amount for our convertible notes outstanding as of June 4, 2015 was \$1.58 billion. In the first nine months of 2015, we paid \$907 million to repurchase convertible notes with a principal amount of \$305 million. In the first quarter of 2015, we paid \$389 million to settle conversion obligations initiated in the fourth quarter of 2014 for convertible notes with a principal amount of \$114 million. In 2014, we paid \$2.30 billion to repurchase and settle conversion obligations for convertible notes with a principal amount of \$1.09 billion. As of June 4, 2015, we had (1) revolving credit facilities available that provide for up to \$861 million of additional financing; (2) a term loan agreement available to obtain financing collateralized by certain property, plant, and equipment in the amount of 6.9 billion New Taiwan dollars or an equivalent amount in U.S. dollars (approximately \$225 million as of June 4, 2015), of which we drew \$40 million on June 18, 2015; and (3) a commitment letter and progress payment agreement through our IMFT venture to obtain up to \$275 million of financing to be collateralized by semiconductor production equipment. The availability of these revolving and other facilities is subject to certain conditions, including outstanding balances of trade receivables, inventories, collateralization of certain property, plant, and equipment, and other conditions. Events and circumstances may occur which would cause us to not be able to satisfy these applicable drawdown conditions and utilize these facilities. We have in the past and expect in the future to continue to incur additional debt to finance our capital investments, including debt incurred in connection with asset-backed financing and capital market debt issuances.

Our debt obligations could adversely impact us. For example, these obligations could:

- require us to use a large portion of our cash flow to pay principal and interest on debt, which will reduce the amount of cash flow available to fund working capital, capital expenditures, acquisitions, R&D expenditures, and other business activities;
- continue to dilute our earnings per share as a result of the conversion provisions in our convertible notes;
- require us to continue to pay cash amounts substantially in excess of the principal amounts upon settlement of our convertible notes to minimize dilution of our earnings per share;



- limit our future ability to raise funds for capital expenditures, strategic acquisitions or business opportunities, R&D, and other general corporate requirements;
- adversely impact our credit rating, which could increase future borrowing costs; and
- increase our vulnerability to adverse economic and semiconductor memory industry conditions.

Our ability to meet our payment obligations under our debt instruments depends on our ability to generate significant cash flows in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, and regulatory factors as well as other factors that are beyond our control. There can be no assurance that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we were unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations, which could have a material adverse effect on our business, results of operations, or financial condition.

**We may be unable to generate sufficient cash flows or obtain access to external financing necessary to fund our operations, make scheduled debt payments, and make adequate capital investments.**

Our cash flows from operations depend primarily on the volume of semiconductor memory sold, average selling prices, and manufacturing costs. To develop new product and process technologies, support future growth, achieve operating efficiencies, and maintain product quality, we must make significant capital investments in manufacturing technology, capital equipment, facilities, R&D, and product and process technology. We estimate that cash expenditures in 2015 for property, plant, and equipment will be approximately \$3.6 billion to \$4.0 billion. Cash expenditures for property, plant, and equipment for the first nine months of 2015 were \$2.26 billion. In addition, as a result of the MMJ acquisition and our announced plan for expansion in Singapore, we expect our future capital spending will be higher than our historical levels. As of June 4, 2015, we had cash and marketable investments of \$7.33 billion, which included \$1.26 billion held by the MMJ Group and \$238 million held by IMFT, none of which is generally available to finance our other operations.

As a result of the Japan Proceedings, for so long as such proceedings are continuing, the MMJ Companies and their subsidiaries are subject to certain restrictions on dividends, loans, and advances. The plans of reorganization of the MMJ Companies prohibit the MMJ Companies from paying dividends, including any cash dividends, to us and require that excess earnings be used in their businesses or to fund the MMJ Companies' installment payments. These prohibitions would also effectively prevent the subsidiaries of the MMJ Companies from paying cash dividends to us in respect of the shares of such subsidiaries owned by the MMJ Companies, as any such dividends would have to be first paid to the MMJ Companies which are prohibited from repaying those amounts to us as dividends under the plans of reorganization. In addition, pursuant to an order of the Japan Court, the MMJ Companies cannot make loans or advances, other than certain ordinary course advances, to us without the consent of the Japan Court. Moreover, loans or advances by subsidiaries of the MMJ Companies may be considered outside of the ordinary course of business and subject to approval of the legal trustees and Japan Court. As a result, the assets of the MMJ Companies and their subsidiaries, while available to satisfy the MMJ Companies' installment payments and the other obligations, capital expenditures, and other operating needs of the MMJ Companies and their subsidiaries, are not available for use by us in our other operations. Furthermore, certain uses of the assets of the MMJ Group, including investments in certain capital expenditures and in MMT, may require consent of MMJ's trustees and/or the Japan Court.

In the past we have utilized external sources of financing when needed. As a result of our debt levels, expected debt amortization and general economic conditions, it may be difficult for us to obtain financing on terms acceptable to us. There can be no assurance that we will be able to generate sufficient cash flows, use cash held by MMJ to fund its capital expenditures, access capital markets or find other sources of financing to fund our operations, make debt payments, and make adequate capital investments to remain competitive in terms of technology development and cost efficiency. Our inability to do the foregoing could have a material adverse effect on our business, results of operations, or financial conditions.

**The acquisition of our ownership interest in Inotera from Qimonda has been challenged by the administrator of the insolvency proceedings for Qimonda.**

On January 20, 2011, Dr. Michael Jaffé, administrator for Qimonda insolvency proceedings, filed suit against MTI and Micron Semiconductor B.V., our Netherlands subsidiary ("Micron B.V."), in the District Court of Munich, Civil Chamber. The complaint seeks to void under Section 133 of the German Insolvency Act a share purchase agreement between Micron B.V. and Qimonda signed in fall 2008 pursuant to which Micron B.V. purchased substantially all of Qimonda's shares of Inotera Memories, Inc. (the "Inotera Shares"), representing approximately 55% of our total shares in Inotera as of June 4, 2015, and seeks an order requiring us to re-transfer those shares to the Qimonda estate. The complaint also seeks, among other things, to recover damages for the alleged value of the joint venture relationship with Inotera and to terminate under Sections 103 or 133 of the German Insolvency Code a patent cross-license between us and Qimonda entered into at the same time as the share purchase agreement.

Following a series of hearings with pleadings, arguments, and witnesses on behalf of the Qimonda estate, on March 13, 2014, the Court issued judgments: (1) ordering Micron B.V. to pay approximately \$1 million in respect of certain Inotera shares sold in connection with the original share purchase; (2) ordering Micron B.V. to disclose certain information with respect to any Inotera Shares sold by it to third parties; (3) ordering Micron B.V. to disclose the benefits derived by it from ownership of the Inotera Shares, including in particular, any profits distributed on such shares and all other benefits; (4) denying Qimonda's claims against MTI for any damages relating to the joint venture relationship with Inotera; and (5) determining that Qimonda's obligations under the patent cross-license agreement are cancelled. In addition, the Court issued interlocutory judgments ordering, among other things: (1) that Micron B.V. transfer to the Qimonda estate the Inotera Shares still owned by it and pay to the Qimonda estate compensation in an amount to be specified for any Inotera Shares sold to third parties; and (2) that Micron B.V. pay the Qimonda estate as compensation an amount to be specified for benefits derived by it from ownership of the Inotera Shares. The interlocutory judgments have no immediate, enforceable effect on us, and, accordingly, we expect to be able to continue to operate with full control of the Inotera Shares subject to further developments in the case. We have filed a notice of appeal, and the parties have submitted briefs to the appeals court. A hearing on the matter was held on July 9, 2015 during which an additional hearing was scheduled for September 29, 2015.

We are unable to predict the outcome of the matter and therefore cannot estimate the range of possible loss. The final resolution of this lawsuit could result in the loss of the Inotera shares or monetary damages, unspecified damages based on the benefits derived by Micron B.V. from the ownership of the Inotera Shares, and/or the termination of the patent cross-license, which could have a material adverse effect on our business, results of operation, or financial condition. As of June 4, 2015, the Inotera Shares had a carrying value for purposes of our financial reporting of \$703 million and a market value of \$1.25 billion.

**Our future success depends on our ability to develop and produce competitive new memory technologies.**

Our key semiconductor memory technologies of DRAM, NAND Flash, and NOR Flash face technological barriers to continue to meet long-term customer needs. These barriers include potential limitations on the ability to shrink products in order to reduce costs, meet higher density requirements, and improve power consumption and reliability. To meet these requirements, we expect that new memory technologies will be developed by the semiconductor memory industry. Our competitors are working to develop new memory technologies that may offer performance and/or cost advantages to our existing memory technologies and render existing technologies obsolete. Accordingly, our future success may depend on our ability to develop and produce viable and competitive new memory technologies. There can be no assurance of the following:

- that we will be successful in developing competitive new semiconductor memory technologies;
- that we will be able to cost-effectively manufacture new products;
- that we will be able to successfully market these technologies; and
- that margins generated from sales of these products will allow us to recover costs of development efforts.

If our efforts to develop new semiconductor memory technologies are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

**New product development may be unsuccessful.**

We are developing new products, including system-level memory products, that complement our traditional memory products or leverage their underlying design or process technology. We have made significant investments in product and process technologies and anticipate expending significant resources for new semiconductor product development over the next several years. The process to develop DRAM, NAND Flash, NOR Flash, and certain specialty memory products requires us to demonstrate advanced functionality and performance, many times well in advance of a planned ramp of production, in order to secure design wins with our customers. There can be no assurance that our product development efforts will be successful, that we will be able to cost-effectively manufacture new products, that we will be able to successfully market these products, or that margins generated from sales of these products will allow us to recover costs of development efforts.

**Products that fail to meet specifications, are defective, or that are otherwise incompatible with end uses could impose significant costs on us.**

Products that do not meet specifications or that contain, or are perceived by our customers to contain, defects or that are otherwise incompatible with end uses could impose significant costs on us or otherwise materially adversely affect our business, results of operations, or financial condition. From time to time we experience problems with nonconforming, defective or incompatible products after we have shipped such products. In recent periods we have further diversified and expanded our product offerings which could potentially increase the chance that one or more of our products could fail to meet specifications in a particular application. As a result of these problems we could be adversely affected in several ways, including the following:

- we may be required to compensate customers for costs incurred or damages caused by defective or incompatible product or replace products;
- we could incur a decrease in revenue or adjustment to pricing commensurate with the reimbursement of such costs or alleged damages; and
- we may encounter adverse publicity, which could cause a decrease in sales of our products.

**A determination that our products or manufacturing processes infringe the intellectual property rights of others or entering into a license agreement covering such intellectual property could materially adversely affect our business, results of operations, or financial condition.**

As is typical in the semiconductor and other high technology industries, from time to time others have asserted, and may in the future assert, that our products or manufacturing processes infringe their intellectual property rights. We are unable to predict the outcome of assertions of infringement made against us. A determination that our products or manufacturing processes infringe the intellectual property rights of others, or entering a license agreement covering such intellectual property, could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. Any of the foregoing results could have a material adverse effect on our business, results of operations, or financial condition. (See "Part 1. Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Contingencies.")

We have a number of intellectual property license agreements. Some of these license agreements require us to make one time or periodic payments. We may need to obtain additional patent licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

**Our joint ventures and strategic relationships involve numerous risks.**

We have entered into strategic relationships to manufacture products and develop new manufacturing process technologies and products. These relationships include our IMFT NAND Flash joint venture with Intel, our Inotera DRAM joint venture with Nanya, and our MP Mask joint venture with Photronics. These joint ventures and strategic relationships are subject to various risks that could adversely affect the value of our investments and our results of operations. These risks include the following:

- our interests could diverge from our partners or we may not be able to agree with partners on ongoing manufacturing and operational activities, or on the amount, timing, or nature of further investments in our joint venture;
- we may experience difficulties in transferring technology to joint ventures;
- we may experience difficulties and delays in ramping production at joint ventures;
- our control over the operations of our joint ventures is limited;
- we may recognize losses from our equity method investments;

- due to financial constraints, our joint venture partners may be unable to meet their commitments to us or our joint ventures and may pose credit risks for our transactions with them;
- due to differing business models or long-term business goals, our partners may decide not to join us in funding capital investment in our joint ventures, which may result in higher levels of cash expenditures by us;
- cash flows may be inadequate to fund increased capital requirements;
- we may experience difficulties or delays in collecting amounts due to us from our joint ventures and partners;
- the terms of our partnering arrangements may turn out to be unfavorable; and
- changes in tax, legal, or regulatory requirements may necessitate changes in the agreements with our partners.

If our joint ventures and strategic relationships are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

**If our manufacturing process is disrupted, our business, results of operations, or financial condition could be materially adversely affected.**

We manufacture products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process or the effects from a shift in product mix can reduce yields or disrupt production and may increase our per gigabit manufacturing costs. We maintain operations and continuously implement new product and process technology at our manufacturing operations which are widely dispersed in multiple locations in several countries including the U.S., Singapore, Taiwan, Japan, and China. Additionally, our control over operations at IMFT, Inotera, MP Mask, and Tera Probe is limited by our agreements with our partners. From time to time, we have experienced disruptions in our manufacturing process as a result of power outages, improperly functioning equipment, equipment failures, earthquakes, or other environmental events. If production at a fabrication facility is disrupted for any reason, manufacturing yields may be adversely affected or we may be unable to meet our customers' requirements and they may purchase products from other suppliers. This could result in a significant increase in manufacturing costs, loss of revenues, or damage to customer relationships, any of which could materially adversely affect our business, results of operations, or financial condition.

**The operations of the MMJ Companies will be subject to continued oversight by the Japan Court during the pendency of the corporate reorganization proceedings.**

Because the plans of reorganization of the MMJ Companies provide for ongoing payments to creditors following the closing of our acquisition of MMJ, the Japan Proceedings are continuing, and the MMJ Companies remain subject to the oversight of the Japan Court and of the trustees (including a trustee designated by us, who we refer to as the business trustee, and a trustee designated by the Japan Court, who we refer to as the legal trustee), pending completion of the Japan Proceedings. The Japan Proceedings and oversight of the Japan Court are expected to continue until the final creditor payment is made under the MMJ Companies' plans of reorganization, which is scheduled to occur in December 2019, but may occur on a later date to the extent any claims of creditors remain unfixed on the final scheduled installment payment date. Although we may be able to petition the court to terminate the Japan Proceedings once two-thirds of all payments under the plans of reorganization are made, there can be no assurance that the Japan Court will grant any such petition.

During the pendency of the Japan Proceedings, the MMJ Companies are obligated to provide periodic financial reports to the Japan Court and may be required to obtain the consent of the Japan Court prior to taking a number of significant actions relating to their businesses, including transferring or disposing of, or acquiring, certain material assets, incurring or guaranteeing material indebtedness, settling disputes, or entering into certain material agreements. The consent of the legal trustee may also be required for matters that would likely have a material impact on the operations or assets of the MMJ Companies and their subsidiaries or for transfers of material assets, to the extent the matters or transfers would reasonably be expected to materially and adversely affect execution of the plans of reorganization of the MMJ Companies. Accordingly, during the pendency of the Japan Proceedings, our ability to effectively integrate the MMJ Companies as part of our global operations or to cause the MMJ Companies to take certain actions that we deem advisable for their businesses could be adversely affected if the Japan Court or the legal trustee is unwilling to consent to various actions that we may wish to take with respect to the MMJ Companies.

**Our Inotera Supply Agreement involves numerous risks.**

Since January 2013, we have purchased all of Inotera's DRAM output at a price reflecting a discount from market prices for our comparable components under a supply agreement (the "2013 Supply Agreement"). In the second quarter of 2015, we executed a supply agreement, to be effective beginning on January 1, 2016 (the "2016 Supply Agreement"), which will replace the 2013 Supply Agreement. Under the 2016 Supply Agreement, the price for DRAM products sold to us will be based on a formula that equally shares margin between Inotera and us. The 2016 Supply Agreement has an initial two-year term, followed by a three-year wind-down period, and contemplates negotiations in late 2016 with respect to a two-year extension, and annual negotiations thereafter with respect to successive one-year extensions. Upon termination of the initial two-year term of the 2016 Supply Agreement, or any extensions, we would purchase DRAM from Inotera during the wind-down period. Our share of Inotera's capacity would decline over the wind-down period. Our Inotera supply agreements involve numerous risks including the following:

- higher costs for supply obtained under the Inotera supply agreements as compared to our wholly-owned facilities;
- difficulties and delays in ramping production at Inotera;
- difficulties in transferring technology to Inotera; and
- difficulties in coming to an agreement with Nanya regarding major corporate decisions, such as capital expenditures or capital structure.

In the first nine months of 2015 and in 2014, our cost of products purchased from Inotera was significantly higher than our cost of similar products manufactured in our wholly-owned facilities, due to the pricing formula of the 2013 Supply Agreement and strong market conditions. For the third quarter of 2015, we purchased \$533 million of DRAM products from Inotera and our supply from Inotera accounted for 33% of our aggregate DRAM gigabit production. If our supply of DRAM from Inotera is impacted, our business, results of operations, or financial condition could be materially adversely affected.

**Changes in foreign currency exchange rates could materially adversely affect our business, results of operations, or financial condition.**

Across our global operations, there are transactions and balances denominated in currencies other than the U.S. dollar (our reporting currency), primarily the British pound, the euro, the Shekel, the Singapore dollar, the New Taiwan dollar, the yen, and the yuan. We recorded net losses from changes in currency exchange rates of \$26 million for the first nine months of 2015, \$28 million for 2014, and \$229 million for 2013. Based on our foreign currency exposures from monetary assets and liabilities, offset by balance sheet hedges, we estimate that a 10% adverse change in exchange rates versus the U.S. dollar would result in losses of approximately \$4 million as of June 4, 2015. In addition, a significant portion of our manufacturing costs are denominated in foreign currencies. Exchange rates for some of these currencies against the U.S. dollar, particularly the yen, have been volatile in recent periods. If these currencies strengthen against the U.S. dollar, our manufacturing costs could significantly increase. In the event that exchange rates for the U.S. dollar adversely change against our foreign currency exposures in the British pound, euro, shekel, Singapore dollar, New Taiwan dollar, the yen, or the yuan, our results of operations or financial condition may be adversely affected.

**We may make future acquisitions and/or alliances, which involve numerous risks.**

Acquisitions and the formation or operation of alliances, such as joint ventures and other partnering arrangements, involve numerous risks including the following:

- integrating the operations, technologies, and products of acquired or newly formed entities into our operations;
- increasing capital expenditures to upgrade and maintain facilities;
- increased debt levels;
- the assumption of unknown or underestimated liabilities;
- the use of cash to finance a transaction, which may reduce the availability of cash to fund working capital, capital expenditures, research and development expenditures, and other business activities;
- diverting management's attention from daily operations;
- managing larger or more complex operations and facilities and employees in separate and diverse geographic areas;
- hiring and retaining key employees;
- requirements imposed by governmental authorities in connection with the regulatory review of a transaction, which may include, among other things, divestitures or restrictions on the conduct of our business or the acquired business;
- inability to realize synergies or other expected benefits;
- failure to maintain customer, vendor, and other relationships;

- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices; and
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements, or worse-than-expected performance of the acquired business.

In previous years, supply of memory products has significantly exceeded customer demand resulting in significant declines in average selling prices for DRAM, NAND Flash, and NOR Flash products. Resulting operating losses have led to the deterioration in the financial condition of a number of industry participants, including the liquidation of Qimonda and the 2012 bankruptcy filing by Elpida (now known as MMJ). These types of proceedings often lead to court-directed processes involving the sale of related businesses or assets. We believe the global memory industry is experiencing a period of consolidation as a result of these market conditions and other factors, and we may engage in discussions regarding potential acquisitions and similar opportunities arising out of these industry conditions. To the extent we are successful in completing any such transactions, we could be subject to some or all of the risks described above, including the risks pertaining to funding, assumption of liabilities, integration challenges, and increases in debt that may accompany such transactions. Acquisitions of, or alliances with, high-technology companies are inherently risky and may not be successful and may materially adversely affect our business, results of operations, or financial condition.

**Breaches of our network security could expose us to losses.**

We manage and store on our network systems various proprietary information and sensitive or confidential data relating to our operations. We also process, store, and transmit large amounts of data relating to our customers and employees, including sensitive personal information. Unauthorized users may be able to gain access to our network system and steal proprietary information, compromise confidential information, create system disruptions, or cause shutdowns. These parties may also be able to develop and deploy viruses, worms, and other malicious software programs that disrupt our operations and create security vulnerabilities. Attacks on our network systems could result in significant losses and damage our reputation with customers, and could expose us to litigation if the confidential information of our customers, suppliers, or employees is compromised.

**Compliance with new regulations regarding the use of conflict minerals could limit the supply and increase the cost of certain metals used in manufacturing our products.**

Increased focus on environmental protection and social responsibility initiatives led to the passage of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and its implementing Securities and Exchange Commission regulations. The Dodd-Frank Act imposes new supply chain diligence and disclosure requirements for certain manufacturers of products containing specific minerals that may originate in or near the Democratic Republic of the Congo (the "DRC") and finance or benefit local armed groups. These "conflict minerals" are commonly found in materials used in the manufacture of semiconductors. The implementation of these new regulations may limit the sourcing and availability of some of these materials. This in turn may affect our ability to obtain materials necessary for the manufacture of our products in sufficient quantities and may affect related material pricing. Some of our customers may elect to disqualify us as a supplier or reduce purchases from us if we are unable to verify that our products are DRC conflict free.

**We may incur additional tax expense or become subject to additional tax exposure.**

We operate in a number of locations outside the U.S., including in Singapore, where we have tax incentive agreements that are conditional upon meeting certain business operations and employment thresholds. Our domestic and international taxes are dependent upon the distribution of our earnings among these different jurisdictions. Our provision for income taxes and cash tax liabilities in the future could be adversely affected by numerous factors, including challenges by tax authorities to our tax structure, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, failure to meet performance obligations with respect to tax incentive agreements, and changes in tax laws and regulations. We file income tax returns with the U.S. federal government, various U.S. states, and various other jurisdictions throughout the world. Our U.S. federal and state tax returns remain open to examination for 2010 through 2014. In addition, tax returns open to examination in multiple other taxing jurisdictions range from the years 2007 to 2014. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and cash tax liability.

**We may not utilize all of our net deferred tax assets.**

We have substantial deferred tax assets, which include, among others, net operating loss and credit carryforwards. As of August 28, 2014, our U.S. federal and state net operating loss carryforwards, including uncertain tax benefits, were \$3.89 billion and \$1.71 billion, respectively, which, if not utilized, will expire at various dates from 2015 through 2033. As of August 28, 2014, our foreign net operating loss carryforwards were \$5.37 billion, including \$3.95 billion pertaining to Japan, which, if not utilized, substantially all will expire at various dates from 2018 through 2023. As of August 28, 2014, we had valuation allowances of \$1.29 billion and \$979 million against our net deferred tax assets in the U.S. and Japan, respectively.

**The limited availability of raw materials, supplies, or capital equipment could materially adversely affect our business, results of operations, or financial condition.**

Our operations require raw materials, and in certain cases, third party services, that meet exacting standards. We generally have multiple sources of supply for our raw materials and services. However, only a limited number of suppliers are capable of delivering certain raw materials and services that meet our standards. In some cases, materials, components, or services are provided by a single supplier. Various factors could reduce the availability of raw materials or components such as silicon wafers, controllers, photomasks, chemicals, gases, photoresist, lead frames, and molding compound. Shortages may occur from time to time in the future. We and/or our suppliers could be affected by laws and regulations enacted in response to concerns regarding climate change, which could increase the cost and limit the supply of our raw materials. In addition, disruptions in transportation lines could delay our receipt of raw materials. Lead times for the supply of raw materials have been extended in the past. If our supply of raw materials or services is disrupted or our lead times extended, our business, results of operations, or financial condition could be materially adversely affected.

Our operations are dependent on our ability to procure advanced semiconductor manufacturing equipment that enables the transition to lower cost manufacturing processes. For certain key types of equipment, including photolithography tools, we are sometimes dependent on a single supplier. From time to time we have experienced difficulties in obtaining some equipment on a timely basis due to the supplier's limited capacity. Our inability to obtain this equipment timely could adversely affect our ability to transition to next generation manufacturing processes and reduce costs. Delays in obtaining equipment could also impede our ability to ramp production at new facilities and increase our overall costs of the ramp. If we are unable to obtain advanced semiconductor manufacturing equipment in a timely manner, our business, results of operations, or financial condition could be materially adversely affected.

**A downturn in the worldwide economy may harm our business.**

Downturns in the worldwide economy have harmed our business in the past and future downturns could also adversely affect our business. Adverse economic conditions affect demand for devices that incorporate our products, such as personal computers, mobile devices, solid-state drives, and servers. Reduced demand for these products could result in significant decreases in our average selling prices and product sales. A deterioration of current conditions in worldwide credit markets could limit our ability to obtain external financing to fund our operations and capital expenditures. In addition, we may experience losses on our holdings of cash and investments due to failures of financial institutions and other parties. Difficult economic conditions may also result in a higher rate of loss on our accounts receivables due to credit defaults. As a result, our business, results of operations, or financial condition could be materially adversely affected.

**Our results of operations could be affected by natural disasters and other events in the locations in which we or our customers or suppliers operate.**

We have manufacturing and other operations in locations subject to natural occurrences such as severe weather and geological events including earthquakes or tsunamis that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. A natural disaster, fire, explosion, or other event that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may materially adversely affect our business, results of operations, or financial condition.

**We face risks associated with our international sales and operations that could materially adversely affect our business, results of operations, or financial condition.**

Sales to customers outside the United States approximated 84% of our consolidated net sales for the third quarter of 2015. In addition, a substantial portion of our manufacturing operations are located outside the United States. In particular, a significant portion of our manufacturing operations are concentrated in Taiwan, Singapore, and Japan. Our international sales and operations are subject to a variety of risks, including:

- export and import duties, changes to import and export regulations, customs regulations and processes, and restrictions on the transfer of funds;
- compliance with U.S. and international laws involving international operations, including the Foreign Corrupt Practices Act, export and import laws, and similar rules and regulations;
- political and economic instability;
- problems with the transportation or delivery of our products;
- issues arising from cultural or language differences and labor unrest;
- longer payment cycles and greater difficulty in collecting accounts receivable;
- compliance with trade, technical standards, and other laws in a variety of jurisdictions;
- contractual and regulatory limitations on our ability to maintain flexibility with our staffing levels;
- disruptions to our manufacturing operations as a result of actions imposed by foreign governments;
- changes in economic policies of foreign governments; and
- difficulties in staffing and managing international operations.

These factors may materially adversely affect our business, results of operations, or financial condition.

**We are subject to counterparty default risks.**

We have numerous arrangements with financial institutions that subject us to counterparty default risks, including cash deposits, investments, capped-call contracts on our stock, and derivative instruments. As a result, we are subject to the risk that the counterparty to one or more of these arrangements will default on its performance obligations. A counterparty may not comply with their contractual commitments which could then lead to their defaulting on their obligations with little or no notice to us, which could limit our ability to take action to mitigate our exposure. Additionally, our ability to mitigate our exposures may be constrained by the terms of our contractual arrangements or because market conditions prevent us from taking effective action. If one of our counterparties becomes insolvent or files for bankruptcy, our ability to recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable laws governing the bankruptcy proceeding. In the event of such default, we could incur significant losses, which could adversely impact our business, results of operations, or financial condition.

## **ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS**

In the first quarter of 2015, our Board of Directors authorized the repurchase of up to \$1.00 billion of our common stock. Any repurchases under the authorization may be made in open market purchases, block trades, privately-negotiated transactions, and/or derivative transactions, subject to market conditions and our ongoing determination that it is the best use of available cash. No shares were repurchased under this authorization in the third quarter of 2015 and as of June 4, 2015, the approximate dollar value of shares (or units) that may be repurchased in the future under this authorization was \$808 million.

In our consolidated financial statements, we also treat shares of common stock withheld as payment of withholding taxes or exercise prices in connection with the vesting or exercise of equity awards as common stock repurchases. Those withheld shares of common stock are not considered common stock repurchases under our authorized common stock repurchase plan.



## ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   |
|-----------------------|---|
| 3.1                   | Restated Certificate of Incorporation of the Registrant (1)   |
| 3.2                   | Bylaws of the Registrant, Amended and Restated (1)  |
| 4.1                   | Indenture, dated as of April 30, 2015, by and between Micron Technology, Inc. and U.S. Bank National Association, as Trustee. (2)   |
| 4.2                   | Indenture, dated as of April 30, 2015, by and between Micron Technology, Inc. and U.S. Bank National Association, as Trustee. (2)   |
| 4.3                   | Form of Note (included in Exhibit 4.1). (2)   |
| 4.4                   | Form of Note (included in Exhibit 4.2). (2)   |
| 10.1                  | Purchase Agreement, dated as of April 27, 2015, by and among Micron Technology, Inc. and Morgan Stanley & Co. LLC, Goldman, Sachs & Co. and Credit Suisse Securities (USA) LLC, as representatives of the initial purchasers. (2) |
| 31.1                  | Rule 13a-14(a) Certification of Chief Executive Officer   |
| 31.2                  | Rule 13a-14(a) Certification of Chief Financial Officer   |
| 32.1                  | Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350   |
| 32.2                  | Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350   |
| 101.INS               | XBRL Instance Document  |
| 101.SCH               | XBRL Taxonomy Extension Schema Document   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document  |

(1) Incorporated by reference to Current Report on Form 8-K dated January 26, 2015.

(2) Incorporated by reference to Current Report on Form 8-K dated April 30, 2015.

## SIGNATURES

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

Micron Technology, Inc.

\_\_\_\_\_  
(Registrant)

Date: July 10, 2015

/s/ Ernest E. Maddock

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Ernest E. Maddock

Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

**RULE 13a-14(a) CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER**

I, D. Mark Durcan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Micron Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2015

/s/ D. Mark Durcan

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D. Mark Durcan  
Chief Executive Officer

**RULE 13a-14(a) CERTIFICATION OF  
CHIEF FINANCIAL OFFICER**

I, Ernest E. Maddock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Micron Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2015

/s/ Ernest E. Maddock

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Ernest E. Maddock

Vice President of Finance and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. 1350**

I, D. Mark Durcan, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Micron Technology, Inc. on Form 10-Q for the period ended June 4, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Micron Technology, Inc.

Date: July 10, 2015

/s/ D. Mark Durcan

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D. Mark Durcan

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. 1350**

I, Ernest E. Maddock, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Micron Technology, Inc. on Form 10-Q for the period ended June 4, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Micron Technology, Inc.

Date: July 10, 2015

/s/ Ernest E. Maddock

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Ernest E. Maddock

Vice President of Finance and Chief Financial Officer