

MICRON TECHNOLOGY INC  
Form 10-Q  
June 22, 2018

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 May 31, 2018

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

75-1618004

(State or other jurisdiction of

(IRS Employer

Identification No.)

incorporation or organization)

8000 S. Federal Way, Boise, Idaho

83716-9632

(Address of principal executive offices)

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated  
Filer

Accelerated  
Filer

Non-Accelerated Filer   
(Do not check if a smaller  
reporting company)

Smaller Reporting  
Company

Emerging Growth  
Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: MICRON TECHNOLOGY INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
 No  x

The number of outstanding shares of the registrant's common stock as of June 15, 2018 was 1,159,810,627.

---

Micron Technology, Inc., including its consolidated subsidiaries, is an industry leader in innovative memory and storage solutions. Through our global brands – Micro®, Crucial®, and Ballistix® – our broad portfolio of high-performance memory and storage technologies, including DRAM, NAND, NOR Flash, and 3D XPoint™ memory, is transforming how the world uses information to enrich life. Backed by nearly 40 years of technology leadership, our memory and storage solutions enable disruptive trends, including artificial intelligence, machine learning, and autonomous vehicles, in key market segments like cloud, data center, networking, and mobile.

Micron, Crucial, Ballistix, any associated logos, and all other Micron trademarks are the property of Micron. 3D XPoint is a trademark of Intel in the United States and/or other countries. Other product names or trademarks that are not owned by Micron are for identification purposes only and may be the registered or unregistered trademarks of their respective owners.

### Forward-Looking Statements

This Form 10-Q 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 regarding timing of product introductions; our expected NAND development activities with Intel; the effect of U.S. tax reform; our expectation to engage, from time to time, in additional financing transactions; 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; capital spending in 2018; and the timing of completing construction of additional clean-room space and initial wafer output from our Singapore NAND fabrication facility. We are under no obligation to update these forward-looking statements. 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."

### Definitions of Commonly Used Terms

As used herein, "we," "our," "us," and similar terms include Micron Technology, Inc. and our consolidated 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                               |
|---------------------|--|-------------|--|
| 2021 MSAC Term Loan | Variable Rate MSAC Senior Secured Term Loan due 2021 | Intel       | Intel Corporation                        |
| 2021 MSTW Term Loan | Variable Rate MSTW Senior Secured Term Loan due 2021 | Japan Court | Tokyo District Court                     |
| 2022 Term Loan B    | Senior Secured Term Loan B due 2022                  | Micron      | Micron Technology, Inc. (Parent Company) |
| 2023 Notes          | 5.25% Senior Notes due 2023                          | MMJ         | Micron Memory Japan, Inc.                |
| 2023 Secured Notes  | 7.50% Senior Secured Notes due 2023                  | MMJ Group   | MMJ and its subsidiaries                 |
| 2024 Notes          | 5.25% Senior Notes due 2024                          | MMT         | Micron Memory Taiwan Co., Ltd.           |
| 2025 Notes          | 5.50% Senior Notes due 2025                          | MSTW        | Micron Semiconductor Taiwan Co., Ltd.    |
| 2026 Notes          | 5.63% Senior Notes due 2026                          | MTTW        | Micron Technology Taiwan, Inc.           |
| 2032C Notes         | 2.38% Convertible Senior Notes due 2032              | Qimonda     | Qimonda AG                               |
| 2032D Notes         | 3.13% Convertible Senior Notes due 2032              | R&D         | Research and Development                 |
| 2033E Notes         | 1.63% Convertible Senior Notes due 2033              | SG&A        | Selling, General, and Administrative     |

Edgar Filing: MICRON TECHNOLOGY INC - Form 10-Q

|             |   |     |                          |
|-------------|---|-----|--------------------------|
| 2033F Notes | 2.13% Convertible Senior Notes due 2033 | SSD | Solid-State Drive        |
| 2043G Notes | 3.00% Convertible Senior Notes due 2043 | TLC | Triple-Level Cell        |
| IMFT        | IM Flash Technologies, LLC              | VIE | Variable Interest Entity |
| Inotera     | Inotera Memories, Inc.                  |     |                          |

1

---

## 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 |          |
|--|---------------|---------|-------------------|----------|
|  | May 31,       | June 1, | May 31,           | June 1,  |
|  | 2018          | 2017    | 2018              | 2017     |
| Net sales  | \$7,797       | \$5,566 | \$21,951          | \$14,184 |
| Cost of goods sold                                     | 3,074         | 2,957   | 9,211             | 8,860    |
| Gross margin   | 4,723         | 2,609   | 12,740            | 5,324    |
| Selling, general, and administrative                   | 211           | 204     | 598               | 550      |
| Research and development                               | 603           | 434     | 1,574             | 1,377    |
| Other operating (income) expense, net                  | (44 )         | 8       | (49 )             | 31       |
| Operating income                                       | 3,953         | 1,963   | 10,617            | 3,366    |
| Interest income  | 36            | 10      | 86                | 25       |
| Interest expense                                       | (80 )         | (153 )  | (292 )            | (453 )   |
| Other non-operating income (expense), net              | (193 )        | (83 )   | (450 )            | (63 )    |
|  | 3,716         | 1,737   | 9,961             | 2,875    |
| Income tax (provision) benefit                         | 109           | (92 )   | (148 )            | (161 )   |
| Equity in net income (loss) of equity method investees | (2 )          | 2       | (1 )              | 7        |
| Net income   | 3,823         | 1,647   | 9,812             | 2,721    |
| Net (income) attributable to noncontrolling interests  | —             | —       | (2 )              | —        |
| Net income attributable to Micron                      | \$3,823       | \$1,647 | \$9,810           | \$2,721  |
| Earnings per share                                     |               |         |                   |          |
| Basic  | \$3.30        | \$1.49  | \$8.53            | \$2.52   |
| Diluted  | 3.10          | 1.40    | 7.96              | 2.38     |
| Number of shares used in per share calculations        |               |         |                   |          |
| Basic  | 1,159         | 1,106   | 1,150             | 1,082    |
| Diluted  | 1,235         | 1,177   | 1,233             | 1,142    |

See accompanying notes to consolidated financial statements.

2

---

## MICRON TECHNOLOGY, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

|   | Quarter ended   |                 | Nine months ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | May 31,<br>2018 | June 1,<br>2017 | May 31,<br>2018   | June 1,<br>2017 |
| Net income  | \$3,823         | \$1,647         | \$9,812           | \$2,721         |
| Other comprehensive income (loss), net of tax                   |                 |                 |                   |                 |
| Gains (losses) on derivative instruments                        | (21 )           | 6               | (6 )              | (1 )            |
| Pension liability adjustments                                   | (1 )            | 1               | —                 | —               |
| Unrealized gains (losses) on investments                        | —               | 1               | (2 )              | —               |
| Foreign currency translation adjustments                        | 1               | 11              | 1                 | 48              |
| Other comprehensive income (loss)                               | (21 )           | 19              | (7 )              | 47              |
| Total comprehensive income                                      | 3,802           | 1,666           | 9,805             | 2,768           |
| Comprehensive (income) attributable to noncontrolling interests | —               | —               | (2 )              | —               |
| Comprehensive income attributable to Micron                     | \$3,802         | \$1,666         | \$9,803           | \$2,768         |

See accompanying notes to consolidated financial statements.

3

---



## MICRON TECHNOLOGY, INC.

## CONSOLIDATED BALANCE SHEETS

(in millions except par value amounts)

(Unaudited)

| As of  | May 31,<br>2018 | August 31,<br>2017 |
|--|-----------------|--------------------|
| Assets   |                 |                    |
| Cash and equivalents   | \$ 6,808        | \$ 5,109           |
| Short-term investments   | 263             | 319                |
| Receivables  | 4,912           | 3,759              |
| Inventories  | 3,369           | 3,123              |
| Other current assets   | 147             | 147                |
| Total current assets   | 15,499          | 12,457             |
| Long-term marketable investments   | 487             | 617                |
| Property, plant, and equipment, net  | 22,705          | 19,431             |
| Intangible assets, net   | 334             | 387                |
| Deferred tax assets  | 989             | 766                |
| Goodwill   | 1,228           | 1,228              |
| Other noncurrent assets  | 603             | 450                |
| Total assets   | \$ 41,845       | \$ 35,336          |
| Liabilities and equity   |                 |                    |
| Accounts payable and accrued expenses  | \$ 3,998        | \$ 3,664           |
| Deferred income  | 431             | 408                |
| Current debt   | 1,454           | 1,262              |
| Total current liabilities  | 5,883           | 5,334              |
| Long-term debt   | 5,890           | 9,872              |
| Other noncurrent liabilities   | 549             | 639                |
| Total liabilities  | 12,322          | 15,845             |
| Commitments and contingencies  |                 |                    |
| Redeemable convertible notes   | 5               | 21                 |
| Micron shareholders' equity  |                 |                    |
| Common stock, \$0.10 par value, 3,000 shares authorized, 1,169 shares issued and 1,160 | 117             | 112                |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| outstanding (1,116<br>shares issued and 1,112<br>outstanding as of<br>August 31, 2017) |        |        |        |        |
| Additional capital   | 8,869  |        | 8,287  |        |
| Retained earnings  | 20,070 |        | 10,260 |        |
| Treasury stock, 9 shares<br>(4 shares as of August<br>31, 2017)                        | (429   | )      | (67    | )      |
| Accumulated other<br>comprehensive income  | 22     |        | 29     |        |
| Total Micron<br>shareholders' equity   | 28,649 |        | 18,621 |        |
| Noncontrolling interests<br>in subsidiaries  | 869    |        | 849    |        |
| Total equity   | 29,518 |        | 19,470 |        |
| Total liabilities and<br>equity  | \$     | 41,845 | \$     | 35,336 |

See accompanying notes to consolidated financial statements.

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

| Nine months ended   | May 31,<br>2018 | June 1,<br>2017 |
|---|-----------------|-----------------|
| Cash flows from operating activities  |                 |                 |
| Net income  | \$9,812         | \$2,721         |
| Adjustments to reconcile net income to net cash provided by operating activities            |                 |                 |
| Depreciation expense and amortization of intangible assets                                  | 3,474           | 2,795           |
| Amortization of debt discount and other costs   | 78              | 93              |
| Loss on debt prepayments, repurchases, and conversions                                      | 386             | 62              |
| Stock-based compensation  | 151             | 158             |
| Gain on remeasurement of previously-held equity interest in Inotera                         | —               | (71 )           |
| Change in operating assets and liabilities  |                 |                 |
| Receivables   | (1,177 )        | (1,338 )        |
| Inventories   | (246 )          | 108             |
| Accounts payable and accrued expenses   | 38              | 511             |
| Payments attributed to intercompany balances with Inotera                                   | —               | (361 )          |
| Deferred income taxes, net  | (216 )          | 80              |
| Other   | (55 )           | 192             |
| Net cash provided by operating activities   | 12,245          | 4,950           |
| Cash flows from investing activities  |                 |                 |
| Expenditures for property, plant, and equipment   | (6,628 )        | (3,469 )        |
| Purchases of available-for-sale securities  | (606 )          | (943 )          |
| Payments to settle hedging activities   | (84 )           | (267 )          |
| Acquisition of Inotera  | —               | (2,634 )        |
| Proceeds from sales of available-for-sale securities  | 569             | 742             |
| Proceeds from maturities of available-for-sale securities                                   | 219             | 115             |
| Proceeds from settlement of hedging activities  | 151             | 146             |
| Other   | 292             | 51              |
| Net cash provided by (used for) investing activities  | (6,087 )        | (6,259 )        |
| Cash flows from financing activities  |                 |                 |
| Repayments of debt  | (6,767 )        | (1,774 )        |
| Payments on equipment purchase contracts  | (170 )          | (261 )          |
| Proceeds from issuance of stock   | 1,636           | 108             |
| Proceeds from issuance of debt  | 969             | 3,136           |
| Other   | (111 )          | (2 )            |
| Net cash provided by (used for) financing activities  | (4,443 )        | 1,207           |
| Effect of changes in currency exchange rates on cash, cash equivalents, and restricted cash | (4 )            | (15 )           |
| Net increase (decrease) in cash, cash equivalents, and restricted cash                      | 1,711           | (117 )          |
| Cash, cash equivalents, and restricted cash at beginning of period                          | 5,216           | 4,263           |
| Cash, cash equivalents, and restricted cash at end of period                                | \$6,927         | \$4,146         |

See accompanying notes to consolidated financial statements.

5

---

MICRON TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts in millions except per share amounts)

(Unaudited)

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Micron and our 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 31, 2017. 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.

Our fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. Fiscal years 2018 and 2017 each contain 52 weeks. 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 31, 2017.

Significant Accounting Policies

Our significant accounting policies include those described in our Annual Report on Form 10-K for the year ended August 31, 2017 as well as the policy below.

**Government Incentives:** We receive incentives from governmental entities related to expenses, assets, and other activities. Our government incentives may require that we meet or maintain specified spending levels and other operational metrics and may be subject to reimbursement if such conditions are not met or maintained. Government incentives are recorded in the financial statements in accordance with their purpose: as a reduction of expenses, a reduction of asset costs, or other income. Incentives related to specific operating activities are offset against the related expense in the period the expense is incurred. Incentives related to the acquisition or construction of fixed assets are recognized as a reduction in the carrying amounts of the related assets and reduce depreciation expense over the useful lives of the assets. Other incentives are recognized as other operating income. Government incentives received prior to being earned are recognized in current or noncurrent deferred income, whereas government incentives earned prior to being received are recognized in current or noncurrent receivables. Cash received from government incentives related to operating expenses are included as an operating activity in the statement of cash flows, whereas incentives related to the acquisition of property, plant, and equipment are included as an investing activity.

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 VIE

PTI Xi'an: Powertech Technology Inc. Xi'an ("PTI Xi'an") is a wholly-owned subsidiary of Powertech Technology Inc. ("PTI") and was created to provide assembly services to us at our manufacturing site in Xi'an, China. We do not have an equity interest in PTI Xi'an. PTI Xi'an is a VIE because of the terms of its service agreement with us and its dependency on PTI to finance its operations. We have determined that we do not have the power to direct the activities of PTI Xi'an that most significantly impact its economic performance, primarily because we have no governance rights. Therefore, we do not

consolidate PTI Xi'an. In connection with our assembly services with PTI, we had capital lease obligations and net property, plant, and equipment of \$72 million and \$69 million, respectively, as of May 31, 2018, and \$80 million and \$76 million, respectively, as of August 31, 2017.

#### Consolidated VIE

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

#### Recently Issued Accounting Standards

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16 – Intra-Entity Transfers Other Than Inventory, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU will be effective for us in the first quarter of 2019 and requires modified retrospective adoption. We are evaluating the effects of our adoption of this ASU on our financial statements.

In June 2016, the FASB issued ASU 2016-13 – Measurement of Credit Losses on Financial Instruments, which requires a financial asset (or a group of financial assets) measured on the basis of amortized cost to be presented at the net amount expected to be collected. This ASU requires that the income statement reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This ASU requires that credit losses of debt securities designated as available-for-sale be recorded through an allowance for credit losses and limits the credit loss to the amount by which fair value is below amortized cost. This ASU will be effective for us in the first quarter of 2021 with adoption permitted as early as the first quarter of 2020. This ASU requires modified retrospective adoption, with prospective adoption for debt securities for which an other-than-temporary impairment had been recognized before the effective date. We are evaluating the timing and effects of our adoption of this ASU on our financial statements.

In February 2016, the FASB issued ASU 2016-02 – Leases, which amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. This ASU will be effective for us in the first quarter of 2020 with early adoption permitted and requires modified retrospective adoption. The adoption of this ASU will result in an increase in right-of-use assets and corresponding liabilities. We are evaluating the timing and other effects of our adoption of this ASU on our financial statements.

In January 2016, the FASB issued ASU 2016-01 – Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This ASU will be effective for us in the first quarter of 2019 and requires modified retrospective adoption, with prospective adoption for amendments related to equity securities without readily determinable fair values. Our assets and liabilities subject to this standard are not material.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States. The core principal of this ASU, as amended, 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 the first quarter of 2019 and we expect to elect the modified retrospective adoption method.

As a result of the adoption of this ASU, we expect to recognize revenue from sales of products to our distributors (which generally have agreements allowing rights of return or price protection) at the time control transfers to our distributors, which is

7

---



generally earlier than recognizing revenue only upon resale by our distributors under existing revenue recognition guidance. Revenue recognized upon resale by our distributors under these arrangements was 19% of our consolidated revenue for the third quarter and first nine months of 2018, and 19% and 21% of our consolidated revenue for the third quarter and first nine months of 2017, respectively. On the date of initial application of this ASU, we will derecognize the deferred income on sales made to our distributors through a cumulative adjustment to retained earnings. We expect the revenue deferral, historically recognized in the following period, to be offset by the earlier recognition of revenue as described above as control of product transfers to our distributors. As a result of the adoption of this ASU, we expect to recognize interest expense from the financing component for contracts with advanced payments under which we transfer control of our products to our customers for periods extending beyond one year, although historically such arrangements would not have resulted in significant amounts of interest expense. As a result of the adoption of this ASU, we expect that revenue recognized under our current license agreements will not change materially.

#### Acquisition of Inotera

Through December 6, 2016, we held a 33% ownership interest in Inotera, now known as Micron Technology Taiwan, Inc. ("MTTW") and accounted for our ownership interest under the equity method. On December 6, 2016, we acquired the remaining 67% ownership interest in Inotera not owned by us (the "Inotera Acquisition") and began consolidating Inotera's operating results. Inotera manufactures DRAM products at its 300mm wafer fabrication facility in Taoyuan City, Taiwan, and previously sold such products exclusively to us through supply agreements, under which we purchased \$504 million of DRAM products in the first quarter of 2017, based on a pricing formula that equally shared margin between Inotera and us.

#### Pro Forma Financial Information

The following pro forma financial information presents the combined results of operations as if the Inotera Acquisition had occurred on September 4, 2015. The pro forma financial information includes the accounting effects of the business combination, including adjustments for depreciation of property, plant, and equipment, interest expense, elimination of intercompany activities, and revaluation of inventories. The pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the Inotera Acquisition occurred on September 4, 2015.

|                                   | Quarter<br>ended<br>June 1,<br>2017 | Nine<br>months<br>ended<br>June 1,<br>2017 |
|-----------------------------------|-------------------------------------|--|
| Net sales                         | \$ 5,566                            | \$ 14,179                                  |
| Net income                        | 1,696                               | 2,776                                      |
| Net income attributable to Micron | 1,696                               | 2,776                                      |
| Earnings per share                |                                     |  |
| Basic                             | 1.53                                | 2.52                                       |
| Diluted                           | 1.44                                | 2.39                                       |

The pro forma financial information includes our results for the quarter and nine months ended June 1, 2017 (which includes the results of Inotera since our acquisition of Inotera on December 6, 2016), the results of Inotera for the three months ended November 30, 2016, and the adjustments described above.



## Cash and Investments

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

| As of                                       | May 31, 2018         |                        |   |                  | August 31, 2017      |                        |   |                  |
|---|----------------------|------------------------|---|------------------|----------------------|------------------------|---|------------------|
|   | Cash and Equivalents | Short-term Investments | Long-term Marketable Investments <sup>(1)</sup> | Total Fair Value | Cash and Equivalents | Short-term Investments | Long-term Marketable Investments <sup>(1)</sup> | Total Fair Value |
| Cash  | \$3,452              | \$ —                   | \$ —  | \$3,452          | \$2,237              | \$ —                   | \$ —  | \$2,237          |
| Level 1 <sup>(2)</sup>                      |                      |                        |   |                  |                      |                        |   |                  |
| Money market funds                          | 3,061                | —                      | —   | 3,061            | 2,332                | —                      | —   | 2,332            |
| Level 2 <sup>(3)</sup>                      |                      |                        |   |                  |                      |                        |   |                  |
| Corporate bonds                             | 2                    | 151                    | 269   | 422              | —                    | 193                    | 315   | 508              |
| Certificates of deposit                     | 259                  | 10                     | 2   | 271              | 483                  | 24                     | 3   | 510              |
| Government securities                       | —                    | 62                     | 99  | 161              | 1                    | 90                     | 126   | 217              |
| Asset-backed securities                     | —                    | 14                     | 117   | 131              | —                    | 2                      | 173   | 175              |
| Commercial paper                            | 34                   | 26                     | —   | 60               | 56                   | 10                     | —   | 66               |
|   | 6,808                | \$ 263                 | \$ 487  | \$7,558          | 5,109                | \$ 319                 | \$ 617  | \$6,045          |
| Restricted cash <sup>(4)</sup>              | 119                  |                        |   |                  | 107                  |                        |   |                  |
| Cash, cash equivalents, and restricted cash | \$6,927              |                        |   |                  | \$5,216              |                        |   |                  |

(1) The maturities of long-term marketable securities range from one to four years.

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

(3) 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 analyses to validate information obtained from these pricing services. No adjustments were made to the fair values indicated by such pricing information as of May 31, 2018 or August 31, 2017.

(4) Restricted cash is included in other noncurrent assets and primarily represents balances related to the MMJ Creditor Payments and interest reserve balances related to the 2021 MSTW Term Loan.

Gross realized gains and losses from sales of available-for-sale securities were not material for any period presented. As of May 31, 2018, there were no available-for-sale securities that had been in a loss position for longer than 12 months.

## Receivables

| As of                  | May 31, 2018 | August 31, 2017 |
|------------------------|--------------|-----------------|
| Trade receivables      | \$ 4,513     | \$ 3,490        |
| Income and other taxes | 142          | 100             |
| Other                  | 257          | 169             |
|                        | \$ 4,912     | \$ 3,759        |



## Inventories

| As of                      | May 31, August 31, |          |
|----------------------------|--------------------|----------|
|                            | 2018               | 2017     |
| Finished goods             | \$ 828             | \$ 856   |
| Work in process            | 2,168              | 1,968    |
| Raw materials and supplies | 373                | 299      |
|                            | \$ 3,369           | \$ 3,123 |

## Property, Plant, and Equipment

| As of                                   | May 31, August 31, |           |
|---|--------------------|-----------|
|   | 2018               | 2017      |
| Land                                    | \$345              | \$ 345    |
| Buildings                               | 8,560              | 7,958     |
| Equipment <sup>(1)</sup>                | 36,909             | 32,187    |
| Construction in progress <sup>(2)</sup> | 826                | 499       |
| Software                                | 624                | 544       |
|   | 47,264             | 41,533    |
| Accumulated depreciation                | (24,559 )          | (22,102 ) |
|   | \$22,705           | \$ 19,431 |

(1) Included costs related to equipment not placed into service of \$1.41 billion and \$994 million, as of May 31, 2018 and August 31, 2017, respectively.

(2) Includes building-related construction and tool installation costs for assets not placed into service.

## Intangible Assets and Goodwill

| As of                          | May 31, 2018 |                          | August 31, 2017 |                          |
|--------------------------------|--------------|--------------------------|-----------------|--------------------------|
|                                | Gross Amount | Accumulated Amortization | Gross Amount    | Accumulated Amortization |
| Amortizing assets              |              |                          |                 |                          |
| Product and process technology | \$573        | \$ (347 )                | \$756           | \$ (477 )                |
| Non-amortizing assets          |              |                          |                 |                          |
| In-process R&D                 | 108          | —                        | 108             | —                        |
| Total intangible assets        | \$681        | \$ (347 )                | \$864           | \$ (477 )                |
| Goodwill                       | \$1,228      |                          | \$1,228         |                          |

During the first nine months of 2018 and 2017, we capitalized \$27 million and \$22 million, respectively, for product and process technology with weighted-average useful lives of 11 years and 10 years, respectively. Expected amortization expense is \$20 million for the remainder of 2018, \$52 million for 2019, \$37 million for 2020, \$30 million for 2021, and \$20 million for 2022.



## Accounts Payable and Accrued Expenses

| As of                                   | May 31, August 31, |          |
|---|--------------------|----------|
|   | 2018               | 2017     |
| Accounts payable                        | \$ 1,360           | \$ 1,333 |
| Property, plant, and equipment payables | 1,143              | 1,018    |
| Salaries, wages, and benefits           | 692                | 603      |
| Income and other taxes                  | 311                | 163      |
| Customer advances                       | 181                | 197      |
| Other                                   | 311                | 350      |
|   | \$ 3,998           | \$ 3,664 |

## Debt

| As of<br>Instrument           | May 31, 2018   |                   |  | August 31, 2017 |           |          |          |           |           |
|-------------------------------|----------------|-------------------|--|-----------------|-----------|----------|----------|-----------|-----------|
|                               | Stated<br>Rate | Effective<br>Rate |  | Current         | Long-Term | Total    | Current  | Long-Term | Total     |
| MMJ Creditor Payments         | N/A            | 6.52 %            |  | \$ 237          | \$ 259    | \$ 496   | \$ 157   | \$ 474    | \$ 631    |
| Capital lease obligations     | N/A            | 3.80 %            |  | 346             | 605       | 951      | 357      | 833       | 1,190     |
| 2021 MSAC Term Loan           | 4.42 %         | 4.65 %            |  | —               | —         | —        | 99       | 697       | 796       |
| 2021 MSTW Term Loan           | 2.85 %         | 3.01 %            |  | —               | 1,993     | 1,993    | —        | 2,640     | 2,640     |
| 2022 Term Loan B              | 3.74 %         | 4.15 %            |  | 5               | 721       | 726      | 5        | 725       | 730       |
| 2023 Notes                    | 5.25 %         | 5.43 %            |  | —               | —         | —        | —        | 991       | 991       |
| 2023 Secured Notes            | 7.50 %         | 7.69 %            |  | —               | —         | —        | —        | 1,238     | 1,238     |
| 2024 Notes                    | 5.25 %         | 5.38 %            |  | —               | —         | —        | —        | 546       | 546       |
| 2025 Notes                    | 5.50 %         | 5.56 %            |  | —               | 515       | 515      | —        | 515       | 515       |
| 2026 Notes                    | 5.63 %         | 5.73 %            |  | —               | —         | —        | —        | 128       | 128       |
| 2032C Notes <sup>(1)(2)</sup> | 2.38 %         | 5.95 %            |  | 504             | —         | 504      | —        | 211       | 211       |
| 2032D Notes <sup>(1)</sup>    | 3.13 %         | 6.33 %            |  | 77              | 149       | 226      | —        | 159       | 159       |
| 2033E Notes <sup>(1)</sup>    | 1.63 %         | 1.63 %            |  | 43              | —         | 43       | 202      | —         | 202       |
| 2033F Notes <sup>(1)</sup>    | 2.13 %         | 4.93 %            |  | 123             | —         | 123      | 278      | —         | 278       |
| 2043G Notes <sup>(1)</sup>    | 3.00 %         | 6.76 %            |  | 10              | 679       | 689      | —        | 671       | 671       |
| IMFT Member Debt              | 0.00 %         | 0.00 %            |  | —               | 969       | 969      | —        | —         | —         |
| Other notes                   | 1.84 %         | 2.46 %            |  | 109             | —         | 109      | 164      | 44        | 208       |
|                               |                |                   |  | \$ 1,454        | \$ 5,890  | \$ 7,344 | \$ 1,262 | \$ 9,872  | \$ 11,134 |

Since the closing price of our common stock exceeded 130% of the conversion price per share for at least 20 trading days in the 30 trading day period ended on March 31, 2018, these notes are convertible by the holders at any time through the calendar quarter ended June 30, 2018. Current debt as of May 31, 2018 included an aggregate

- (1) of \$553 million for the settlement obligation (including principal and amounts in excess of principal) for conversions of certain convertible notes that will settle in cash in the fourth quarter of 2018. Additionally, the closing price of our common stock also exceeded the thresholds for the calendar quarter ended June 30, 2018; therefore, these notes are convertible by the holders at any time through September 30, 2018.
- (2) The 2032C Notes were classified as current as of May 31, 2018 because the holders can require us to repurchase for cash all or a portion of the 2032C Notes on May 1, 2019.

The carrying values in the table above as of May 31, 2018 include \$4 million of principal amount of our 2033E Notes for which we announced we would redeem on June 15, 2018 and \$553 million for the aggregate settlement obligation

of certain convertible notes that had been converted but not settled. Additionally, in June 2018, we made an irrevocable election under the terms of the 2021 MSTW Term Loan to prepay principal of 25 billion New Taiwan dollars (equivalent to \$836 million as of May 31, 2018) on July 6, 2018. These items had an aggregate carrying value of \$1.39 billion as of May 31, 2018 that will settle in the fourth quarter of 2018 and reduce the carrying value of our debt.



## Debt Prepayments, Repurchases, and Conversions

During the first nine months of 2018, we prepaid, repurchased, and settled conversions of debt with an aggregate of \$4.73 billion principal amount. When we receive a notice of conversion for any of our convertible notes and elect to settle in cash any amount of the conversion obligation in excess of the principal amount, the cash settlement obligations become derivative debt liabilities subject to mark-to-market accounting treatment based on the volume-weighted-average price of our common stock over a period of 20 consecutive trading days. Accordingly, at the date of our election to settle a conversion in cash, we reclassify the fair value of the equity component of the converted notes from additional capital to derivative debt liability within current debt in our consolidated balance sheet.

The following table presents the effects of prepayments, repurchases, and conversions of debt in the first nine months of 2018:

| Nine months ended May 31, 2018         | Decrease<br>in<br>Principal | Increase<br>(Decrease)<br>in Carrying<br>Value | Decrease<br>in Cash | Decrease<br>in<br>Equity | Gain<br>(Loss) |
|--|-----------------------------|--|---------------------|--------------------------|----------------|
| Prepayments and repurchases            |                             |  |                     |                          |                |
| 2021 MSAC Term Loan                    | \$(730 )                    | \$(727 )                                       | \$(730 )            | \$—                      | \$(3 )         |
| 2021 MSTW Term Loan                    | (671 )                      | (668 )   | (671 )              | —                        | (3 )           |
| 2023 Notes                             | (1,000 )                    | (991 )   | (1,046 )            | —                        | (55 )          |
| 2023 Secured Notes                     | (1,250 )                    | (1,238 )                                       | (1,373 )            | —                        | (135 )         |
| 2024 Notes                             | (550 )                      | (546 )   | (572 )              | —                        | (25 )          |
| 2026 Notes                             | (129 )                      | (129 )   | (139 )              | —                        | (11 )          |
| 2033F Notes                            | (66 )                       | (63 )  | (316 )              | (252 )                   | (1 )           |
| Settled conversions                    |                             |  |                     |                          |                |
| 2032C Notes                            | (52 )                       | (49 )  | (240 )              | (195 )                   | 4              |
| 2033E Notes <sup>(1)</sup>             | (161 )                      | (191 )   | (491 )              | (251 )                   | (49 )          |
| 2033F Notes                            | (119 )                      | (114 )   | (575 )              | (447 )                   | (14 )          |
| Conversions not settled <sup>(2)</sup> |                             |  |                     |                          |                |
| 2032C Notes                            | —                           | 338  | —                   | (264 )                   | (74 )          |
| 2032D Notes                            | —                           | 64   | —                   | (51 )                    | (13 )          |
| 2033E Notes                            | —                           | 31   | —                   | (29 )                    | (3 )           |
| 2033F Notes                            | —                           | 17   | —                   | (14 )                    | (3 )           |
| 2043G Notes                            | —                           | 6  | —                   | (5 )                     | (1 )           |
|  | \$(4,728 )                  | \$(4,260 )                                     | \$(6,153 )          | \$(1,508 )               | \$(386 )       |

<sup>(1)</sup> Settlement included issuance of 4 million shares of our treasury stock in addition to payment of cash.

<sup>(2)</sup> As of May 31, 2018, an aggregate of \$101 million in principal amount of our convertible notes (with a carrying value of \$553 million) had converted but not settled. These notes will settle in cash in the fourth quarter of 2018.

## IMFT Member Debt

In the first nine months of 2018, Intel provided debt financing ("IMFT Member Debt") of \$969 million to IMFT pursuant to the terms of the IMFT joint venture agreement. IMFT Member Debt bears no interest, matures upon the completion of an auction and sale of assets of IMFT prior to the dissolution, liquidation, or other wind-up of IMFT, and is convertible, at the election of Intel, in whole or in part, into a capital contribution to IMFT. Additionally, to the extent IMFT distributes cash to its members under the terms of the IMFT joint venture agreement, Intel may, at its

option, designate any portion of the distribution to be a repayment of the IMFT Member Debt. In the event Intel exercises its right to put its interest in IMFT to us, or if we exercise our right to call from Intel its interest in IMFT, Intel will transfer to Micron any IMFT Member Debt outstanding at the time of the closing of the put or call transaction. (See "Equity – Noncontrolling Interest in Subsidiaries – IMFT" note.)

### 2022 Senior Secured Term Loan B Repricing Amendment

On October 26, 2017 and April 27, 2018, we amended our 2022 Term Loan B, substantially all of which was treated as a debt modification, to reduce the interest rate margins. As of May 31, 2018, the 2022 Term Loan B bears interest at LIBOR plus 1.75%.

### Convertible Senior Notes

As of May 31, 2018, the trading price of our common stock was higher than the initial conversion prices of our convertible notes. As a result, the conversion values for these notes exceeded the principal amounts by \$3.21 billion as of May 31, 2018.

### 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 balance sheet date, including those described below. We are currently a party to other legal actions arising from the normal course of business, none of which are 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-tech industries, from time to time, others have asserted, and may in the future assert, that our products or manufacturing processes infringe upon their intellectual property rights.

On November 21, 2014, Elm 3DS Innovations, LLC ("Elm") filed a patent infringement action against Micron, 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 13 U.S. patents and seeks damages, attorneys' fees, and costs.

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

On June 24, 2016, the President and Fellows of Harvard University filed a patent infringement action against Micron in the U.S. District Court for the District of Massachusetts. The complaint alleged that a variety of our DRAM products infringed two U.S. patents and sought damages, injunctive relief, and other unspecified relief. On March 1, 2018, we executed a settlement agreement resolving this litigation. The settlement amount did not have a material effect on our business, results of operations, or financial condition.

On March 19, 2018, Micron Semiconductor (Xi'an) Co., Ltd. ("MXA") was served with a patent infringement complaint filed by Fujian Jinhua Integrated Circuit Co., Ltd. ("Jinhua") in the Fuzhou Intermediate People's Court in Fujian Province, China. On April 3, 2018, Micron Semiconductor (Shanghai) Co. Ltd. ("MSS") was served with the same complaint. The complaint alleges that MXA and MSS infringe a Chinese patent by manufacturing and selling certain Crucial DDR4 DRAM modules. The complaint seeks an order requiring the defendants to destroy inventory of the accused products and equipment for manufacturing the accused products in China, to stop manufacturing, using, selling, and offering for sale the accused products in China, and to pay damages of 98 million Chinese yuan plus court

fees incurred.

On March 21, 2018, MXA was served with a patent infringement complaint filed by United Microelectronics Corporation ("UMC") in the Fuzhou Intermediate People's Court in Fujian Province, China. On April 3, 2018, MSS was served with the same complaint. The complaint alleges that MXA and MSS infringe a Chinese patent by manufacturing and selling certain Crucial DDR4 DRAM modules. The complaint seeks an order requiring the defendants to destroy inventory of the accused products and equipment for manufacturing the accused products in China, to stop manufacturing, using, selling, and offering for sale the accused products in China, and to pay damages of 90 million Chinese yuan plus court fees incurred.

On April 3, 2018, MSS was served with another patent infringement complaint filed by Jinhua and two additional complaints filed by UMC in the Fuzhou Intermediate People's Court in Fujian Province, China. The three additional complaints allege that MSS infringes three Chinese patents by manufacturing and selling certain Crucial MX300 SSDs and certain GDDR5

13

---

memory chips. The two complaints filed by UMC each seek an order requiring the defendant to destroy inventory of the accused products and equipment for manufacturing the accused products in China, to stop manufacturing, using, selling, and offering for sale the accused products in China, and to pay damages of 90 million Chinese yuan plus court fees incurred. The complaint filed by Jinhua seeks an order requiring the defendants to destroy inventory of the accused products and equipment for manufacturing the accused products in China, to stop manufacturing, using, selling, and offering for sale the accused products in China, and to pay damages of 98 million Chinese yuan plus court fees incurred.

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, 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.

#### Qimonda

On January 20, 2011, Dr. Michael Jaffé, administrator for Qimonda's insolvency proceedings, filed suit against Micron 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 (the "Inotera Shares"), representing approximately 18% of Inotera's outstanding shares as of May 31, 2018, 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 the Inotera Shares and all other benefits; (4) denying Qimonda's claims against Micron 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 canceled. 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 Micron B.V. 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 Micron B.V. 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.

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.

Other

On December 5, 2017, Micron filed a complaint against UMC and Jinhua in the U.S. District Court for the Northern District of California. The complaint alleges that UMC and Jinhua violated the Defend Trade Secrets Act, the civil provisions of the Racketeer Influenced and Corrupt Organizations Act, and California's Uniform Trade Secrets Act by misappropriating Micron's trade secrets and other misconduct. Micron's complaint seeks damages, restitution, disgorgement of profits, injunctive relief, and other appropriate relief.

On April 27, 2018, a purported class-action lawsuit was filed against Micron and other DRAM suppliers in the U.S. District Court for the Northern District of California asserting claims based on alleged price-fixing of DRAM products during

the period from June 1, 2016 to February 1, 2018. Similar cases were subsequently filed in Canadian courts in Quebec, Montreal and Toronto, Ontario. The complaints seek treble monetary damages, costs, interest, attorneys' fees, and other injunctive and equitable relief. We are unable to predict the outcome of these matters and therefore cannot estimate the range of possible loss. The final resolution of these matters could result in significant liability and could have a material adverse effect on our business, results of operations, or financial condition.

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.

## Equity

### Micron Shareholders' Equity

**Common Stock Issuance:** In October 2017, we issued 34 million shares of our common stock for \$41.00 per share in a public offering for proceeds of \$1.36 billion, net of underwriting fees and other offering costs.

**Outstanding Capped Calls:** In connection with certain of our convertible notes, we entered into capped call transactions, which are intended to reduce the effect of potential dilution. The capped calls provide for our receipt of cash or shares, at our election, from our counterparties if the trading price of our stock is above the strike prices on the expiration dates. As of May 31, 2018, the dollar value of cash or shares that we would receive from our outstanding capped calls upon their expiration dates range from \$0, if the trading price of our stock is below the strike prices for all capped calls at expiration, to \$98 million, if the trading price of our stock is at or above the cap prices for all capped calls. Settlement of the capped calls prior to the expiration dates may be for an amount less than the maximum value at expiration.

**Settlement of Capped Calls:** During the first nine months of 2018, we share-settled portions of our capped calls upon expiration, and received 9 million shares (equal to a value of \$429 million) based on the volume-weighted trading stock prices at the expiration dates. Shares received were recorded as treasury stock.

**Common Stock Repurchase Authorization:** In May 2018, we announced that our Board of Directors had authorized the discretionary repurchase of up to \$10 billion of our outstanding common stock beginning in 2019. We may purchase shares on a discretionary basis through open-market purchases, block trades, privately-negotiated transactions, and/or derivative transactions, subject to market conditions and our ongoing determination of the best use of available cash. The repurchase authorization does not obligate us to acquire any common stock.

### Noncontrolling Interests in Subsidiaries

|       | As of May 31, 2018 |            | August 31, 2017 |            |
|-------|--------------------|------------|-----------------|------------|
|       | Balance            | Percentage | Balance         | Percentage |
| IMFT  | \$852              | 49 %       | \$832           | 49 %       |
| Other | 17                 | Various    | 17              | Various    |
|       | \$869              |            | \$849           |            |

IMFT: Since 2006, we have owned 51% of IMFT, a joint venture between us and Intel. 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. IMFT manufactures semiconductor products exclusively for its members under a long-term supply agreement at prices approximating cost.

IMFT's capital requirements are generally determined based on an annual plan approved by the members, and capital contributions to IMFT are requested as needed. Capital requests are made to the members in proportion to their then-current ownership interest. Members may elect to not contribute their proportional share, and in such event, the contributing member may elect to contribute any amount of the remaining capital request, either in the form of an equity contribution or member debt financing. Under the supply agreement, the members have rights and obligations to the capacity of IMFT in proportion to their



investment, including member debt financing. Any capital contribution or member debt financing results in a proportionate adjustment to the sharing of output on an eight-month lag. Members pay their proportionate share of fixed costs associated with IMFT's capacity.

IMFT sales to Intel were \$114 million and \$341 million for the third quarter and first nine months of 2018, respectively, and \$123 million and \$375 million for the third quarter and first nine months of 2017, respectively. In the first quarter of 2018, IMFT discontinued production of NAND and subsequent to that time is entirely focused on 3D XPoint memory production.

The IMFT joint venture agreement extends through 2024 and includes certain buy-sell rights. At any time through December 2018, Intel can put to us, and from January 2019 through December 2021, we can call from Intel, Intel's interest in IMFT, in either case, for a price that approximates Intel's interest in the net book value of IMFT plus member debt at the time of the closing. If Intel exercises its put right, we can elect to set the closing date of the transaction any time between six months and two years following such election by Intel and we can elect to receive financing of the purchase price from Intel for one to two years from the closing date. If we exercise our call right, Intel can elect to set the closing date of the transaction to be any time between six months and one year following such election. Following the closing date resulting from exercise of either the put or the call, we will continue to supply to Intel for a period of one year between 50% and 100%, at Intel's choice, of Intel's immediately preceding six-month period pre-closing volumes of IMFT products for the first six-month period following the closing and between 0% and 100%, at Intel's choice, of Intel's first six-month period following the closing volumes of IMFT products for the second six-month period following the closing, at a margin that varies depending on whether the put or call was exercised.

Creditors of IMFT have recourse only to IMFT's assets and do not have recourse to any other of our assets. The following table presents the assets and liabilities of IMFT included in our consolidated balance sheets:

| As of                                 | May 31, August 31, |          |
|---------------------------------------|--------------------|----------|
|                                       | 2018               | 2017     |
| <b>Assets</b>                         |                    |          |
| Cash and equivalents                  | \$ 109             | \$ 87    |
| Receivables                           | 86                 | 81       |
| Inventories                           | 119                | 128      |
| Other current assets                  | 6                  | 7        |
| Total current assets                  | 320                | 303      |
| Property, plant, and equipment, net   | 2,706              | 1,852    |
| Other noncurrent assets               | 46                 | 49       |
| Total assets                          | \$ 3,072           | \$ 2,204 |
| <b>Liabilities</b>                    |                    |          |
| Accounts payable and accrued expenses | \$ 200             | \$ 299   |
| Deferred income                       | 9                  | 6        |
| Current debt                          | 20                 | 19       |
| Total current liabilities             | 229                | 324      |
| Long-term debt                        | 1,029              | 75       |
| Other noncurrent liabilities          | 77                 | 88       |
| Total liabilities                     | \$ 1,335           | \$ 487   |

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

Restrictions on Net Assets

As a result of the corporate reorganization proceedings of MMJ, the 2021 MSTW Term Loan covenants, and the IMFT joint venture agreement, our total restricted net assets (excluding intercompany balances and noncontrolling interests) as of May 31, 2018 were \$3.98 billion for the MMJ Group, \$4.06 billion for MSTW and MTTW, and \$885 million for IMFT.

## Fair Value Measurements

All of our marketable debt and equity investments were classified as available-for-sale and carried at fair value. Amounts reported as cash and equivalents, receivables, and accounts payable and accrued expenses approximate fair value. The estimated fair value and carrying value of our outstanding debt instruments (excluding the carrying value of equity and mezzanine equity components of our convertible notes) were as follows:

| As of                           | May 31, 2018 |                | August 31, 2017 |                |
|---------------------------------|--------------|----------------|-----------------|----------------|
|                                 | Fair Value   | Carrying Value | Fair Value      | Carrying Value |
| Notes and MMJ Creditor Payments | \$4,870      | \$ 4,808       | \$8,793         | \$ 8,423       |
| Convertible notes               | 4,734        | 1,585          | 3,901           | 1,521          |

The fair values of our convertible notes were determined based on Level 2 inputs, 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. The fair values of our other debt instruments were estimated based on Level 2 inputs, including discounted cash flows, 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.

## Derivative Instruments

|   | Gross<br>Notional<br>Amount <sup>(1)</sup> | Fair Value of<br>Current<br>Assets <sup>(2)</sup> | Fair Value of<br>Current<br>Liabilities <sup>(3)</sup> | Noncurrent<br>Assets <sup>(4)</sup> |
|---|--|---|--|-------------------------------------|
| As of May 31, 2018  |  |   |  |                                     |
| Derivative instruments with hedge accounting designation    |  |   |  |                                     |
| Cash flow currency hedges                                   | \$ 822                                     | \$2   | \$ (15 )   | \$ —                                |
| Fair value currency hedges                                  | 239  | —   | (10 )  | —                                   |
|   |  | 2   | (25 )  | —                                   |
| Derivative instruments without hedge accounting designation |  |   |  |                                     |
| Non-designated currency hedges                              | 4,989                                      | 8   | (25 )  | —                                   |
| Convertible notes settlement obligation <sup>(5)</sup>      |  | —   | (558 )   | —                                   |
|   |  | 8   | (583 )   | —                                   |
|   |  | \$10  | \$ (608 )  | \$ —                                |
| As of August 31, 2017                                       |  |   |  |                                     |
| Derivative instruments with hedge accounting designation    |  |   |  |                                     |
| Cash flow currency hedges                                   | \$ 456                                     | \$17  | \$ —   | \$ —                                |
| Derivative instruments without hedge accounting designation |  |   |  |                                     |
| Non-designated currency hedges                              | 4,847                                      | 34  | (5 )   | 1                                   |
| Convertible notes settlement obligation <sup>(5)</sup>      |  | —   | (47 )  | —                                   |
|   |  | 34  | (52 )  | 1                                   |
|   |  | \$51  | \$ (52 )   | \$ 1                                |

(1) Notional amounts of currency hedge contracts in U.S. dollars.

(2) Included in receivables – other.

(3) Included in accounts payable and accrued expenses – other for forward contracts and in current debt for convertible notes settlement obligations.

(4) Included in other noncurrent assets.

(5) Notional amounts of convertible notes settlement obligations as of May 31, 2018 and August 31, 2017 were 10 million and 2 million shares of our common stock, respectively.

## Derivative Instruments with Hedge Accounting Designation

We utilize currency forward contracts that generally mature within twelve months to hedge our exposure to changes in currency exchange rates. Currency forward contracts are measured at fair value based on market-based observable inputs including currency exchange spot and forward rates, interest rates, and credit-risk spreads (Level 2).

**Cash Flow Hedges:** We utilize cash flow hedges for our exposure from changes in currency exchange rates for certain capital expenditures. For derivative instruments designated as cash flow hedges, the effective portion of the realized and unrealized gains or losses on derivatives is included as a component of accumulated other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same line items and in the same periods in which the underlying transactions affect earnings. For the periods presented prior to the second quarter of 2018, the ineffective and excluded portion of the realized and unrealized gain or loss was included in other

non-operating income (expense). As a result of adopting ASU 2017-12, beginning in the second quarter of 2018, such amounts are included in the same line item in which the underlying transactions affect earnings.

We recognized losses in accumulated other comprehensive income from the effective portion of cash flow hedges of \$23 million and \$6 million for the third quarter and first nine months of 2018, respectively, and gains of \$6 million and losses of \$3 million for the third quarter and first nine months of 2017, respectively. Neither the amount excluded from hedge effectiveness

nor the reclassifications from accumulated other comprehensive income to earnings were material in the third quarters or first nine months of 2018 and 2017. The amounts from cash flow hedges included in accumulated other comprehensive income that are expected to be reclassified into earnings in the next 12 months were also not material.

**Fair Value Hedges:** We utilize fair value hedges for our exposure from changes in currency exchange rates for certain monetary assets and liabilities. For derivative forward contracts designated as fair value hedges, hedge effectiveness is determined by the change in the fair value of the undiscounted spot rate of the forward contract. The changes in fair values of hedge instruments attributed to changes in undiscounted spot rates are recognized in other non-operating income (expense). The time value associated with hedge instruments is excluded from the assessment of the effectiveness of hedges and is recognized on a straight-line basis over the life of hedges to other non-operating income (expense). Amounts recorded to other comprehensive income (loss) for the third quarter and first nine months of 2018 were not material. The effects of fair value hedges on our consolidated statements of operations were as follows:

|   | Quarter<br>ended<br>May<br>31,<br>2018 | Nine<br>months<br>ended<br>May<br>31,<br>2018 |
|---|--|---|
|   |  | Other<br>Non-Operating<br>Income<br>(Expense) |
| Gain (loss) on remeasurement of hedged assets and liabilities | \$ 28                                  | \$ (28 )                                      |
| Gain (loss) on derivatives designated as hedging instruments  | (28 )                                  | 28  |
| Amortization of amounts excluded from hedge effectiveness     | (13 )                                  | (32 )   |
|   | \$ (13 )                               | \$ (32 )                                      |

#### Derivative Instruments without Hedge Accounting Designation

**Currency Derivatives:** Except for certain assets and liabilities hedged using fair value hedges, we generally utilize a rolling hedge strategy with currency forward contracts that mature within nine months to hedge our exposures of monetary assets and liabilities from changes in currency exchange rates. At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the U.S. dollar are remeasured into 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). Realized and unrealized gains and losses on derivative instruments without hedge accounting designation as well as the changes in the underlying monetary assets and liabilities from changes in currency exchange rates are included in other non-operating income (expense). For derivative instruments without hedge accounting designation, we recognized losses of \$52 million for the third quarter, which offset \$52 million of gains recognized during the first six months of 2018, and we recognized gains of \$70 million and losses of \$47 million for the third quarter and first nine months of 2017, respectively.

**Convertible Note Settlement Obligations:** For settlement obligations associated with our convertible notes subject to mark-to-market accounting treatment, the fair values of the underlying derivative settlement obligations were initially determined using the Black-Scholes option valuation model (Level 2), which requires inputs of stock price, expected stock-price volatility, estimated option life, risk-free interest rate, and dividend rate. The subsequent measurement amounts were based on the volume-weighted-average price of our common stock (Level 2). (See "Debt" note.) We recognized losses of \$119 million and \$143 million for the third quarter and first nine months of 2018, respectively, in other non-operating income (expense), net for the changes in fair value of the derivative settlement obligations.

## Equity Plans

As of May 31, 2018, 127 million shares of our common stock were available for future awards under our equity plans, including 33 million shares approved for issuance under our employee stock purchase plan ("ESPP").

### Employee Stock Purchase Plan

Our ESPP was approved by shareholders at our 2017 Annual Shareholder Meeting and will be offered to substantially all employees beginning in August 2018. The ESPP permits eligible employees to purchase shares of our common stock through payroll deductions of up to 10% of their eligible compensation, subject to certain limitations. The purchase price of the shares under the ESPP equals 85% of the lower of the fair market value of our common stock on either the first or last trading day of each six-month offering period.

## Stock Options

|  | Quarter ended |              | Nine months ended |              |   |
|--|---------------|--------------|-------------------|--------------|---|
|  | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |   |
| Stock options granted                            | —             | 1            | 2                 | 7            |   |
| Weighted-average grant-date fair value per share | \$24.14       | \$11.64      | \$18.61           | \$8.59       |   |
| Average expected life in years                   | 5.4           | 5.5          | 5.5               | 5.5          |   |
| Weighted-average expected volatility             | 45            | % 44         | % 44              | % 46         | % |
| Weighted-average risk-free interest rate         | 2.8           | % 2.0        | % 2.2             | % 1.8        | % |
| Expected dividend yield                          | 0.0           | % 0.0        | % 0.0             | % 0.0        | % |

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

|  | Quarter ended |              | Nine months ended |              |  |
|--|---------------|--------------|-------------------|--------------|--|
|  | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |  |
| Restricted stock award shares granted            | —             | —            | 4                 | 8            |  |
| Weighted-average grant-date fair value per share | \$53.77       | \$27.75      | \$42.14           | \$19.10      |  |

## Stock-based Compensation Expense

|   | Quarter ended |              | Nine months ended |              |  |
|---|---------------|--------------|-------------------|--------------|--|
|   | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |  |
| Stock-based compensation expense by caption |               |              |                   |              |  |
| Cost of goods sold                          | \$20          | \$ 24        | \$62              | \$ 66        |  |
| Selling, general, and administrative        | 14            | 20           | 48                | 53           |  |
| Research and development                    | 14            | 13           | 41                | 39           |  |
|   | \$48          | \$ 57        | \$151             | \$ 158       |  |

## Stock-based compensation expense by type of award

|                         |      |       |       |        |  |
|-------------------------|------|-------|-------|--------|--|
| Stock options           | \$13 | \$ 19 | \$44  | \$ 54  |  |
| Restricted stock awards | 35   | 38    | 107   | 104    |  |
|                         | \$48 | \$ 57 | \$151 | \$ 158 |  |

The income tax benefit related to share-based compensation was \$26 million and \$142 million for the third quarter and first nine months of 2018, respectively, and \$17 million and \$80 million for the third quarter and first nine months of 2017, respectively. The income tax benefits related to share-based compensation for the periods presented prior to the second quarter of 2018 were offset by an increase in the U.S. valuation allowance. As of May 31, 2018, \$364 million of total unrecognized compensation costs for unvested awards was expected to be recognized through the third quarter of 2022, resulting in a weighted-average period of 1.3 years.

## Research and Development



We share the cost of certain product and process development activities with development partners. Our R&D expenses were reduced by reimbursements under these arrangements of \$53 million and \$167 million for the third quarter and first nine months of 2018, respectively, and \$47 million and \$162 million for the third quarter and first nine months of 2017, respectively.

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

|   | Quarter ended |              | Nine months ended |              |
|---|---------------|--------------|-------------------|--------------|
|   | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |
| Loss on debt prepayments, repurchases, and conversions              | \$(168)       | \$(61)       | \$(386)           | \$(63)       |
| Loss from changes in currency exchange rates                        | (24)          | (22)         | (60)              | (62)         |
| Gain on remeasurement of previously-held equity interest in Inotera | —             | —            | —                 | 71           |
| Other   | (1)           | —            | (4)               | (9)          |
|   | \$(193)       | \$(83)       | \$(450)           | \$(63)       |

In connection with the Inotera Acquisition, we revalued our previously-held 33% equity interest to its fair value. In determining the fair value, we used various valuation techniques, including the share price of Inotera prior to the announcement of the acquisition and discounted cash flow projections using inputs including discount rate and terminal growth rate (Level 3). As a result, we recognized a non-operating gain of \$71 million in the second quarter of 2017.

## Income Taxes

On December 22, 2017, the United States enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that lowers the U.S. corporate income tax rate from 35% to 21% and significantly affects how income from foreign operations is taxed in the United States. As a result of our fiscal year-end, our U.S. statutory federal rate will be 25.7% for 2018 (based on the 35% corporate rate through December 31, 2017 and 21% from that date through the end of fiscal year 2018) and 21% for subsequent years. The Tax Act imposes a one-time transition tax in 2018 on the higher of our accumulated foreign income, as determined as of November 2, 2017 or December 31, 2017 (the "Repatriation Tax"); provides a U.S. federal tax exemption on foreign earnings distributed to the United States; and, beginning in 2019, creates a new minimum tax on certain foreign earnings in excess of a deemed return on tangible assets (the "Foreign Minimum Tax"). The Tax Act allows us to elect to pay any Repatriation Tax due in eight annual interest-free payments in increasing amounts beginning in December 2018. In connection with the provisions of the Tax Act, we are continuing to evaluate whether to account for the Foreign Minimum Tax provisions that begin for us in 2019 as a period cost or in our measurement of deferred taxes.

The Securities and Exchange Commission Staff Accounting Bulletin No. 118 ("SAB 118") allows the use of provisional amounts (reasonable estimates) if our analyses of the impacts of the Tax Act has not been completed when our financial statements are issued. Provisional amounts may be adjusted during a one-year measurement period as accounting for the income tax effects of the Tax Act are completed or as estimates are revised.

In accordance with SAB 118, we recorded certain provisional estimates included in the table below. Although the provisional estimates are based on the best available interpretations of the Tax Act, the final impacts may differ from the estimates due to, among other things, the issuance of additional regulatory and legislative guidance related to the Tax Act. Our income tax (provision) benefit consisted of the following:

|  | Quarter ended |              | Nine months ended |              |
|--|---------------|--------------|-------------------|--------------|
|  | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |
|  | \$222         | \$—          | \$(1,113)         | \$—          |

Edgar Filing: MICRON TECHNOLOGY INC - Form 10-Q

|   |       |          |           |          |
|---|-------|----------|-----------|----------|
| Provisional estimate for the Repatriation Tax, net of adjustments related to uncertain tax positions                  |       |          |           |          |
| Remeasurement of deferred tax assets and liabilities reflecting the lower U.S. corporate tax rates                    | —     | —        | (133 )    | —        |
| Provisional estimate for the release of the valuation allowance on the net deferred tax assets of our U.S. operations | —     | —        | 1,337     | —        |
| Utilization of and other changes in net deferred tax assets of MMJ, MMT, and MTTW                                     | (35 ) | (31 )    | (78 )     | (52 )    |
| Other income tax (provision) benefit  | (78 ) | (61 )    | (161 )    | (109 )   |
|   | \$109 | \$ (92 ) | \$ (148 ) | \$ (161) |

As noted above, provisional estimates were recorded for the Repatriation Tax and the release of the valuation allowance on the net deferred tax assets of our U.S. operations. To determine the amount of the Repatriation Tax, we must determine the accumulated foreign earnings of our foreign subsidiaries and the amount of foreign income tax paid on such earnings. The provisional estimate of the Repatriation Tax is also based, in part, on the amount of cash and other specified assets anticipated to be held by our foreign subsidiaries as of August 30, 2018, the end of our fiscal year 2018, which will determine the portion of the accumulated foreign earnings taxed at an effective rate of 15.5% or 8%. The provisional estimate for the Repatriation Tax was revised in the third quarter of 2018, and may continue to be revised as amounts are finalized. The U.S. Department of Treasury has issued interpretive guidance regarding the Repatriation Tax and we expect that it will issue additional guidance. Based on the information available, we can reasonably estimate the Repatriation Tax and therefore recorded a provisional amount; however, we are continuing to gather additional information and analyze authoritative guidance to finalize the computation of the Repatriation Tax as well as the impacts on the valuation allowance release of the Repatriation Tax and the Tax Act.

During the third quarter of 2018, we reassessed our capital structure, including our Board of Directors' authorization to repurchase up to \$10 billion of our outstanding common stock beginning in 2019, the future cash needs of our global operations, and the effects of the Tax Act. As a result of this reassessment, we deemed a portion of our foreign earnings to be no longer indefinitely invested. As a result of the Repatriation Tax, substantially all of our accumulated foreign earnings prior to December 31, 2017 were subject to U.S. federal taxation. Although we have provided for U.S. federal income tax on these earnings, the repatriation to the United States of all or a portion of these earnings would be subject to foreign and state income tax. As a result, in the third quarter of 2018, we recognized income tax provision of \$68 million for deferred tax liabilities associated with our reassessment of our indefinitely reinvested earnings, which was substantially offset by a reduction in valuation allowances.

As of May 31, 2018, we had gross unrecognized income tax benefits of \$202 million, of which \$196 million would affect our effective tax rate in the future, if recognized. In 2018, the Tax Act reduced unrecognized tax benefits by \$126 million. The amount accrued for interest and penalties related to uncertain tax positions was not material for any period presented.

We operate in a number of tax jurisdictions outside the United States, including Singapore, where we have tax incentive arrangements that are conditional, in part, 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 2030, reduced our tax provision by \$527 million (benefitting our diluted earnings per share by \$0.43) and \$1.35 billion (\$1.10 per diluted share) for the third quarter and first nine months of 2018, respectively, and \$250 million (\$0.21 per diluted share) and \$422 million (\$0.37 per diluted share), for the third quarter and first nine months of 2017, respectively.

#### Earnings Per Share

|   | Quarter ended |              | Nine months ended |              |
|---|---------------|--------------|-------------------|--------------|
|   | May 31, 2018  | June 1, 2017 | May 31, 2018      | June 1, 2017 |
| Net income attributable to Micron – Basic and Diluted | \$3,823       | \$1,647      | \$9,810           | \$2,721      |
| Weighted-average common shares outstanding – Basic    | 1,159         | 1,106        | 1,150             | 1,082        |
| Dilutive effect of equity plans and convertible notes | 76            | 71           | 83                | 60           |
| Weighted-average common shares outstanding – Diluted  | 1,235         | 1,177        | 1,233             | 1,142        |

|                    |        |        |        |        |
|--------------------|--------|--------|--------|--------|
| Earnings per share |        |        |        |        |
| Basic              | \$3.30 | \$1.49 | \$8.53 | \$2.52 |
| Diluted            | 3.10   | 1.40   | 7.96   | 2.38   |

Antidilutive potential common shares that could dilute basic earnings per share in the future were 2 million and 3 million for the third quarter and first nine months of 2018, respectively, and 52 million and 59 million for the third quarter and first nine months of 2017, respectively.

## Segment Information

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

Compute and Networking Business Unit ("CNBU"): Includes memory products sold into compute, networking, graphics, and cloud server markets.

Mobile Business Unit ("MBU"): Includes memory products sold into smartphone, tablet, and other mobile-device markets.

Storage Business Unit ("SBU"): Includes memory and storage products sold into enterprise, client, cloud, and removable storage markets.

Embedded Business Unit ("EBU"): Includes memory products sold into automotive, industrial, 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 income and expenses are generally allocated to segments based on their respective percentage of cost of goods sold or forecasted wafer production. We do not identify or report internally our assets (other than goodwill) or capital expenditures by segment, nor do we allocate gains and losses from equity method investments, interest, other non-operating income or expenses, or taxes to segments.

|   | Quarter ended |         | Nine months ended |          |
|---|---------------|---------|-------------------|----------|
|   | May 31,       | June 1, | May 31,           | June 1,  |
|   | 2018          | 2017    | 2018              | 2017     |
| Net sales                                 |               |         |                   |          |
| CNBU                                      | \$3,988       | \$2,389 | \$10,891          | \$5,776  |
| MBU                                       | 1,753         | 1,129   | 4,684             | 3,243    |
| SBU                                       | 1,143         | 1,316   | 3,780             | 3,217    |
| EBU                                       | 897           | 700     | 2,556             | 1,868    |
| All Other                                 | 16            | 32      | 40                | 80       |
|   | \$7,797       | \$5,566 | \$21,951          | \$14,184 |
| Operating income (loss)                   |               |         |                   |          |
| CNBU                                      | \$2,615       | \$1,219 | \$6,858           | \$2,159  |
| MBU                                       | 860           | 304     | 2,054             | 563      |
| SBU                                       | 156           | 276     | 807               | 302      |
| EBU                                       | 386           | 256     | 1,091             | 627      |
| All Other                                 | —             | 16      | (6                | ) 35     |
|   | 4,017         | 2,071   | 10,804            | 3,686    |
| Unallocated                               |               |         |                   |          |
| Stock-based compensation                  | (48           | ) (57   | ) (151            | ) (158   |
| Restructure and asset impairments         | (8            | ) (12   | ) (21             | ) (45    |
| Flow-through of Inotera inventory step-up | —             | (36     | ) —               | (96      |
| Other                                     | (8            | ) (3    | ) (15             | ) (21    |
|   | (64           | ) (108  | ) (187            | ) (320   |
| Operating income                          | \$3,953       | \$1,963 | \$10,617          | \$3,366  |



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

This discussion should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended August 31, 2017. 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 2018 and 2017 each contain 52 weeks. All production data includes the production of IMFT and Inotera. All tabular dollar amounts are in millions, except per share amounts.

Our Management's Discussion and Analysis 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. This discussion 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 type; 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 liquidity.

**Critical Accounting Estimates**

**Recently Issued Accounting Standards**

### Overview

Micron Technology, Inc., including its consolidated subsidiaries, is an industry leader in innovative memory and storage solutions. Through our global brands – Micron, Crucial, and Ballistix – our broad portfolio of high-performance memory and storage technologies, including DRAM, NAND, NOR Flash, and 3D XPoint memory, is transforming how the world uses information to enrich life. Backed by nearly 40 years of technology leadership, our memory and storage solutions enable disruptive trends, including artificial intelligence, machine learning, and autonomous vehicles in key market segments like cloud, data center, networking, and mobile.

We manufacture our products at our worldwide wholly-owned and joint venture facilities. In recent years, we have increased our manufacturing scale and product diversity through strategic acquisitions, expansion, and various partnering arrangements.

We make significant investments to develop proprietary product and process technology, which is implemented in our manufacturing facilities. We generally increase the density per wafer and reduce manufacturing costs of each generation of product through advancements in product and process technology, such as our leading-edge line-width process technology and 3D NAND architecture. We continue to introduce new generations of products that offer improved performance characteristics, including higher data transfer rates, reduced package size, lower power consumption, improved read/write reliability, and increased memory density. Storage products incorporating NAND, a controller, and firmware constitute a significant portion of our sales. We generally develop firmware and expect to introduce proprietary controllers into our SSDs in new products starting in 2018. Development of advanced technologies enables us to diversify our product portfolio toward a richer mix of differentiated, high-value solutions and target high-growth markets.



We market our products through our internal sales force, independent sales representatives, and distributors primarily to original equipment manufacturers and retailers around the world. We face intense competition in the semiconductor memory and storage markets and, in order to remain competitive, we must continuously develop and implement new products and technologies and decrease manufacturing costs. Our success is largely dependent on market acceptance of our diversified portfolio of semiconductor-based memory and storage solutions, efficient utilization of our manufacturing infrastructure, successful ongoing development and integration of advanced product and process technology, return-driven capital spending, and successful R&D investments.

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 and storage product and process technology with third parties. In addition,

24

---

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.

## Results of Operations

### Consolidated Results

|  | Third Quarter |                |         |                | Second Quarter |                |          |                | Nine Months |                |  |  |
|--|---------------|----------------|---------|----------------|----------------|----------------|----------|----------------|-------------|----------------|--|--|
|  | 2018          | % of Net Sales | 2017    | % of Net Sales | 2018           | % of Net Sales | 2018     | % of Net Sales | 2017        | % of Net Sales |  |  |
| Net sales  | \$7,797       | 100 %          | \$5,566 | 100 %          | \$7,351        | 100 %          | \$21,951 | 100 %          | \$14,184    | 100 %          |  |  |
| Cost of goods sold                                     | 3,074         | 39 %           | 2,957   | 53 %           | 3,081          | 42 %           | 9,211    | 42 %           | 8,860       | 62 %           |  |  |
| Gross margin   | 4,723         | 61 %           | 2,609   | 47 %           | 4,270          | 58 %           | 12,740   | 58 %           | 5,324       | 38 %           |  |  |
| SG&A   | 211           | 3 %            | 204     | 4 %            | 196            | 3 %            | 598      | 3 %            | 550         | 4 %            |  |  |
| R&D  | 603           | 8 %            | 434     | 8 %            | 523            | 7 %            | 1,574    | 7 %            | 1,377       | 10 %           |  |  |
| Other operating (income) expense, net                  | (44 )         | (1 )%          | 8       | — %            | (16 )          | — %            | (49 )    | — %            | 31          | — %            |  |  |
| Operating income                                       | 3,953         | 51 %           | 1,963   | 35 %           | 3,567          | 49 %           | 10,617   | 48 %           | 3,366       | 24 %           |  |  |
| Interest income (expense), net                         | (44 )         | (1 )%          | (143 )  | (3 )%          | (61 )          | (1 )%          | (206 )   | (1 )%          | (428 )      | (3 )%          |  |  |
| Other non-operating income (expense), net              | (193 )        | (2 )%          | (83 )   | (1 )%          | (53 )          | (1 )%          | (450 )   | (2 )%          | (63 )       | — %            |  |  |
| Income tax (provision) benefit                         | 109           | 1 %            | (92 )   | (2 )%          | (143 )         | (2 )%          | (148 )   | (1 )%          | (161 )      | (1 )%          |  |  |
| Equity in net income (loss) of equity method investees | (2 )          | — %            | 2       | — %            | 1              | — %            | (1 )     | — %            | 7           | — %            |  |  |
| Net income attributable to noncontrolling interests    | —             | — %            | —       | — %            | (2 )           | — %            | (2 )     | — %            | —           | — %            |  |  |
| Net income attributable to Micron                      | \$3,823       | 49 %           | \$1,647 | 30 %           | \$3,309        | 45 %           | \$9,810  | 45 %           | \$2,721     | 19 %           |  |  |

### Net Sales

|           | Third Quarter |            |         |            | Second Quarter |            | Nine Months |            |          |            |
|-----------|---------------|------------|---------|------------|----------------|------------|-------------|------------|----------|------------|
|           | 2018          | % of Total | 2017    | % of Total | 2018           | % of Total | 2018        | % of Total | 2017     | % of Total |
| CNBU      | \$3,988       | 51 %       | \$2,389 | 43 %       | \$3,691        | 50 %       | \$10,891    | 50 %       | \$5,776  | 41 %       |
| MBU       | 1,753         | 22 %       | 1,129   | 20 %       | 1,566          | 21 %       | 4,684       | 21 %       | 3,243    | 23 %       |
| SBU       | 1,143         | 15 %       | 1,316   | 24 %       | 1,254          | 17 %       | 3,780       | 17 %       | 3,217    | 23 %       |
| EBU       | 897           | 12 %       | 700     | 13 %       | 829            | 11 %       | 2,556       | 12 %       | 1,868    | 13 %       |
| All Other | 16            | — %        | 32      | 1 %        | 11             | — %        | 40          | — %        | 80       | 1 %        |
|           | \$7,797       |            | \$5,566 |            | \$7,351        |            | \$21,951    |            | \$14,184 |            |

Percentages of total net sales reflect rounding and may not total 100%.

Total net sales for the third quarter of 2018 increased 6% as compared to the second quarter of 2018 due to continued execution in delivering high-value products and strong market conditions across our primary markets, particularly for cloud server, enterprise server, and mobile markets, that drove increases in sales for our CNBU, MBU, and EBU

segments.

Total net sales for the third quarter and first nine months of 2018 increased 40% and 55%, respectively, as compared to the corresponding periods of 2017. Solid execution and strong demand for products across our primary markets, particularly in mobile, cloud server, client, and enterprise server, drove higher sales for all operating segments in the first nine months of 2018 as compared to the first nine months of 2017. CNBU, MBU, and EBU sales increased in the third quarter of 2018 as compared to the third quarter of 2017.

25

---

## Gross Margin

Our overall gross margin percentage increased to 61% for the third quarter of 2018 from 58% for the second quarter of 2018 primarily due to strong market conditions for our CNBU, MBU, and EBU operating segments that drove favorable pricing conditions, combined with overall reductions in manufacturing costs. Cost reductions for the third quarter of 2018 were enabled by strong execution and the continued growth in product offerings and sales for server and mobile products featuring our 1X nm DRAM technology as well as SSD and managed NAND products featuring our TLC 3D NAND.

Our overall gross margin percentage increased to 61% for the third quarter of 2018 from 47% for the third quarter of 2017 and increased to 58% for the first nine months of 2018 from 38% for the first nine months of 2017, reflecting increases in the gross margin percentages for CNBU, MBU, and EBU, primarily due to favorable market conditions combined with strong execution in delivering high-value products featuring our 1X nm DRAM and TLC 3D NAND technologies that enabled manufacturing cost reductions. From January 2016 through December 6, 2016, the date we acquired the remaining interest in Inotera, we purchased all of Inotera's DRAM output under supply agreements at prices based on a formula that equally shared margin between Inotera and us. For the first quarter of 2017, we purchased \$504 million of DRAM products from Inotera under these agreements, representing 37% of our aggregate DRAM bit production.

## Operating Results by Business Segments

### CNBU

|                  | Third Quarter |         | Second Quarter | Nine Months |         |
|------------------|---------------|---------|----------------|-------------|---------|
|                  | 2018          | 2017    | 2018           | 2018        | 2017    |
| Net sales        | \$3,988       | \$2,389 | \$3,691        | \$10,891    | \$5,776 |
| Operating income | 2,615         | 1,219   | 2,329          | 6,858       | 2,159   |

CNBU sales for the third quarter of 2018 increased 8% as compared to the second quarter of 2018 primarily due to higher sales into high value cloud server, enterprise server, and graphics markets. CNBU operating income improved for the third quarter of 2018 compared to the second quarter of 2018 primarily due to strong demand and manufacturing cost reductions. See "Operating Results by Product – DRAM" for further detail.

CNBU sales for the third quarter and first nine months of 2018 increased 67% and 89%, respectively, as compared to the corresponding periods of 2017 due to strong market conditions and demand in key markets including cloud server, client, and enterprise server markets, which drove increases in pricing and sales volumes. CNBU operating income for the third quarter and first nine months of 2018 improved from the corresponding periods of 2017 primarily due to improved pricing and manufacturing cost reductions.

### MBU

|                  | Third Quarter |         | Second Quarter | Nine Months |         |
|------------------|---------------|---------|----------------|-------------|---------|
|                  | 2018          | 2017    | 2018           | 2018        | 2017    |
| Net sales        | \$1,753       | \$1,129 | \$1,566        | \$4,684     | \$3,243 |
| Operating income | 860           | 304     | 689            | 2,054       | 563     |

MBU sales are comprised primarily of mobile LPDRAM and managed NAND products. MBU sales for the third quarter of 2018 increased 12% as compared to the second quarter of 2018 primarily due to significant increases in

high-value managed NAND products driven by strong acceptance of our TLC managed NAND product in smartphone markets. MBU operating income for the third quarter of 2018 improved from the second quarter of 2018 primarily due to improved pricing resulting from strong demand for our products, manufacturing cost reductions, and increases in sales of managed NAND products.

MBU sales for the third quarter and first nine months of 2018 increased 55% and 44%, respectively, as compared to the corresponding periods of 2017 primarily due to customer qualifications for LPDRAM and managed NAND products, which combined with higher memory content in smartphones to drive improvements in DRAM pricing and increases in sales volumes. MBU operating income for the third quarter and first nine months of 2018 improved from the corresponding periods of 2017 primarily due to increases in pricing for LPDRAM products, manufacturing cost reductions, and higher sales volumes.

## SBU

|                  | Third Quarter |         | Second<br>Quarter | Nine Months |         |
|------------------|---------------|---------|-------------------|-------------|---------|
|                  | 2018          | 2017    | 2018              | 2018        | 2017    |
| Net sales        | \$1,143       | \$1,316 | \$1,254           | \$3,780     | \$3,217 |
| Operating income | 156           | 276     | 251               | 807         | 302     |

SBU sales of Trade NAND products for the third quarter of 2018 decreased 9% as compared to the second quarter of 2018 due to lower NAND component sales as a result of declines in selling prices and a reallocation of supply to mobile managed NAND products, partially offset by increases in SSD sales driven by strong demand in cloud and enterprise markets for products incorporating our TLC 3D NAND technology. SBU Non-Trade sales were \$122 million for the third quarter of 2018 as compared to \$136 million for the second quarter of 2018 and \$138 million for the third quarter of 2017. SBU operating income for the third quarter of 2018 decreased from the second quarter of 2018 primarily due to declining prices, higher R&D costs, and higher costs associated with IMFT's production of 3D XPoint products at less than full capacity, partially offset by manufacturing cost reductions enabled by our execution in transitioning to TLC 3D NAND products. See "Operating Results by Product – Trade NAND" for further details.

SBU sales of Trade NAND products for the third quarter 2018 decreased 13% as compared to the third quarter of 2017 despite increases in sales volumes from strong demand, particularly for sales of SSD products into the cloud market, due to declines in component NAND sales. SBU sales of Trade NAND products for the first nine months of 2018 increased 19% as compared to the first nine months of 2017 primarily due to increases in sales volumes from strong demand, particularly for sales of SSD products into the cloud market. SBU sales of SSD storage products for the third quarter and first nine months of 2018 increased by 37% and 74%, respectively, as compared to the corresponding periods of 2017 driven by strong demand in cloud and client markets for products incorporating our TLC 3D NAND technology. SBU operating income for the third quarter of 2018 declined from the third quarter of 2017 primarily due to declining prices, higher costs associated with IMFT's production of 3D XPoint products at less than full capacity, and higher R&D costs, partially offset by manufacturing cost reductions. SBU operating income for the first nine months of 2018 improved from the first nine months of 2017 primarily due to manufacturing cost reductions and improvements in product mix.

## EBU

|                  | Third<br>Quarter |       | Second<br>Quarter | Nine Months |         |
|------------------|------------------|-------|-------------------|-------------|---------|
|                  | 2018             | 2017  | 2018              | 2018        | 2017    |
| Net sales        | \$897            | \$700 | \$829             | \$2,556     | \$1,868 |
| Operating income | 386              | 256   | 363               | 1,091       | 627     |

EBU sales are comprised of products incorporating DRAM, NAND, and NOR Flash in decreasing order of revenue. EBU sales for the third quarter of 2018 increased 8% from the second quarter of 2018 due to higher sales across all EBU markets including consumer, automotive, and industrial multimarkets. EBU operating income for the third quarter of 2018 increased from the second quarter of 2018 primarily due to strong demand.

EBU sales for the third quarter and first nine months of 2018 increased 28% and 37%, respectively, as compared to the corresponding periods of 2017 primarily due to strong demand across EBU's primary markets including consumer, industrial multimarkets, and automotive. EBU operating income for the third quarter and first nine months of 2018 increased as compared to the corresponding periods of 2017 as a result of increases in average selling prices, manufacturing cost reductions, and increases in sales volumes, partially offset by higher R&D costs.



## Operating Results by Product

## Net Sales by Product Type

|            | Third Quarter |            | Second Quarter |            | Third Quarter |            | Nine Months |            | Nine Months |            |
|------------|---------------|------------|----------------|------------|---------------|------------|-------------|------------|-------------|------------|
|            | 2018          | % of Total | 2017           | % of Total | 2018          | % of Total | 2018        | % of Total | 2017        | % of Total |
| DRAM       | \$5,541       | 71 %       | \$3,559        | 64 %       | \$5,213       | 71 %       | \$15,316    | 70 %       | \$8,940     | 63 %       |
| Trade NAND | 1,943         | 25 %       | 1,706          | 31 %       | 1,805         | 25 %       | 5,614       | 26 %       | 4,390       | 31 %       |
| Non-Trade  | 121           | 2 %        | 138            | 2 %        | 136           | 2 %        | 379         | 2 %        | 419         | 3 %        |
| Other      | 192           | 2 %        | 163            | 3 %        | 197           | 3 %        | 642         | 3 %        | 435         | 3 %        |
|            | \$7,797       |            | \$5,566        |            | \$7,351       |            | \$21,951    |            | \$14,184    |            |

Percentages of total net sales reflect rounding and may not total 100%.

Non-Trade consists of NAND and 3D XPoint products manufactured and sold to Intel through IMFT under a long-term supply agreement at prices approximating cost. Information regarding products that combine both NAND and DRAM components is reported within Trade NAND. Other includes sales of NOR and trade 3D XPoint products.

## DRAM

|                                    | Third Quarter 2018 Versus<br>Second Quarter 2018<br>(percentage change) | Third Quarter 2017        | First Nine Months 2018<br>Versus<br>First Nine Months 2017 |
|------------------------------------|---|---------------------------|--|
| Average selling prices per gigabit | increased mid-to-upper single digit                                     | increased mid 30% range   | increased low 40% range                                    |
| Gigabits sold                      | relatively flat   | increased mid-teens range | increased low 20% range                                    |

Increases in DRAM product revenue for the third quarter of 2018 as compared to the second quarter of 2018 resulted from strong market conditions, particularly for high-value cloud and enterprise server markets. Increases in DRAM product revenue for the third quarter and first nine months of 2018 as compared to the corresponding periods of 2017 resulted from strong conditions across key markets, particularly for cloud, enterprise, mobile, and graphics markets. Our gross margin percentage on sales of DRAM products for the third quarter and first nine months of 2018 improved from the second quarter of 2018 and corresponding periods of 2017 primarily due to strong demand as a result of favorable market conditions, shifts in mix to higher value markets, and manufacturing cost reductions resulting from strong execution on our implementation of new technology.

## Trade NAND

|                                     | Third Quarter 2018 Versus<br>Second Quarter 2018<br>(percentage change) | Third Quarter 2017         | First Nine Months 2018<br>Versus<br>First Nine Months 2017 |
|-------------------------------------|---|----------------------------|--|
| Average selling prices per gigabyte | increased mid-to-upper single digit                                     | decreased mid single digit | decreased mid single digit                                 |
| Gigabytes sold                      | relatively flat   | increased low 20% range    | increased mid 30% range                                    |



Increases in NAND product revenue for the third quarter of 2018 as compared to the second quarter of 2018 resulted from strong demand for mobile managed NAND products and cloud and client SSD products, partially offset by lower component sales. The increase in average selling prices for the third quarter of 2018 as compared to the second quarter of 2018 was due to an increase in sales of our managed NAND products, which generally have significantly higher selling prices than other NAND products, partially offset by modest declines in market pricing for our trade NAND products. Increases in NAND revenue for the third quarter and first nine months of 2018 as compared to the corresponding periods of 2017 primarily resulted from increases in sales of managed NAND and SSD products. Our gross margin percentage on sales of NAND products for the third quarter and first nine months of 2018 improved from the second quarter of 2018 and corresponding periods of 2017 primarily due to manufacturing cost reductions resulting from strong execution on our ramp of 3D NAND production.

## Operating Expenses and Other

## Selling, General, and Administrative

SG&A expenses for the third quarter of 2018 were 8% higher than the second quarter of 2018 primarily due to increases in legal costs. SG&A expenses for the third quarter of 2018 were relatively unchanged as compared to the third quarter of 2017. SG&A expenses for the first nine months of 2018 were 9% higher than the first nine months of 2017 primarily due to increases in performance-based compensation and legal costs.

## Research and Development

R&D expenses for the third quarter of 2018 were 15% higher than the second quarter of 2018 primarily due to increased volumes of development and pre-qualification wafers and increases in performance-based compensation. R&D expenses for the third quarter of 2018 were 39% higher than the third quarter of 2017 primarily due to increased volumes of development and pre-qualification wafers and increases in performance-based compensation and payroll and related costs. R&D expenses for the first nine months of 2018 were 14% higher than the first nine months of 2017 primarily due to increases in payroll and related costs, performance-based compensation, and volumes of development and pre-qualification wafers.

We share the cost of certain product and process development activities with development partners, including Intel. We expect to continue to jointly develop NAND technologies with Intel through the third generation of 3D NAND, which is expected to be completed in 2019. In the second quarter of 2018, we and Intel mutually agreed to independently develop subsequent generations of 3D NAND in order to better optimize the technology and products for each individual business' needs. Our R&D expenses were reduced by reimbursements under our arrangements by \$53 million for the third quarter of 2018, \$58 million for the second quarter of 2018, and \$47 million for the third quarter of 2017.

## Income Taxes

Income tax (provision) benefit consisted of the following:

|   | Third Quarter |        | Second Quarter | Nine Months |         |
|---|---------------|--------|----------------|-------------|---------|
|   | 2018          | 2017   | 2018           | 2018        | 2017    |
| Provisional estimate for the Repatriation Tax, net of adjustments related to uncertain tax positions                  | \$222         | \$—    | \$(1,335)      | \$(1,113)   | \$—     |
| Remeasurement of deferred tax assets and liabilities reflecting lower U.S. corporate tax rates                        | —             | —      | (133 )         | (133 )      | —       |
| Provisional estimate for the release of the valuation allowance on the net deferred tax assets of our U.S. operations | —             | —      | 1,337          | 1,337       | —       |
| Utilization of and other changes in net deferred tax assets of MMJ, MMT, and MTTW                                     | (35 )         | (31 )  | (17 )          | (78 )       | (52 )   |
| Other income tax (provision) benefit  | (78 )         | (61 )  | 5              | (161 )      | (109 )  |
|   | \$109         | \$(92) | \$(143 )       | \$(148 )    | \$(161) |
| Effective tax rate  | (2.9 )%       | 5.3 %  | 4.1 %          | 1.5 %       | 5.6 %   |

Our income taxes reflect the following:

various provisional estimates for the impacts of the Tax Act, including the Repatriation Tax, the remeasurement of deferred tax assets and liabilities at the lower U.S. corporate rate of 25.7% for 2018 and 21% for subsequent years, and the release of a substantial portion of the valuation allowance on the net deferred tax assets of our U.S. operations; and operations outside the United States, including Singapore, where we have tax incentive arrangements that further decrease our effective tax rates.

On December 22, 2017, the United States enacted the Tax Act which lowers the U.S. corporate income tax rate from 35% to 21% and significantly affects how income from foreign operations is taxed in the United States. As a result of our fiscal year-end, our U.S. statutory federal rate will be 25.7% for 2018 (based on the 35% corporate rate through December 31, 2017 and 21% from that date through the end of fiscal year 2018) and 21% for subsequent years. The Tax Act imposes a Repatriation Tax in 2018; provides a U.S. federal tax exemption on foreign earnings distributed to the United States; and, beginning in 2019, creates a Foreign Minimum Tax. The Tax Act allows us to elect to pay any Repatriation Tax due in eight annual interest-free payments in increasing amounts beginning in December 2018. In connection with the provisions of the Tax Act, we are continuing to evaluate whether to account for the Foreign Minimum Tax provisions that begin for us in 2019 as a period cost or in our measurement of deferred taxes.

SAB 118 allows the use of provisional amounts (reasonable estimates) if our analyses of the impacts of the Tax Act has not been completed when our financial statements are issued. Provisional amounts may be adjusted during a one-year measurement period as accounting for the income tax effects of the Tax Act are completed or as estimates are revised.

In accordance with SAB 118, we recorded certain provisional estimates included in the table above. Although the provisional estimates are based on the best available interpretations of the Tax Act, the final impacts may differ from the estimates due to, among other things, the issuance of additional regulatory and legislative guidance related to the Tax Act.

As noted above, provisional estimates were recorded for the Repatriation Tax and the release of the valuation allowance on the net deferred tax assets of our U.S. operations. To determine the amount of the Repatriation Tax, we must determine the accumulated foreign earnings of our foreign subsidiaries and the amount of foreign income tax paid on such earnings. The provisional estimate of the Repatriation Tax is also based, in part, on the amount of cash and other specified assets anticipated to be held by our foreign subsidiaries as of August 30, 2018, the end of our fiscal year 2018, which will determine the portion of the accumulated foreign earnings taxed at an effective rate of 15.5% or 8%. The provisional estimate for the Repatriation Tax was revised in the third quarter of 2018, and may continue to be revised as amounts are finalized. The U.S. Department of Treasury has issued interpretive guidance regarding the Repatriation Tax and we expect that it will issue additional guidance. Based on the information available, we can reasonably estimate the Repatriation Tax and therefore recorded a provisional amount; however, we are continuing to gather additional information and analyze authoritative guidance to finalize the computation of the Repatriation Tax as well as the impacts on the valuation allowance release of the Repatriation Tax and the Tax Act.

During the third quarter of 2018, we reassessed our capital structure, including our Board of Directors' authorization to repurchase up to \$10 billion of our outstanding common stock beginning in 2019, the future cash needs of our global operations, and the effects of the Tax Act. As a result of this reassessment, we deemed a portion of our foreign earnings to be no longer indefinitely invested. As a result of the Repatriation Tax, substantially all of our accumulated foreign earnings prior to December 31, 2017 were subject to U.S. federal taxation. Although we have provided for U.S. federal income tax on these earnings, the repatriation to the United States of all or a portion of these earnings would be subject to foreign and state income tax. As a result, in the third quarter of 2018, we recognized income tax provision of \$68 million for deferred tax liabilities associated with our reassessment of our indefinitely reinvested earnings, which was substantially offset by a reduction in valuation allowances.

We operate in a number of locations outside the United States, including Singapore, where we have tax incentive arrangements that are conditional, in part, 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 2030, reduced our tax provision by \$527 million (benefiting our diluted earnings per share by \$0.43) for the third quarter of 2018, by \$436 million (\$0.35 per diluted share) in the second quarter of 2018, and by \$250 million (\$0.21 per diluted share) for the

third quarter of 2017. The Tax Act establishes a new provision designed to impose the Foreign Minimum Tax beginning in 2019. Consequently, we may incur additional U.S. tax expense on income of our foreign subsidiaries that could offset a significant portion of the benefits realized from our tax incentive arrangements. Beginning in 2019, our effective tax rate may increase to the low teens percentage depending on profitability.

## Other

Net interest expense decreased 28% for the third quarter of 2018 as compared to the second quarter of 2018 primarily due to decreases in debt obligations in the first nine months of 2018. Net interest expense decreased 69% for the third quarter of 2018 as compared to the third quarter of 2017 primarily due to decreases in debt obligations, as well as an increase in capitalized interest from higher levels of capital spending. Interest income also increased in the third quarter of 2018 as compared to the third quarter of 2017 primarily due to increases in our aggregate cash and investments. Net interest expense decreased 52% for the first nine months of 2018 as compared to the first nine months of 2017 primarily due to decreases in debt obligations, increases in interest income as a result of increases in our aggregate cash and investments, and increases in capitalized interest.

Further discussion of other operating and non-operating income and expenses can be found in "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Equity Plans and Other Non-Operating Income (Expense), Net" notes.

## Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operations and financing obtained from capital markets and financial institutions. Cash generated from operations is highly dependent on selling prices for our products, which can vary significantly from period to period. We are continuously evaluating alternatives for efficiently funding our capital expenditures and ongoing operations. We expect, from time to time in the future, to engage in a variety of financing transactions for such purposes, including the issuance of securities. We have an undrawn revolving credit facility that expires in February 2020 and provides for additional borrowings of up to \$750 million based on eligible receivables. We expect that our cash and investments, cash flows from operations, and available financing will be sufficient to meet our requirements at least through the next 12 months.

To develop new product and process technology, support future growth, achieve operating efficiencies, and maintain product quality, we must continue to invest in manufacturing technologies, facilities and equipment, and R&D. We estimate that expenditures in 2018 for property, plant, and equipment, net of partner contributions, to be approximately \$8 billion, focused on technology transitions and product enablement. The actual amounts for 2018 will vary depending on market conditions. As of May 31, 2018, we had commitments of approximately \$1.6 billion for the acquisition of property, plant, and equipment, substantially all of which is expected to be paid within one year.

As the cost and complexity of DRAM and NAND scaling increases with each subsequent technology node, additional space and equipment is required to manufacture the increasingly complex architectures of these leading technologies to maintain wafer capacity and meet market demand. In March 2018, we announced plans to add clean-room space in our NAND and DRAM fabrication network and commenced activities to build additional clean-room space in Singapore, adjacent to our existing NAND facility, which enables the transition of our existing wafer capacity to future 3D NAND nodes. We expect to build out this facility in phases aligned with our manufacturing requirements and market demands, with the first phase of the clean room expected to be completed by the summer of 2019 and initial wafer output from the facility expected in the fourth quarter of calendar 2019.

In May 2018, we announced that our Board of Directors had authorized the discretionary repurchase of up to \$10 billion of our outstanding common stock beginning in 2019. We may purchase shares on a discretionary basis through open-market purchases, block trades, privately-negotiated transactions, and/or derivative transactions, subject to market conditions and our ongoing determination of the best use of available cash. The repurchase authorization does not obligate us to acquire any common stock.

Cash and marketable investments totaled \$7.56 billion and \$6.05 billion as of May 31, 2018 and August 31, 2017, respectively. Our investments consist primarily of money market funds and liquid investment-grade fixed-income securities, diversified among industries and individual issuers. 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. As of May 31, 2018, \$4.60 billion of our cash and marketable investments was held by our foreign subsidiaries.

In October 2017, we issued 34 million shares of our common stock for \$41.00 per share in a public offering for proceeds of \$1.36 billion, net of underwriting fees and other offering costs. In the first nine months of 2018, we paid \$6.15 billion in cash to prepay, repurchase, and settle conversions of debt with an aggregate principal amount of \$4.73 billion. See "Item 1. Financial

Statements – Notes to Consolidated Financial Statements – Debt." We may redeem, repurchase, or otherwise retire additional debt in the future.

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

**MMJ Group:** Cash and marketable investments as of May 31, 2018 included \$443 million held by the MMJ Group. As a result of the corporate reorganization proceedings of MMJ initiated in March 2012, and for so long as such proceedings are continuing, the MMJ Group is prohibited from paying dividends to us. In addition, pursuant to an order of the Japan Court, the MMJ Group cannot make loans or advances, other than certain ordinary course advances, to us without the consent of the Japan Court and may, under certain circumstances, be subject to the approval of the legal trustee. As a result, the assets of the MMJ Group 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.

**MSTW and MTTW:** Cash and marketable investments as of May 31, 2018 included \$876 million held by MSTW and MTTW. The 2021 MSTW Term Loan contains covenants that limit or restrict the ability of MSTW and MTTW to pay dividends. As a result, the assets of MSTW and MTTW are not available for use by us in our other operations. In June 2018, we made an irrevocable election under the terms of the 2021 MSTW Term Loan to prepay principal of 25 billion New Taiwan dollars (equivalent to \$836 million as of May 31, 2018) on July 6, 2018.

**IMFT:** Cash and marketable investments as of May 31, 2018 included \$109 million held by IMFT. 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 May 31, 2018, \$1.28 billion of cash and marketable investments, including substantially all of the amounts held by MMJ, MSTW, and MTTW, was held by certain foreign subsidiaries whose earnings were considered to be indefinitely reinvested. Determination of the amount of unrecognized deferred tax liabilities related to investments in these foreign subsidiaries is not practicable.

During the third quarter of 2018, we reassessed our capital structure, including our Board of Directors' authorization to repurchase up to \$10 billion of our outstanding common stock beginning in 2019, the future cash needs of our global operations, and the effects of the Tax Act. As a result of this reassessment, we deemed a portion of our foreign earnings to be no longer indefinitely invested. As a result of the Repatriation Tax, substantially all of our accumulated foreign earnings prior to December 31, 2017 were subject to U.S. federal taxation. Although we have provided for U.S. federal income tax on these earnings, the repatriation to the United States of all or a portion of these earnings would be subject to foreign and state income tax. As a result, in the third quarter of 2018, we recognized income tax provision of \$68 million for deferred tax liabilities associated with our reassessment of our indefinitely reinvested earnings, which was substantially offset by a reduction in valuation allowances. In addition, beginning in 2019, our effective tax rate may increase to the low teens percentage depending on profitability.

#### Cash Flows

|   | First Nine Months |          |
|---|-------------------|----------|
|   | 2018              | 2017     |
| Net cash provided by operating activities   | \$12,245          | \$4,950  |
| Net cash provided by (used for) investing activities  | (6,087 )          | (6,259 ) |
| Net cash provided by (used for) financing activities  | (4,443 )          | 1,207    |
| Effect of changes in currency exchange rates on cash, cash equivalents, and restricted cash | (4 )              | (15 )    |



Net increase (decrease) in cash, cash equivalents, and restricted cash \$1,711 \$(117 )

Operating Activities: For the first nine months of 2018, cash provided by operating activities was due primarily to cash generated by our operations and the effect of working capital adjustments, which included \$1.18 billion of cash used for increases in receivables. For the first nine months of 2017, cash provided by operating activities was due primarily to cash generated by our operations and the effect of working capital adjustments, which included \$1.34 billion of cash used for increases in receivables, \$361 million of payments attributed to intercompany balances in connection with the Inotera Acquisition, partially offset by \$511 million of cash provided from increases in accounts payable and accrued expenses.

**Investing Activities:** For the first nine months of 2018, net cash used for investing activities consisted primarily of \$6.63 billion of expenditures for property, plant, and equipment, partially offset by \$182 million of net inflows from sales, maturities, and purchases of available-for-sale securities. For the first nine months of 2017, net cash used for investing activities consisted primarily of \$3.47 billion of expenditures for property, plant, and equipment and \$2.63 billion of net cash paid for the Inotera Acquisition (net of \$361 million of payments attributed to intercompany balances with Inotera included in operating activities).

**Financing Activities:** For the first nine months of 2018, net cash used for financing activities consisted primarily of cash payments of \$6.15 billion to reduce our debt, including \$4.85 billion to prepay or repurchase our debt and \$1.31 billion to settle conversions of notes, and \$614 million for repayments of other notes and capital leases. Cash paid for financing activities was partially offset by net proceeds of \$1.36 billion from the issuance of 34 million shares of our common stock for \$41.00 per share in a public offering and \$969 million of proceeds from IMFT Member Debt. For the first nine months of 2017, net cash provided by financing activities consisted primarily of \$2.48 billion of proceeds from the 2021 MSTW Term Loan, \$620 million of proceeds from the 2021 MSAC Term Loan, partially offset by repurchases of \$952 million in aggregate principal of our 2025 Notes and 2026 Notes for an aggregate of \$1.00 billion in cash and repayments of \$774 million of other debt. See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Debt." Additionally, in June 2018, we made an irrevocable election under the terms of the 2021 MSTW Term Loan to prepay 25 billion New Taiwan dollars (equivalent to \$836 million as of May 31, 2018) of principal amount on July 6, 2018.

#### Potential Settlement Obligations of Convertible Notes

Since the closing price of our common stock exceeded 130% of the conversion price per share of all our convertible notes for at least 20 trading days in the 30 trading day period ended on June 30, 2018, holders may convert their notes at any time through the calendar quarter ended September 30, 2018. The following table summarizes the potential settlements that we could be required to make related to the calendar quarter ending September 30, 2018 if all holders converted their notes. The amounts in the table below are based on our closing share price of \$57.59 as of May 31, 2018.

| Convertible Notes | Settlement Option  |                               | Underlying Shares | If Settled With Minimum Cash Required |                     | If Settled Entirely With Cash |
|-------------------|--------------------|-------------------------------|-------------------|---------------------------------------|---------------------|-------------------------------|
|                   | Principal Amount   | Amount in Excess of Principal |                   | Cash                                  | Remainder in Shares |                               |
| 2032C Notes       | Cash and/or shares | Cash and/or shares            | 18                | \$ 408                                | 11                  | \$ 1,016                      |
| 2032D Notes       | Cash and/or shares | Cash and/or shares            | 18                | 78                                    | 16                  | 1,019                         |
| 2033E Notes       | Cash               | Cash and/or shares            | 1                 | 43                                    | —                   | 61                            |
| 2033F Notes       | Cash               | Cash and/or shares            | 10                | 128                                   | 8                   | 586                           |
| 2043G Notes       | Cash and/or shares | Cash and/or shares            | 35                | 12                                    | 35                  | 2,025                         |
|                   |                    |                               | 82                | \$ 669                                | 70                  | \$ 4,707                      |

As of May 31, 2018, convertible notes in the table above included an aggregate of \$553 million for the settlement obligation (including principal and amounts in excess of principal) for conversions of certain convertible notes that will settle in cash in the fourth quarter of 2018.

#### Contractual Obligations

| As of May 31, 2018 | Payments Due by Period |                   |             |                            |
|--------------------|------------------------|-------------------|-------------|----------------------------|
|                    | Total                  | Remainder of 2018 | 2019 - 2020 | 2021 - 2023 and thereafter |
|                    |                        |                   |             |                            |

Edgar Filing: MICRON TECHNOLOGY INC - Form 10-Q

|  |         |        |         |         |          |
|--|---------|--------|---------|---------|----------|
| Notes payable <sup>(1)(2)</sup>          | \$7,481 | \$ 664 | \$2,420 | \$1,728 | \$ 2,669 |
| Capital lease obligations <sup>(2)</sup> | 1,083   | 106    | 577     | 167     | 233      |
| Operating leases <sup>(3)</sup>          | 628     | 9      | 80      | 101     | 438      |
| Total                                    | \$9,192 | \$ 779 | \$3,077 | \$1,996 | \$ 3,340 |

(1) Amounts include MMJ Creditor Payments, convertible notes, and other notes.

(2) Amounts include principal and interest.

(3) Amounts include contractually obligated minimum lease payments for operating leases having an initial noncancelable term in excess of one year.

### Critical Accounting Estimates

For a discussion of our critical accounting estimates, see "Part I – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended August 31, 2017. Except for the critical accounting estimates associated with our income taxes as discussed below, there have been no material changes to our critical accounting estimates since our Annual Report on Form 10-K for the year ended August 31, 2017.

**Income taxes:** We are required to estimate our provision for income taxes and amounts ultimately payable or recoverable in numerous tax jurisdictions around the world. These estimates involve significant judgment and interpretations of regulations and are inherently complex. Resolution of income tax treatments in individual jurisdictions may not be known for many years after completion of any fiscal year. We are also required to evaluate the realizability of our deferred tax assets on an ongoing basis in accordance with U.S. GAAP, which requires the assessment of our performance and other relevant factors. Realization of deferred tax assets is dependent on our ability to generate future taxable income. In recent periods, our results of operations have benefitted from increases in the amount of deferred taxes we expect to realize, primarily from the levels of capital spending and increases in the amount of taxable income we expect to realize in Japan and Taiwan. Our income tax provision or benefit is dependent, in part, on our ability to forecast future taxable income in these and other jurisdictions. Such forecasts are inherently difficult and involve significant judgments including, among others, projecting future average selling prices and sales volumes, manufacturing and overhead costs, levels of capital spending, and other factors that significantly impact our analyses of the amount of net deferred tax assets that are more likely than not to be realized.

In the first nine months of 2018, we recognized a benefit for income taxes of \$91 million as a result of the Tax Act, which included a \$224 million provisional estimate for income tax benefits, offset by \$133 million of income tax provision related to the impact of remeasuring our deferred tax assets and liabilities to reflect the lower tax rate pursuant to the Tax Act. The provisional estimate included \$1.11 billion of expense associated with the Repatriation Tax and a benefit of \$1.34 billion for the release of the valuation allowance on the net deferred tax assets of our U.S. operations. Based on the information available, we can reasonably estimate the Repatriation Tax and therefore recorded a provisional amount; however, we are continuing to gather additional information and analyze authoritative guidance to finalize the computation of the Repatriation Tax as well as the impacts on the valuation allowance release of the Repatriation Tax and the Tax Act. The provisional estimate for the Repatriation Tax was revised in the third quarter of 2018, and may continue to be revised as amounts are finalized.

### Recently Issued Accounting Standards

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

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

We are affected by changes in currency exchange and interest rates. See discussion regarding certain interest rate risks below. For further discussion about market risk and sensitivity analysis related to changes in currency exchange rates, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended August 31, 2017.

#### Interest Rate Risk

We are exposed to interest rate risk related to our indebtedness and our investment portfolio. As of May 31, 2018 and August 31, 2017, the carrying value of our debt with fixed interest rates was \$3.7 billion and \$5.7 billion, respectively, and as a result, the fair value of our debt fluctuates with changes in market interest rates. We estimate that, as of May 31, 2018 and August 31, 2017, a decrease in market interest rates of 1% would increase the fair value of our fixed-rate debt by approximately \$83 million and \$273 million, respectively.

#### 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 third quarter of 2018, 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

For a discussion of legal proceedings, see "Part I – Item 3. Legal Proceedings" of our Annual Report on Form 10-K for the year ended August 31, 2017 and "Part I. Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Contingencies" and "Item 1A. Risk Factors" herein.

##### ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Form 10-Q, the following are important factors, the order of which is not necessarily indicative of the level of risk that each poses to us, which could cause actual results or events to differ materially from those contained in any forward-looking statements made by us. Our operations could also be affected by other factors that are presently unknown to us or not considered significant. Any of the factors below could have a material adverse effect on our business, results of operations, financial condition, or stock price.

We have experienced volatility in average selling prices for our semiconductor memory and storage products which may adversely affect our business.

We have experienced significant volatility in our average selling prices, including dramatic declines, as noted in the table below, and may continue to experience such volatility in the future. In some prior periods, average selling prices for our products have been below our manufacturing costs and we may experience such circumstances in the future. Decreases in average selling prices for our products that decline faster than our costs could have a material adverse effect on our business, results of operations, or financial condition.

DRAM<sup>Trade</sup>  
NAND

(percentage  
change in  
average selling  
prices)

2017 from 2016 19 % (9 )%

2016 from 2015 (35)% (20 )%

2015 from 2014 (11)% (17 )%

2014 from 2013 6 % (23 )%

2013 from 2012 (11)% (18 )%

35

---

We may be unable to maintain or improve gross margins.

Our gross margins are dependent in part 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, additional 3D memory layers, additional bits per cell (i.e., cell levels), 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, difficulties in transitioning to smaller line-width process technologies, 3D memory layers, NAND cell levels, process complexity including number of mask layers and fabrication steps, manufacturing yield, technological barriers, changes in process technologies, and new products that may require relatively larger die sizes. Per gigabit manufacturing costs may also be affected by a broader product portfolio, which may have smaller production quantities and shorter product lifecycles. Our inability to maintain or improve gross margins could have a material adverse effect on our business, results of operations, or financial condition.

The semiconductor memory and storage markets are highly competitive.

We face intense competition in the semiconductor memory and storage markets from a number of companies, including Intel; Samsung Electronics Co., Ltd.; SK Hynix Inc.; Toshiba Memory Corporation; and Western Digital 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 have provided, and may continue to provide, significant assistance, financial or otherwise, to some of our competitors or to new entrants and may intervene in support of national industries and/or competitors. In particular, we face the threat of increasing competition as a result of significant investment in the semiconductor industry by the Chinese government and various state-owned or affiliated entities that is intended to advance China's stated national policy objectives. The activities by the Chinese government may restrict us from participating in the China market or may prevent us from competing effectively with Chinese companies.

Our competitors generally seek to increase silicon capacity, improve yields, and reduce die size in their product designs which may result in significant increases in worldwide supply and downward pressure on prices. Increases in worldwide supply of semiconductor memory and storage also result from fabrication capacity expansions, either by way of new facilities, increased capacity utilization, or reallocation of other semiconductor production to semiconductor memory and storage production. Our competitors may increase capital expenditures resulting in future increases in worldwide supply. We and some of our competitors have plans to ramp, or are constructing or ramping, production at new fabrication facilities. Increases in worldwide supply of semiconductor memory and storage, 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. If competitors are more successful at developing or implementing new product or process technology, their products could have cost or performance advantages.

The competitive nature of our industry could have a material adverse effect on our business, results of operations, or financial condition.

Debt obligations could adversely affect our financial condition.

As of May 31, 2018, we had debt with a carrying value of \$7.34 billion. In addition, the conversion value in excess of principal of our convertible notes as of May 31, 2018 was \$3.21 billion. In the first nine months of 2018, and full



years of 2017 and 2016, we paid \$6.15 billion and issued 4 million shares of our treasury stock, \$1.63 billion, and \$94 million, respectively, to prepay, repurchase, and settle conversions of debt with principal amounts of \$4.73 billion, \$1.55 billion, and \$57 million, respectively. As of May 31, 2018, we had an undrawn revolving credit facility that provided for additional borrowings of up to \$750 million based on eligible receivables. Events and circumstances may occur which could cause us to not be able to satisfy applicable draw-down conditions and utilize this revolving credit facility. We have incurred in the past, and expect to incur in the future, debt to finance our capital investments, business acquisitions, and restructuring of our capital structure.

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;

require us to use cash and/or issue shares of our common stock to settle any conversion obligations of our convertible notes;

- result in certain of our debt instruments being accelerated to be immediately due and payable or being deemed to be in default if certain terms of default are triggered, such as applicable cross payment default and/or cross-acceleration provisions;
- result in all obligations owing under the 2021 MSTW Term Loan being accelerated to be immediately due and payable if MSTW fails to comply with certain covenants, including financial covenants;
- increase the interest rate under the 2021 MSTW Term Loan if we or MSTW fails to maintain certain financial covenants;
- adversely impact our credit rating, which could increase future borrowing costs;
- limit our future ability to raise funds for capital expenditures, strategic acquisitions or business opportunities, R&D, and other general corporate requirements;
- restrict our ability to incur specified indebtedness, create or incur certain liens, and enter into sale-leaseback financing transactions;
- increase our vulnerability to adverse economic and semiconductor memory and storage industry conditions;
- increase our exposure to interest rate risk from variable rate indebtedness;
- continue to dilute our earnings per share as a result of the conversion provisions in our convertible notes; and
- 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.

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 market, 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 amounts sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flows to service our debt payment 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 are 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 and storage products sold, average selling prices, and manufacturing costs. To develop new product and process technology, 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 net cash expenditures in 2018 for property, plant, and equipment will be approximately \$8 billion, which reflects the offset of amounts we expect to be funded by our partners. Investments in capital expenditures, offset by amounts funded by our partners, were \$2.10 billion in the third quarter of 2018. As of May 31, 2018, we had cash and marketable investments of \$7.56 billion. As of May 31, 2018, \$1.28 billion of cash and marketable investments, including substantially all of the cash held by the MMJ Group, MSTW, and MTTW, was held by foreign subsidiaries whose earnings were considered to be indefinitely reinvested. As a result of the Tax Act, substantially all of our accumulated foreign earnings prior to December 31, 2017 were treated as taxable; however, the repatriation of all or a portion of these earnings would continue to be subject to foreign and state tax upon repatriation to the United States. In addition, cash of \$109 million held by IMFT was generally not available to finance our other operations.

The 2021 MSTW Term Loan contains covenants that limit or restrict MSTW's ability to create liens in or dispose of collateral securing obligations under the 2021 MSTW Term Loan, mergers involving MSTW and/or MTTW, loans or guarantees to third parties by MTTW and/or MSTW, and MSTW's and/or MTTW's distribution of cash dividends. As

a result, the assets of MSTW and/or MTTW are not available for use by us in our other operations.

As a result of the corporate reorganization proceedings of MMJ initiated in 2012, and for so long as such proceedings are continuing, MMJ is prohibited from paying dividends, including any cash dividends, to us and such proceedings require that excess earnings be used in MMJ's business or to fund the MMJ creditor payments. In addition, pursuant to an order of the Japan Court, MMJ cannot make loans or advances, other than certain ordinary course advances, to us without the consent of the Japan Court and may, under certain circumstances, be subject to approval of the legal trustee. As a result, the assets of MMJ are not available for use by us in our other operations. Furthermore, certain uses of the assets of MMJ, including certain capital expenditures of MMJ and MMT or further investments 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 any of the foregoing could have a material adverse effect on our business, results of operations, or financial condition.

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

Our key semiconductor memory and storage products and technologies face technological barriers to continue to meet long-term customer needs. These barriers include potential limitations on stacking additional 3D memory layers, increasing bits per cell (i.e., cell levels), shrinking products in order to reduce costs, meeting higher density requirements, and improving power consumption and reliability. To meet these requirements, we expect that new memory technologies will be developed by the semiconductor memory and storage industry. Our competitors are working to develop new memory and storage technologies that may offer performance and/or cost advantages to existing technologies and render existing technologies obsolete. Accordingly, our future success may depend on our ability to develop and produce viable and competitive new memory and storage technologies. There can be no assurance of the following:

- that we will be successful in developing competitive new semiconductor memory and storage 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.

We develop and produce advanced memory technologies, including 3D XPoint memory, a new class of non-volatile technology. There is no assurance that our efforts to develop and market new product technologies will be successful. Unsuccessful efforts to develop new semiconductor memory and storage technologies could have a material adverse effect on our business, results of operations, or financial condition.

New product development may be unsuccessful.

We are developing new products, including system-level memory and storage products and solutions, which complement our traditional products or leverage their underlying design or process technology. We have made significant investments in product and process technology and anticipate expending significant resources for new semiconductor product and system-level solution development over the next several years. The process to develop new products requires us to demonstrate advanced functionality and performance, often well in advance of a planned ramp of production, in order to secure design wins with our customers. There can be no assurance of the following:

- 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;
- that we will be able to establish or maintain key relationships with customers with specific chip set or design requirements;
- that we will be able to introduce new products into the market and qualify them with our customers on a timely basis;
- or
- that margins generated from sales of these products will allow us to recover costs of development efforts.

Our unsuccessful efforts to develop new products and solutions could have a material adverse effect on our business, results of operations, or financial condition.

Our joint ventures and strategic relationships involve numerous risks.

We have entered into strategic relationships, including our joint development partnership and our IMFT joint venture with Intel, to develop new manufacturing process technologies and products and to manufacture certain products. 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' interests or we may not be able to agree with our partners on:
  - ongoing or future development, manufacturing, or operational activities;
  - the amount, timing, or nature of further investments; or
  - commercial terms in our joint ventures or strategic relationships;
- our joint venture partners' products may compete with our products;
- 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;
- 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, we and our partners may not participate to the same extent on funding capital investments in our joint ventures;
- cash flows may be inadequate to fund increased capital requirements of our joint ventures;
- 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.

Our joint ventures and strategic relationships, if unsuccessful, could have a material adverse effect on our business, results of operations, or financial condition.

A significant concentration of our net sales is to a select number of customers.

In each of the last three years, approximately one-half of our total net sales were to our top ten customers. A disruption in our relationship with any of these customers could adversely affect our business. We could experience fluctuations in our customer base or the mix of revenue by customer as markets and strategies evolve. In addition, any consolidation of our customers could reduce the number of customers to whom our products could be sold. Our inability to meet our customers' requirements or to qualify our products with them could adversely impact our sales. The loss of one or more of our major customers or any significant reduction in orders from, or a shift in product mix by, these customers could have a material adverse effect on our business, results of operations, or financial condition.

Increases in sales of system solutions may increase our dependency upon specific customers and our costs to develop and qualify our system solutions.

Our development of system-level memory and storage products is dependent, in part, upon successfully identifying and meeting our customers' specifications of those products. Developing and manufacturing system-level products with specifications unique to a customer increases our reliance upon that customer for purchasing our products in sufficient volume, quantity, and in a timely manner. If we fail to identify or develop products on a timely basis, or at all, that comply with our customers' specifications or achieve design wins with our customers, we may experience a significant adverse impact on our sales and margins. Even if our products meet customer specifications, our sales of system-level solutions are dependent upon our customers choosing our products over those of our competitors and purchasing our products at sufficient volumes and prices. Our competitors' products may be less costly, provide better performance, or include additional features when compared to our products. Our long-term ability to sell system-level memory and storage products is reliant upon our customer's ability to create, market, and sell their products containing our system-level solutions at sufficient volumes and prices in a timely manner. If we fail to successfully develop and market system-level products, our business, results of operations, or financial condition may be materially adversely affected.

Even if we are successful in selling system-level solutions to our customers in sufficient volume, we may be unable to generate sufficient profit if our per-unit manufacturing costs exceed our per-unit selling prices. Manufacturing system-level solutions to customer specifications requires a longer development cycle, as compared to discrete products, to design, test, and qualify, which may increase our costs. Additionally, some of our system solutions are increasingly dependent on sophisticated firmware that may require significant customization to meet customer specifications, which increases our costs and time to market. Additionally, we may update our firmware or develop

new firmware as a result of new product introductions or changes in customer specifications and/or industry standards, which increases our costs. System complexities and extended warranties for system-level products could also increase our warranty costs. Our failure to cost-effectively manufacture system-level solutions and/or firmware in a timely manner, may result in reduced demand for our system-level products, and could have a material adverse effect on our business, results of operations, or financial condition.

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, we could be adversely affected in several ways, including the following:

- we may be required or agree to compensate customers for costs incurred or damages caused by defective or incompatible products and to 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 or harm our relationships with existing or potential customers.

Any of the foregoing items could have a material adverse effect on our business, results of operations, or financial condition.

We may be unable to protect our intellectual property or retain key employees who are knowledgeable of and develop our intellectual property.

We maintain a system of controls over our intellectual property, including U.S. and foreign patents, trademarks, copyrights, trade secret laws, licensing arrangements, confidentiality procedures, non-disclosure agreements with employees, consultants, and vendors, and a general system of internal controls. Despite our system of controls over our intellectual property, it may be possible for our current or future competitors to obtain, copy, use, or disclose, illegally or otherwise, our product and process technology. The laws of some foreign countries may not protect our intellectual property to the same degree as do U.S. laws and our confidentiality, non-disclosure, and non-compete agreements may be unenforceable or difficult and costly to enforce.

Additionally, our ability to maintain and develop intellectual property is dependent upon our ability to attract, develop, and retain highly skilled employees. Global competition for such skilled employees in our industry is intense. Due to the volatile nature of our industry and our operating results, a decline in our operating results and/or stock price may adversely affect our ability to retain key employees whose compensation is dependent, in part, upon the market price of our common stock, achieving certain performance metrics, levels of company profitability, or other financial or company-wide performance. If our competitors or future entrants into our industry are successful in hiring our employees, they may directly benefit from the knowledge these employees gained while they were under our employment.

Our inability to protect our intellectual property or retain key employees who are knowledgeable of and develop our intellectual property could have a material adverse effect on our business, results of operations, or financial condition.

Claims that our products or manufacturing processes infringe or otherwise violate the intellectual property rights of others, or failure to obtain or renew license agreements 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 upon, misappropriate, misuse, or otherwise violate their intellectual property rights. We are unable to predict the outcome of these assertions made against us. Any of these types of claims, regardless of the merits, could subject us to significant costs to defend or resolve such claims and may consume a substantial portion of management's time and attention. As a result of these claims, we may be required to:

- pay significant monetary damages, fines, royalties, or penalties;
- enter into license or settlement agreements covering such intellectual property rights;
- make material changes to or redesign our products and/or manufacturing processes; and/or
- cease manufacturing, having made, selling, offering for sale, importing, marketing, or using products and/or manufacturing processes in certain jurisdictions.

We may not be able to take any of the actions described above on commercially reasonable terms and any of the foregoing results could have a material adverse effect on our business, results of operations, or financial condition. (See "Part I. 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 licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on terms acceptable to us. The failure to obtain or renew licenses as necessary could have a material adverse effect on our business, results of operations, or financial condition.

We have been served with several complaints in a Chinese court alleging patent infringement.

We have been served with several complaints in a Chinese court alleging we infringe certain Chinese patents by manufacturing and selling certain products in China. The complaints seek orders requiring us to destroy inventory of the accused products and equipment for manufacturing the accused products in China, to stop manufacturing, using, selling, and offering for sale the accused products in China, and to pay damages plus court fees.

We are unable to predict the outcome of these 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 operations in China, products, and/or manufacturing processes. Any of the foregoing could have a material adverse effect on our business, results of operations, or financial condition. (See also "Part I. Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Contingencies.")

Litigation could have a material adverse effect on our business, results of operations, or financial condition.

From time to time we are subject to various legal proceedings and claims that arise out of the ordinary conduct of our business or otherwise, both domestically and internationally. Any claim, with or without merit, could result in significant legal fees that could negatively impact our financial results, disrupt our operations, and require significant attention from our management. We could be subject to litigation or arbitration disputes arising from our relationships with vendors or customers, supply agreements, or contractual obligations with our subcontractors or business partners. We may also be associated with and subject to litigation arising from the actions of our subcontractors or business partners. We may also be subject to litigation as a result of indemnities we issue, primarily with our customers, the terms of our product warranties, and from product liability claims. There can be no assurance that we are adequately insured to protect against all claims and potential liabilities, and we may elect to self-insure with respect to certain matters. Exposures to various litigation could lead to significant costs and expenses as we defend claims, be required to pay damage awards, or enter into settlement agreements, any of which could have a material adverse effect on our business, results of operations, or financial condition.

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

We and our subcontractors 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 and our subcontractors maintain operations and continuously

implement new product and process technology at manufacturing facilities, which are widely dispersed in multiple locations in several countries including the United States, Singapore, Taiwan, Japan, Malaysia, and China. Additionally, our control over operations at IMFT is limited by our agreements with Intel. From time to time, there have been disruptions in the manufacturing process as a result of power outages, improperly functioning equipment, equipment failures, earthquakes, or other environmental events. If production 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 have a material adverse effect on our business, results of operations, or financial condition.

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's insolvency proceedings, filed suit against Micron 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 (the "Inotera Shares"), representing approximately 18% of Inotera's outstanding shares as of May 31, 2018, 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 the Inotera Shares and all other benefits; (4) denying Qimonda's claims against Micron 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 canceled. 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 Micron B.V. 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 Micron B.V. 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.

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 operations, or financial condition.

We may incur additional restructuring charges in future periods.

In separate transactions in 2017, we sold our assembly and test facility located in Akita, Japan and our 40% ownership interest in Tera Probe, Inc.; assets associated with our 200mm fabrication facility in Singapore; and assets related to our Lexar brand. In 2016, we initiated a restructure plan in response to business conditions and the need to accelerate focus on our key priorities. The plan included the elimination of certain projects and programs, the permanent closure of a number of open headcount requisitions, workforce reductions in certain areas of our business, and other non-headcount related spending reductions. As a result of these and other actions, we incurred charges of \$18 million, \$67 million, and \$3 million for 2017, 2016, and 2015, respectively.

We may not realize expected savings or other benefits from our restructure activities and may incur additional restructure charges or other losses in future periods associated with other initiatives. In connection with any restructure initiatives, we could incur restructure charges, loss of production output, loss of key personnel, disruptions in our operations, and difficulties in the timely delivery of products, which could have a material adverse effect on our

business, results of operations, or financial condition.

42

---

Breaches of our security systems could expose us to losses.

We maintain a system of controls over the physical security of our facilities. We also manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, we process, store, and transmit large amounts of data relating to our customers and employees, including sensitive personal information. Unauthorized persons or employees may gain access to our facilities or network systems to steal trade secrets or other 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. Breaches of our physical security and attacks on our network systems could result in significant losses and damage our reputation with customers and suppliers and may expose us to litigation if the confidential information of our customers, suppliers, or employees is compromised, which could have a material adverse effect on our business, results of operations, or financial condition.

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

Across our global operations, significant transactions and balances are denominated in currencies other than the U.S. dollar (our reporting currency), primarily the euro, Singapore dollar, New Taiwan dollar, and yen. We recorded net losses from changes in currency exchange rates of \$60 million for the first nine months of 2018, \$74 million for 2017, and \$24 million for 2016. Based on our foreign currency balances of monetary assets and liabilities, as of May 31, 2018, we estimate that a 10% adverse change in exchange rates versus the U.S. dollar would result in losses of approximately \$303 million. Although we hedge our primary exposures to changes in currency exchange rates from our monetary assets and liabilities, the effectiveness of these hedges is dependent upon our ability to accurately forecast our monetary assets and liabilities. 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. Exchange rates for the U.S. dollar that adversely change against our foreign currency exposures could have a material adverse effect on our business, results of operations, or financial condition.

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, R&D 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, goodwill, or other assets as a result of changing business conditions, technological advancements, or worse-than-expected performance of the acquired business.

In previous years, supply of memory and storage products has significantly exceeded customer demand resulting in significant declines in average selling prices. The global memory and storage industry has experienced consolidation and may continue to consolidate. We engage, from time to time, in discussions regarding potential acquisitions and similar opportunities. 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, technology companies are inherently risky and may not be successful and could have a material adverse effect on our business, results of operations, or financial condition.

The limited availability and quality 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 and/or quality of raw materials or components such as chemicals, silicon wafers, gases, photoresist, controllers, substrates, lead frames, printed circuit boards, sub-assemblies, targets, and reticle glass blanks. Shortages and/or quality issues 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. The disruption of our supply or quality of raw materials or services or the extension of our lead times could have a material adverse effect on our business, results of operations, or financial condition.

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 suppliers' limited capacity. Our inability to obtain equipment on a timely basis could adversely affect our ability to transition to next generation manufacturing processes and reduce our costs. Delays in obtaining equipment could also impede our ability to ramp production at new facilities and could increase our overall costs of a ramp. Our inability to obtain advanced semiconductor manufacturing equipment in a timely manner could have a material adverse effect on our business, results of operations, or financial condition.

Increases in tariffs or other taxes on our products or equipment and supplies could have an adverse impact on our operations.

We sell a significant majority of our products into countries outside the United States and we purchase a significant portion of equipment and supplies from suppliers outside the United States. The United States and other countries have levied tariffs and taxes on certain goods. Further tariffs, additional taxes, or trade barriers may increase our selling and/or manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial conditions.

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, SSDs, 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 losses on our accounts receivables due to credit defaults. As a result, a downturn in the worldwide economy could have a material adverse effect on our business, results of operations, or financial condition.



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, such as 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, could have a material adverse effect on our business, results of operations, or financial condition.

Our incentives from various governments are conditional upon achieving or maintaining certain performance obligations and are subject to reduction, termination, or clawback.

We have received, and may in the future continue to receive, benefits and incentives from national, state, and local governments in various regions of the world designed to encourage us to establish, maintain, or increase investment, workforce, or production in those regions. These incentives may take various forms, including grants, loan subsidies, and tax arrangements, and typically require us to perform or maintain certain levels of investment, capital spending, employment, technology deployment, or research and development activities to qualify for such incentives. We cannot guarantee that we will successfully achieve performance obligations required to qualify for these incentives or that the granting agencies will provide such funding. These incentive arrangements typically provide the granting agencies with rights to audit our performance with the terms and obligations. Such audits could result in modifications to, or termination of, the applicable incentive program. The incentives we receive could be subject to reduction, termination, or clawback, and any decrease or clawback of government incentives could have a material adverse effect on our business, results of operations, or financial condition.

The operations of MMJ are subject to continued oversight by the Japan Court during the pendency of the corporate reorganization proceedings.

Because MMJ's plan of reorganization provides for ongoing payments to creditors following the closing of our acquisition of MMJ, the reorganization proceedings in Japan (the "Japan Proceedings") are continuing and MMJ remains 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 is responsible for overseeing the operation of the business of MMJ, other than oversight in relation to acts that need to be carried out in connection with the Japan Proceedings, which are the responsibility of the legal trustee. MMJ's reorganization proceedings in Japan, and oversight of the Japan Court, will continue until the final creditor payment is made under MMJ's plan 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. MMJ may petition the Japan Court for an early termination of the reorganization proceedings once two-thirds of all payments under the plan 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 this particular case.

During the pendency of the reorganization proceedings in Japan, MMJ is 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 its 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 MMJ or for transfers of material assets, to the extent the matters or transfers would reasonably be expected to materially and adversely affect execution of MMJ's plan of reorganization. Accordingly, during the pendency of the reorganization proceedings in Japan, our ability to operate MMJ as part of our global business or to cause MMJ to take certain actions that we deem advisable for its business 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 MMJ.

The operations of MMJ being subject to the continued oversight by the Japan Court during the pendency of the corporate reorganization proceedings could have a material adverse effect on our business, results of operations, or financial condition.

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

We operate in a number of locations outside the United States, including Singapore, where we have tax incentive arrangements that are conditional, in part, upon meeting certain business operations and employment thresholds. Our domestic and international taxes are dependent upon the geographic mix of our earnings among these 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 positions and intercompany transfer pricing agreements, 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 2013 through 2017. In addition, tax returns that remain open to examination in Japan range from the years 2012 to 2017, and in Singapore and Taiwan from 2013 to 2017. 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. The foregoing items could have a material adverse effect on our business, results of operations, or financial condition.

A change in tax laws in key jurisdictions could materially increase our tax expense.

On December 22, 2017, the United States enacted the Tax Act which lowers the U.S. corporate income tax rate from 35% to 21% and significantly affects how income from our foreign operations are taxed in the United States. As a result of our fiscal year-end, our U.S. statutory federal rate will be 25.7% for 2018, and 21% for subsequent years. Based on the information available, we recorded provisional amounts under SAB 118; however, we are continuing to gather additional information and analyze authoritative guidance to finalize the computation of the Repatriation Tax as well as the impacts on the valuation allowance release of the Repatriation Tax and the Tax Act. The final tax impacts may differ from estimates due to, among other things, the issuance of additional regulatory and legislative guidance. As a result of the Tax Act, our effective tax rate may increase to the low teens percentage depending on profitability.

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 31, 2017, our U.S. federal and state net operating loss carryforwards, including uncertain tax benefits, were \$3.88 billion and \$1.95 billion, respectively, which, if not utilized, will expire at various dates from 2028 through 2037 and 2018 through 2037, respectively. As of August 31, 2017, our foreign net operating loss carryforwards were \$6.30 billion, which will, if not utilized, substantially all expire at various dates from 2019 through 2026. As of August 31, 2017, we had gross deferred tax assets of \$3.78 billion and valuation allowances of \$2.32 billion against our deferred tax assets. As of May 31, 2018, after recording the provisional estimated impact of the Tax Act, which includes the utilization of a substantial portion of our U.S. deferred tax assets, we had net deferred tax assets of \$1.84 billion and valuation allowances of \$855 million against our deferred tax assets. Utilization of all of our net operating loss and credit carryforwards would increase the amount of our annual cash taxes reducing the overall amount of cash available to be used in other areas of the business and could have a material adverse effect on our business, results of operations, or financial condition.

A change in ownership may limit our ability to utilize our net operating loss and credit carryforwards.

On January 18, 2017, our shareholders approved a Section 382 Rights Agreement (the "Rights Agreement"), under which our shareholders of record as of the close of business on August 1, 2016 received one right for each share of common stock outstanding, which entitles certain shareholders to purchase additional shares of our common stock at a significant discount in the event of certain transactions that may result in an ownership change, as defined by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur when the percentage of our ownership by one or more 5% shareholders has increased by more than 50% at any time during the prior three years. Rights will attach to all shares of the Company's common stock issued prior to the earlier of the rights' distribution date or expiration date as set forth in the Rights Agreement. Pursuant to the Rights Agreement, if a shareholder (or group) acquires beneficial ownership of 4.99% or more of the outstanding shares of our common stock without prior approval of our Board or without meeting certain customary exceptions, the rights (other than rights held by the acquiring shareholder (or group) and certain related persons) would become exercisable. The Rights Agreement is intended to avoid an adverse ownership change, thereby preserving our current ability to utilize certain net operating loss and credit carryforwards; however, there is no assurance that the Rights Agreement will prevent all transfers that could result in such an ownership change.

If we experience a 50% or greater change in ownership involving shareholders owning 5% or more of our common stock, it could adversely impact our ability to utilize our existing net operating loss and credit carryforwards. The inability to utilize existing net operating loss and credit carryforwards would significantly increase the amount of our annual cash taxes and reduce the overall amount of cash available to be used in other areas of the business which

could have a material adverse effect on our business, results of operations, or financial condition.

Compliance with 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 SEC regulations. The Dodd-Frank Act imposes 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. Our inability to comply with the regulations regarding the use of conflict minerals could have a material adverse effect on our business, results of operations, or financial condition.

We are subject to a variety of laws and regulations that may result in additional costs and liabilities.

The manufacturing of our products requires the use of facilities, equipment, and materials that are subject to a broad array of laws and regulations in numerous jurisdictions in which we operate. Additionally, we are subject to a variety of other laws and regulations relative to the construction, maintenance, and operations of our facilities. Any of these laws or regulations could cause us to incur additional direct costs, as well as increased indirect costs related to our relationships with our customers and suppliers, and otherwise harm our operations and financial condition. Any failure to comply with these laws or regulations could adversely impact our reputation and our financial results. Additionally, we partner with other companies in our joint ventures, which are also subject to a broad array of laws and regulations. Our ownership in these joint ventures may also expose us to risks associated with their respective compliance with these laws and regulations. As a result of these items, we could experience the following:

- suspension of production;
- remediation costs;
- alteration of our manufacturing processes;
- regulatory penalties, fines, and legal liabilities; and
- reputational challenges.

Our failure, or the failure of our joint ventures, to comply with these laws and regulations could have a material adverse effect on 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 86% of our consolidated net sales for 2017. 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 Singapore, Taiwan, Japan, and China. 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 of 1977, as amended, export and import laws, and similar rules and regulations;

theft of intellectual property;  
political and economic instability;  
problems with the transportation or delivery of 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 the ability to maintain flexibility with staffing levels;  
disruptions to 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.

Many of our customers, suppliers, and vendors operate internationally and are also subject to the foregoing risks. If we or our customers, suppliers, or vendors are impacted by these risks, it could have a material adverse effect on 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 common 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 proceedings. In the event of such default, we could incur significant losses, which could have a material adverse effect on our business, results of operations, or financial condition.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In May 2018, we announced that our Board of Directors had authorized the discretionary repurchase of up to \$10 billion of our outstanding common stock beginning in 2019. We may purchase shares on a discretionary basis through open-market purchases, block trades, privately-negotiated transactions, and/or derivative transactions, subject to market conditions and our ongoing determination of the best use of available cash. The repurchase authorization does not obligate us to acquire any common stock.

During the third quarter of 2018, we share-settled all of our remaining 2033F Capped Calls and received 2,185,755 shares of our common stock.

| Period        | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under publicly announced plans or programs |
|---------------|--------------------------------------|----------------------------------|---|--|
| March 2, 2018 | —                                    | \$ —                             | —   |  |
| April 5, 2018 | —                                    | —                                | —   |  |
| April 6, 2018 | —                                    | —                                | —   |  |
| May 3, 2018   | —                                    | —                                | —   |  |
| May 4, 2018   | 2,185,755                            | 52.95                            | 2,185,755   |  |
| May 31, 2018  | 2,185,755                            | 52.95                            | 2,185,755   | \$ 10,000,000,000  |



Shares of common stock withheld as payment of withholding taxes and exercise prices in connection with the vesting or exercise of equity awards are also treated as common stock repurchases. Those withheld shares of common stock are not considered common stock repurchases under an authorized common stock repurchase plan and accordingly are excluded from the amounts in the table above.

## ITEM 6. Exhibits

| Exhibit Number | Description of Exhibit   | Filed Herewith | Form | Period Ending | Exhibit/Appendix | Filing Date |
|----------------|--|----------------|------|---------------|------------------|-------------|
| 3.1            | <u>Restated Certificate of Incorporation of the Registrant</u>   |                | 8-K  |               | 99.2             | 1/26/15     |
| 3.2            | <u>Bylaws of the Registrant, Amended and Restated</u>  |                | 8-K  |               | 99.1             | 4/15/14     |
| 10.64          | <u>Deferred Compensation Plan, as amended</u>  | ü              |      |               |                  |             |
| 10.77          | <u>Fourth Amendment to the Credit Agreement, dated April 26, 2016, by and among Micron Technology, Inc., as borrower, Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and the other agents party thereto and each financial institution party from time to time thereto</u> | ü              |      |               |                  |             |
| 31.1           | <u>Rule 13a-14(a) Certification of Chief Executive Officer</u>   | ü              |      |               |                  |             |
| 31.2           | <u>Rule 13a-14(a) Certification of Chief Financial Officer</u>   | ü              |      |               |                  |             |
| 32.1           | <u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350</u>   | ü              |      |               |                  |             |
| 32.2           | <u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350</u>   | ü              |      |               |                  |             |
| 101.INS        | XBRL Instance Document   | ü              |      |               |                  |             |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  | ü              |      |               |                  |             |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  | ü              |      |               |                  |             |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   | ü              |      |               |                  |             |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document  | ü              |      |               |                  |             |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   | ü              |      |               |                  |             |

SIGNATURE

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: June 22, 2018 /s/ David A. Zinsner  
David A. Zinsner  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)