
FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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

For the quarterly period ended February 28, 2002

OR

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

Commission File Number: 1-10658

Micron Technology, Inc.

State or other jurisdiction of incorporation or organization: Delaware

Internal Revenue Service - Employer Identification No. 75-1618004

8000 S. Federal Way, P.O. Box 6, Boise, Idaho 83707-0006
(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 ☐

The number of outstanding shares of the registrant's common stock as of April 8, 2002 was 601,534,594.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

MICRON TECHNOLOGY, INC.

Consolidated Statements of Operations
(Amounts in millions except per share amounts)
(Unaudited)

	Quarter ended		Six months ended	
	February 28, 2002	March 1, 2001	February 28, 2002	March 1, 2001
Net sales	\$ 645.9	\$ 1,065.7	\$ 1,069.8	\$ 2,637.3
Cost of goods sold	502.9	865.4	1,139.4	1,674.5
Gross margin	143.0	200.3	(69.6)	962.8

Selling, general and administrative	79.3	109.0	159.2	215.4
Research and development	135.9	130.9	290.4	269.9
Other operating (income) expense	(13.2)	1.4	(8.2)	(1.8)
Operating income (loss)	(59.0)	(41.0)	(511.0)	479.3
Interest income	14.6	39.8	32.1	84.0
Interest expense	(4.0)	(0.2)	(6.7)	(8.2)
Other non-operating income (expense)	(2.3)	0.1	(8.2)	5.2
Income (loss) before income taxes and minority interest	(50.7)	(1.3)	(493.8)	560.3
Income tax (provision) benefit	20.3	1.3	197.5	(194.7)
Minority interest in net income	—	(4.1)	—	(10.2)
Income (loss) from continuing operations	(30.4)	(4.1)	(296.3)	355.4
Loss on discontinued PC Operations, net of taxes and minority interest:				
Loss from operations of PC business	—	(28.8)	—	(36.1)
Loss on disposal of PC Operations	—	(55.4)	—	(55.4)
Net loss from discontinued PC Operations	—	(84.2)	—	(91.5)
Net income (loss)	\$ (30.4)	\$ (88.3)	\$ (296.3)	\$ 263.9
Basic earnings (loss) per share:				
Continuing operations	\$ (0.05)	\$ (0.01)	\$ (0.49)	\$ 0.60
Discontinued operations	—	(0.14)	—	(0.15)
Net income (loss)	(0.05)	(0.15)	(0.49)	0.45
Diluted earnings (loss) per share:				
Continuing operations	\$ (0.05)	\$ (0.01)	\$ (0.49)	\$ 0.59
Discontinued operations	—	(0.14)	—	(0.15)
Net income (loss)	(0.05)	(0.15)	(0.49)	0.44
Number of shares used in per share calculations:				
Basic	600.5	593.8	599.8	587.9
Diluted	600.5	593.8	599.8	609.1

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

Consolidated Balance Sheets (Dollar amounts in millions except par value amounts) (Unaudited)

As of	February 28, 2002	August 30, 2001
Assets		
Cash and equivalents	\$ 677.9	\$ 469.1
Liquid investments	803.0	1,209.2
Receivables	462.6	791.6
Inventories	547.6	491.1
Prepaid expenses	33.6	17.3
Deferred income taxes	480.6	159.4
Total current assets	3,005.3	3,137.7
Intangible assets, net	317.0	307.6
Property, plant and equipment, net	4,429.7	4,704.1
Deferred income taxes	115.2	—
Other assets	329.2	213.8
Total assets	\$ 8,196.4	\$ 8,363.2
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$ 390.6	\$ 512.9
Deferred income	31.1	26.4
Equipment purchase contracts	66.3	61.5
Current portion of long-term debt	80.5	86.2
Total current liabilities	568.5	687.0
Long-term debt	380.9	445.0
Deferred income taxes	275.6	19.0
Other liabilities	74.6	77.4
Total liabilities	1,299.6	1,228.4

Commitments and contingencies

Common stock, \$0.10 par value, authorized 3.0 billion shares, issued and outstanding 601.1 million and 598.4 million shares, respectively	60.1	59.8
Additional capital	4,208.0	4,153.7
Retained earnings	2,628.3	2,924.6
Accumulated other comprehensive income (loss), net of tax	0.4	(3.3)
Total shareholders' equity	6,896.8	7,134.8
Total liabilities and shareholders' equity	\$ 8,196.4	\$ 8,363.2

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

Consolidated Statements of Cash Flows (Amounts in millions) (Unaudited)

	Six months ended	
	February 28, 2002	March 1, 2001
Cash flows from operating activities		
Net income (loss)	\$ (296.3)	\$ 263.9
Loss from discontinued PC Operations, net	—	91.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	588.5	540.4
Provision to write down inventories to estimated market values	176.6	—
Loss (gain) from write-down or disposition of equipment	17.1	(12.9)
Loss (gain) from write-down or disposition of investments	9.6	(0.1)
Additional capital tax effect of stock plans	8.2	23.5
Change in operating assets and liabilities:		
Decrease in receivables	330.5	833.3
Increase in inventories	(232.2)	(452.5)
Decrease in accounts payable and accrued expenses	(62.4)	(480.0)
Deferred income taxes	(198.7)	(15.8)
Other	(24.9)	(145.3)
Net cash provided by operating activities	316.0	646.0
Cash flows from investing activities		
Expenditures for property, plant and equipment	(323.0)	(894.3)
Purchase of available-for-sale securities	(1,110.6)	(1,475.3)
Purchase of held-to-maturity securities	—	(75.1)
Proceeds from maturities of available-for-sale securities	1,099.3	1,655.6
Proceeds from sales of available-for-sale securities	322.7	49.7
Proceeds from maturities of held-to-maturity securities	—	132.0
Proceeds from sales of property, plant and equipment	0.9	19.6
Other	(54.2)	(91.1)
Net cash used for investing activities	(64.9)	(678.9)
Cash flows from financing activities		
Proceeds from issuance of common stock	43.4	60.0
Payments on equipment purchase contracts	(40.0)	(105.1)
Repayments of debt	(45.7)	(24.7)
Other	—	0.9
Net cash used for financing activities	(42.3)	(68.9)
Net increase (decrease) in cash and equivalents	208.8	(101.8)
Cash and equivalents at beginning of period	469.1	701.7
Cash and equivalents at end of period	\$ 677.9	\$ 599.9
Supplemental disclosures		
Income taxes refunded (paid), net	\$ 538.6	\$ (420.7)
Interest paid, net of amounts capitalized	(4.6)	(30.6)
Noncash investing and financing activities:		
Equipment acquisitions on contracts payable and capital leases	47.0	104.0
Conversion of notes to equity	—	684.6

MICRON TECHNOLOGY, INC.Notes to Consolidated Financial Statements
(All tabular amounts in millions except per share amounts)**Unaudited Interim Financial Statements**

Basis of presentation: Micron Technology, Inc., and its subsidiaries (hereinafter referred to collectively as the “Company”) principally design, develop, manufacture and market semiconductor memory products. All significant intercompany accounts and transactions have been eliminated. The Company’s fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. The Company’s second quarter of fiscal 2002 and 2001 ended on February 28, 2002 and March 1, 2001, respectively. The Company’s fiscal 2001 ended on August 30, 2001. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company, and its consolidated results of operations and cash flows.

On August 6, 2001, Micron Electronics, Inc. (“MEI”) acquired Interland, Inc., in a stock-for-stock acquisition (the “Interland Merger”). Upon completion of the Interland Merger, MEI changed its name to Interland, Inc. (“Interland”), and the Company’s ownership interest was reduced from 61% to 43% of MEI’s outstanding common stock. On August 30, 2001, the Company contributed all of its shares of Interland common stock to the Micron Technology Foundation (the “Foundation”). MEI’s 2001 financial results are included in the Company’s consolidated financial statements for eleven months through the date of the Interland Merger.

Restatements and reclassifications: As a result of MEI’s disposal of its PC operations in 2001, the Company’s previously reported consolidated financial statements for 2001 have been restated to present the discontinued PC Operations separate from continuing operations. (See “Discontinued PC Operations” note.) Certain other reclassifications have been made, none of which affected the results of operations, to present the financial statements on a consistent basis.

Recently issued accounting standards: In October 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 supersedes previous guidance for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 is effective for the Company in fiscal 2003. The Company does not expect the adoption of SFAS No. 144 to have a significant impact on the Company’s future results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The adoption of SFAS No. 143 is effective for the Company in fiscal 2003. The Company does not expect the adoption of SFAS No. 143 to have a significant impact on the Company’s future results of operations or financial position.

In July 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 addresses financial accounting and reporting for business combinations. It requires all business combinations to be accounted for by the purchase method and modifies the criteria for recognition of certain intangible assets separate and apart from goodwill. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and other intangible assets that have indefinite useful lives are not amortized but rather are periodically tested for impairment. The Company adopted both SFAS No. 141 and SFAS No. 142 in the first quarter of 2002. The adoption of SFAS No. 141 and SFAS No. 142 did not have a significant impact on the Company’s results of operations or financial position.

Supplemental Balance Sheet Information

	February 28, 2002	August 30, 2001
Receivables		
Trade receivables	\$ 390.4	\$ 154.9
Income taxes	26.0	560.2
Joint venture	19.0	25.3
Taxes other than income	17.5	34.9
Interest	6.1	10.9
Other	8.3	9.2
Allowance for doubtful accounts	(4.7)	(3.8)
	<u>\$ 462.6</u>	<u>\$ 791.6</u>
Inventories		
Finished goods	\$ 231.0	\$ 248.0
Work in process	220.0	139.3
Raw materials and supplies	103.2	108.2
Allowance for obsolescence	(6.6)	(4.4)
	<u>\$ 547.6</u>	<u>\$ 491.1</u>

In the second quarter of 2002, the Company recognized a write-down of \$3.8 million to record work in process and finished goods inventories of non-volatile (Flash) memory products at their estimated market values. In the first quarter of fiscal 2002, the Company recognized a write-down of \$172.8 million to record work in process and finished goods inventories of volatile (DRAM and SRAM) and non-volatile memory products at their estimated market values.

In the fourth and third quarters of 2001, the Company recognized write-downs of \$465.8 million and \$261.1 million, respectively, to record work in process and finished goods inventories of volatile and non-volatile memory products at their estimated market values.

Property, Plant and Equipment

Land	\$ 94.7	\$ 94.7
Buildings	1,968.6	1,815.1
Equipment	5,591.4	5,721.3
Construction in progress	303.4	402.3
Software	179.6	165.5
	8,137.7	8,198.9
Accumulated depreciation	(3,708.0)	(3,494.8)
	<u>\$ 4,429.7</u>	<u>\$ 4,704.1</u>

As of February 28, 2002, construction in progress included costs of \$202.9 million related to facilities in Lehi, Utah, which are not ready for their intended use and are not being depreciated. Timing for completion of the Lehi facility is dependent upon market conditions, including, but not limited to, worldwide market supply of, and demand for, semiconductor products and the Company's operations, cash flows and alternative capacity expansion opportunities.

Depreciation expense was \$278.5 million and \$563.3 million in the second quarter and first six months of 2002, respectively, and \$255.4 million and \$505.9 million in the second quarter and first six months of 2001, respectively.

	February 28, 2002	August 30, 2001
Accounts Payable and Accrued Expenses		
Accounts payable	\$ 203.3	\$ 307.8
Salaries, wages and benefits	84.3	98.3
Taxes other than income	36.8	34.7
Interest	6.7	8.2
Income taxes	5.2	11.1
Other	54.3	52.8
	<u>\$ 390.6</u>	<u>\$ 512.9</u>

Debt

Notes payable in periodic installments through July 2015, weighted average interest rate of 2.6% and 2.7%, respectively	\$ 248.4	\$ 305.6
Subordinated notes payable, face amount of \$210.0 million and stated interest rate of 6.5%, due October 2005, with an effective yield to maturity of 10.7%, net of unamortized discount of \$25.2 million and \$28.1 million, respectively	184.8	181.9
Capital lease obligations payable in monthly installments through December 2005, weighted average interest rate of 2.4% and 3.0%, respectively	28.2	43.7
	461.4	531.2
Less current portion	(80.5)	(86.2)
	<u>\$ 380.9</u>	<u>\$ 445.0</u>

The Company has pledged \$50.0 million, which is included in other noncurrent assets in the accompanying consolidated balance sheet, as cash collateral for a fully drawn revolving line of credit for TECH Semiconductor Singapore Pte. Ltd. (See "Joint Venture" note.)

As of February 28, 2002, notes payable and capital lease obligations of \$204.9 million and \$23.8 million, respectively, were denominated in Japanese Yen.

Goodwill and Intangible Assets

During the first six months of 2002, the Company expended \$31.5 million for product and process technology rights and \$3.8 million for other intangible assets with weighted average useful lives of nine and two years, respectively. No significant residual value is estimated for these intangibles. During the first quarter of 2002, the Company recorded goodwill of \$12.3 million and, as of February 28, 2002, goodwill was \$15.5 million.

The pro forma effect of adopting SFAS No. 142 on the Company's historical financial results did not vary significantly from the actual results.

Amortization expense for intangible assets was \$11.5 million and \$22.5 million in the second quarter and first six months of 2002, respectively, and \$12.9 million and \$26.8 million in the second quarter and first six months of 2001, respectively. Annual amortization expense for intangible assets held as of

February 28, 2002 is estimated to be \$44.6 million for 2002, \$44.9 million in 2003, \$42.1 million in 2004, \$40.0 million in 2005, and \$38.3 million in 2006. Intangible assets consisted of the following:

	February 28, 2002		August 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product and process technology	\$ 302.9	\$ (77.7)	\$ 271.8	\$ (62.2)
Joint venture supply arrangement	115.5	(30.8)	115.5	(22.3)
Other	9.4	(2.3)	5.6	(0.8)
	<u>\$ 427.8</u>	<u>\$ (110.8)</u>	<u>\$ 392.9</u>	<u>\$ (85.3)</u>

Commitments and Contingencies

From time to time, others have asserted, and may in the future assert, that the Company's products or its processes infringe their product or process technology rights. In this regard, the Company is currently engaged in litigation with Rambus, Inc. ("Rambus") relating to certain patents of Rambus and certain of the Company's claims and defenses. Lawsuits between Rambus and the Company are pending in the United States, Germany, France, the United Kingdom and Italy. The Company is unable to predict the outcome of these suits. A determination that the Company's manufacturing processes or products infringe the product or process rights of others could result in significant liability and/or require the Company to make material changes to its products and/or manufacturing processes. Any of the foregoing results could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company has accrued a liability and charged operations for the estimated costs of settlement or adjudication of asserted and unasserted claims for alleged infringement prior to the balance sheet date. The Company is currently a party to various other legal actions arising out of the normal course of business, none of which is expected to have a material effect on the Company's financial position or results of operations.

Other Operating Income and Expense

Other operating income for the second quarter and first six months of 2002 includes net unrealized foreign currency gains of \$11.4 million and \$16.9 million, respectively, related primarily to the Company's Yen-denominated debt. These gains are partially offset by losses, net of gains, for the second quarter and first six months of 2002 of \$5.6 million and \$16.5 million, respectively, on write-downs and disposals of semiconductor equipment.

Income Taxes

The Company's effective tax rate was 40% and 35% for the first six months of 2002 and 2001, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes and the effect of foreign income at non-U.S. tax rates. The Company's future effective income tax rate will vary based on fluctuations in the mix of income and losses among tax jurisdictions with differing rates.

Discontinued PC Operations

On May 31, 2001, MEI completed the disposition of its PC business to Gores Technology Group ("GTG"). In connection with the disposal, GTG received assets, including \$76.5 million in cash, and assumed specified liabilities of the PC Operations. Summary operating results of the discontinued PC Operations follow:

	Quarter ended March 1, 2001	Six months ended March 1, 2001
Net sales	<u>\$ 194.5</u>	<u>\$ 455.2</u>
Loss from operations of PC business	\$ (45.3)	\$ (64.1)
Minority interest	12.6	18.0
Income tax benefit	3.9	10.0
Loss from operations of PC business, net	<u>(28.8)</u>	<u>(36.1)</u>
Loss from disposal of PC Operations	(109.6)	(109.6)
Estimated losses during phase-out period	(43.3)	(43.3)
Minority interest	58.2	58.2
Income tax benefit	39.3	39.3
Loss from disposal of PC Operations, net	<u>(55.4)</u>	<u>(55.4)</u>
Loss from discontinued PC Operations, net	<u>\$ (84.2)</u>	<u>\$ (91.5)</u>

Earnings (Loss) Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effects of outstanding convertible debentures using the “if-converted” method and outstanding stock options and warrants using the “treasury stock” method. The potential common shares that were antidilutive for the second quarter and first six months of 2002 amounted to 109.3 million shares and 107.1 million shares, respectively, and for the second quarter and first six months of 2001 amounted to 64.7 million shares and 3.8 million shares, respectively.

	Quarter ended		Six months ended	
	February 28, 2002	March 1, 2001	February 28, 2002	March 1, 2001
Income (loss) from continuing operations available to common shareholders	\$ (30.4)	\$ (4.1)	\$ (296.3)	\$ 355.4
Adjustment for effects of assumed conversions	—	—	—	3.0
Income (loss) from continuing operations available to common shareholders, adjusted	(30.4)	(4.1)	(296.3)	358.4
Loss from discontinued PC Operations, net of taxes and minority interest	—	(84.2)	—	(91.5)
Net income (loss), adjusted	<u>\$ (30.4)</u>	<u>\$ (88.3)</u>	<u>\$ (296.3)</u>	<u>\$ 266.9</u>
Weighted average common shares outstanding	600.5	593.8	599.8	587.9
Adjustment for effects of assumed exercises and conversions	—	—	—	21.2
Weighted average common shares and share equivalents outstanding	<u>600.5</u>	<u>593.8</u>	<u>599.8</u>	<u>609.1</u>
Basic earnings (loss) per share:				
Continuing operations	\$ (0.05)	\$ (0.01)	\$ (0.49)	\$ 0.60
Discontinued operations	—	(0.14)	—	(0.15)
Net income (loss)	(0.05)	(0.15)	(0.49)	0.45
Diluted earnings (loss) per share:				
Continuing operations	\$ (0.05)	\$ (0.01)	\$ (0.49)	\$ 0.59
Discontinued operations	—	(0.14)	—	(0.15)
Net income (loss)	(0.05)	(0.15)	(0.49)	0.44

Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax, are as follows:

	Quarter ended		Six months ended	
	February 28, 2002	March 1, 2001	February 28, 2002	March 1, 2001
Net income (loss)	\$ (30.4)	\$ (88.3)	\$ (296.3)	\$ 263.9
Other comprehensive income				
Unrealized gains (losses) on securities:				
Unrealized gains (losses) on investments	(1.8)	(0.3)	0.1	(0.1)
Reclassification adjustment for losses included in net loss	—	—	3.6	—
Comprehensive income (loss)	<u>\$ (32.2)</u>	<u>\$ (88.6)</u>	<u>\$ (292.6)</u>	<u>\$ 263.8</u>

Acquisitions

KMT Semiconductor Limited

Through April 30, 2001, the Company participated in KMT Semiconductor Limited (“KMT”), a joint venture between the Company and Kobe Steel, Ltd. (“KSL”) and purchased all of KMT’s production at prices generally based on a discount from the Company’s average selling prices. The Company was also party to various agreements with KMT whereby the Company provided assembly and test services, and technology, engineering, and training support to KMT. The net cost of products purchased from KMT amounted to \$115.4 million and \$257.6 million for the second quarter and first six months of 2001, respectively.

On April 30, 2001, the Company acquired KSL’s 75% interest in KMT in a transaction (the “KMT Acquisition”) that resulted in KMT becoming a wholly-owned subsidiary of the Company. The KMT Acquisition was accounted for as a business combination using the purchase method of accounting. The purchase price of \$31.3 million, which includes \$25.0 million cash paid to KSL for land and KSL’s equity interest in KMT, is net of \$37.7 million cash acquired and was allocated to the assets acquired and liabilities assumed based on their estimated fair values. In connection with the KMT Acquisition, the Company recorded total assets of \$408.1 million, net of cash acquired, including deferred income taxes of \$204.6 million and property, plant and equipment of \$103.6 million, and total liabilities of \$376.8 million, including debt and capital lease obligations totaling \$296.4 million. The results of operations of KMT have been included in the accompanying financial statements from the date of acquisition.

The following unaudited pro forma information presents the consolidated results of operations of the Company for the second quarter and first six months of 2001 as if the KMT Acquisition had taken place at the beginning of 2001. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

	Quarter ended March 1, 2001	Six months ended March 1, 2001
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Net sales from continuing operations	\$	1,065.7	\$	2,637.3
Income from continuing operations, net of taxes and minority interest		32.5		445.5
Income per share from continuing operations — diluted		0.05		0.74

Toshiba Corporation

On December 18, 2001, the Company entered into a memorandum of understanding with Toshiba Corporation (“Toshiba”) to acquire substantially all of the assets of Toshiba’s DRAM business as currently conducted by Dominion Semiconductor L.L.C., a wholly-owned subsidiary of Toshiba located in Virginia. The purchase price of the assets is expected to consist of \$250 million in cash and 1.5 million shares of the Company’s common stock. The Company expects the transaction to close in the second quarter of calendar 2002. The proposed transaction is subject to the negotiation and execution of definitive documentation, satisfactory completion of due diligence by the Company and regulatory approvals.

Joint Venture

TECH Semiconductor Singapore Pte. Ltd. (“TECH”), which operates in Singapore, is a memory manufacturing joint venture among Micron Technology, Inc., the Singapore Economic Development Board, Canon Inc. and Hewlett-Packard Company. TECH’s semiconductor manufacturing facilities use the Company’s product and process technology. Subject to specific terms and conditions, the Company has agreed to purchase all of the products manufactured by TECH. The Company generally purchases semiconductor memory products from TECH at prices determined quarterly, based on a discount from average selling prices realized by the Company for the

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immediately preceding quarter. The Company performs assembly and test services on product manufactured by TECH. The Company also provides certain technology, engineering and training to support TECH. All transactions with TECH are recognized as part of the net cost of products purchased from TECH. The net cost of products purchased from TECH amounted to \$53.4 million and \$79.0 million for the second quarter and first six months of 2002, respectively, and \$263.4 million and \$584.2 million for the second quarter and first six months of 2001, respectively. In 2000, as part of an equity capital infusion by the majority of TECH’s shareholders, the Company funded TECH with \$98.0 million as support for continuing the TECH supply arrangement. The Company amortizes the value of the TECH supply arrangement on a straight-line basis over the remaining contractual life of the TECH shareholders’ agreement. Amortization expense resulting from the TECH supply arrangement, included in the cost of product purchased from TECH, was \$2.5 million and \$5.1 million for the second quarter and first six months of 2002, respectively, and \$2.7 million and \$5.3 million for the second quarter and first six months of 2001, respectively. Receivables from TECH were \$19.0 million and payables were \$11.8 million as of February 28, 2002. Receivables from TECH were \$25.3 million and payables were \$40.6 million as of August 30, 2001.

Segment Information

The Company’s reportable segments have been determined based on the nature of its operations and products offered to customers. Through fiscal 2001, the Company’s two reportable segments were Semiconductor Operations and Web-hosting Operations. As a result of the Interland Merger on August 6, 2001, the Company’s only reportable segment is Semiconductor Operations. The Semiconductor Operations segment’s primary product is DRAM. The Web-hosting Operations segment provided web-hosting and other internet products and services.

Segment operating results are measured based on operating income (loss). De minimis amounts of intersegment eliminations of sales and operating income have been included with Other.

	Quarter ended March 1, 2001	Six months ended March 1, 2001
Net sales		
Semiconductor Operations:		
External	\$ 1,045.9	\$ 2,591.8
Sales to discontinued PC Operations	5.3	17.4
Total Semiconductor Operations	1,051.2	2,609.2
Web-hosting Operations	14.5	28.0
Other	—	0.1
Consolidated net sales	<u>\$ 1,065.7</u>	<u>\$ 2,637.3</u>
Operating income (loss)		
Semiconductor Operations	\$ (24.4)	\$ 514.0
Web-hosting Operations	(16.8)	(35.1)
Other	0.2	0.4
Consolidated operating income (loss)	<u>\$ (41.0)</u>	<u>\$ 479.3</u>

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Micron Technology, Inc. and its subsidiaries (hereinafter referred to collectively as the “Company”) principally design, develop, manufacture and market semiconductor memory products.

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made in “Recent Events” and “Liquidity and Capital Resources” regarding the pending transaction with Toshiba and capital spending in 2002, “Net Sales” regarding the Company’s expectation of increased production in the third and fourth quarters of 2002 and “Gross Margin” regarding the estimated amount of write-down remaining in inventory at the end of the third quarter of 2002 and the near-term adverse impact expected from the pending transaction with Toshiba. The Company’s actual results could differ materially from the Company’s 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 “Certain Factors.” This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes. All period references are to the Company’s fiscal periods unless otherwise indicated. All per share amounts are presented on a diluted basis.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with United States generally accepted accounting principles (“US GAAP”) requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates and judgments are based on historical experience, forecasted future events and on various other assumptions that the Company believes to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. The Company evaluates its estimates and judgments on an ongoing basis. Management believes the critical accounting policies below are the most important to the portrayal of the Company’s financial condition and results of operations and require management’s most difficult, subjective or complex judgments.

Deferred taxes: The Company evaluates the realizability of its deferred tax assets on an ongoing basis. In determining the amount of its recorded deferred tax assets, the Company considers estimated future taxable income and the feasibility of its tax planning strategies. If the Company determines that it is unlikely to realize certain of its deferred tax assets, the Company would record a charge to results of operations. If the Company determines that it is likely to realize additional amounts of deferred tax assets, an adjustment would be recorded as a benefit to income.

Inventories: Inventories are stated at the lower of average cost or market value. Determining market value requires the Company to project unit volumes and prices for future periods in which it expects inventory to be sold. As a result of these analyses, the Company may record a charge to cost of goods sold in advance of when the inventory is actually sold to reflect market values that are below the Company’s costs. Due to the volatile nature of the semiconductor memory industry, actual selling prices and volumes often vary significantly from projected prices and volumes.

US GAAP provides for inventory to be grouped into categories in order to compare costs to market values. The amount of any inventory write-down can vary significantly depending on the determination of inventory categories. The majority of the Company’s inventory has been categorized as volatile (DRAM and SRAM) or non-volatile (Flash). The major characteristics the Company considers in determining inventory categories are product type and markets.

Product and process technology: Costs incurred to acquire product and process technology are capitalized. The Company capitalizes a portion of costs incurred based on its analysis of historical and projected patent issuance rates. Capitalized product and process technology costs are amortized using the straight-line method over the shorter of (i) the estimated useful life of the

technology (the determination of which is highly subjective) or (ii) the patent term or technology agreement, ranging up to 10 years.

From time to time, others have asserted, and may in the future assert, that the Company’s products or its processes infringe their product or process technology rights. The Company accrues a liability and charges operations for the estimated costs of settlement or adjudication of asserted and unasserted claims for alleged infringement prior to the balance sheet date. However, it is difficult to predict the actual costs of settlement or adjudication.

Property, plant and equipment: The Company reviews the carrying value of property, plant and equipment for impairment when events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and/or eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss would be recognized equal to an amount by which the carrying value exceeds the indicated fair value of the assets. The estimation of future cash flows involves numerous assumptions which are highly subjective, including, but not limited to, future use of the assets for Company operations versus sale or disposal of the assets, future selling prices for the Company’s products and future sales volumes.

Research and development: Product development costs are recorded as research and development expense. Development for a product is deemed complete once it has been thoroughly reviewed and tested for performance and reliability and is internally qualified for sale to customers. Subsequent to product qualification, product costs are valued in inventory and charged to cost of goods sold.

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Recent Events

On December 18, 2001, the Company entered into a memorandum of understanding with Toshiba Corporation (“Toshiba”) to acquire substantially all of the assets of Toshiba’s DRAM business as currently conducted by Dominion Semiconductor L.L.C., a wholly-owned subsidiary of Toshiba located in Virginia. The purchase price of the assets is expected to consist of \$250 million in cash and 1.5 million shares of the Company’s common stock. The Company expects the transaction to close in the second quarter of calendar 2002. The proposed transaction is subject to the negotiation and execution of definitive documentation, satisfactory completion of due diligence by the Company and regulatory approvals.

Results of Operations

	Second Quarter				Six Months			
	2002		2001		2002		2001	
(Amounts in millions except per share data)								
Net sales:								
Semiconductor Operations	\$ 645.9	100.0 %	\$ 1,051.2	98.6 %	\$ 1,069.8	100.0 %	\$ 2,609.2	98.9 %
Web-hosting Operations	—	—	14.5	1.4 %	—	—	28.0	1.1 %
Other	—	—	—	—	—	—	0.1	—
Consolidated net sales	<u>\$ 645.9</u>	<u>100.0 %</u>	<u>\$ 1,065.7</u>	<u>100.0 %</u>	<u>\$ 1,069.8</u>	<u>100.0 %</u>	<u>\$ 2,637.3</u>	<u>100.0 %</u>
Operating income (loss) from continuing operations:								
Semiconductor Operations	\$ (59.0)		\$ (24.4)		\$ (511.0)		\$ 514.0	
Web-hosting Operations	—		(16.8)		—		(35.1)	
Other	—		0.2		—		0.4	
Consolidated operating income (loss)	<u>\$ (59.0)</u>		<u>\$ (41.0)</u>		<u>\$ (511.0)</u>		<u>\$ 479.3</u>	
Income (loss) from continuing operations								
	\$ (30.4)		\$ (4.1)		\$ (296.3)		\$ 355.4	
Net loss from discontinued PC Operations								
	—		(84.2)		—		(91.5)	
Net income (loss)	<u>\$ (30.4)</u>		<u>\$ (88.3)</u>		<u>\$ (296.3)</u>		<u>\$ 263.9</u>	
Earnings (loss) per share from continuing operations								
	\$ (0.05)		\$ (0.01)		\$ (0.49)		\$ 0.59	
Net income (loss) per share	<u>\$ (0.05)</u>		<u>\$ (0.15)</u>		<u>\$ (0.49)</u>		<u>\$ 0.44</u>	

For the first quarter of 2002, the net loss was \$266 million, or \$0.44 per share, on consolidated net sales of \$424 million.

In the third quarter of 2001, the Company completed the divestiture of its PC business. The Company's consolidated financial information presents the net effect of discontinued PC Operations separate from the results of the Company's continuing operations. Historical financial information of the Company has been restated to present consistently the discontinued PC Operations. In the fourth quarter of 2001, the Company contributed its interest in its Interland Web-hosting Operations to the Micron Technology Foundation. (See "Notes to Consolidated Financial Statements — Unaudited Interim Financial Statements — Basis of Presentation" and "Discontinued PC Operations.")

On April 30, 2001, the Company acquired Kobe Steel, Ltd.'s ("KSL") 75% interest in KMT Semiconductor Limited ("KMT") and KMT became a wholly-owned subsidiary of the Company. (See "Notes to Consolidated Financial Statements — Acquisitions — KMT Semiconductor Limited.")

Net Sales

Net sales for the second quarter and first six months of 2002 decreased by 39% and 59%, respectively, as compared to the second quarter and first six months of 2001, primarily due to declines in average selling prices for the Company's semiconductor memory products of 58% and 78%, respectively. Total megabits of semiconductor memory sold increased by approximately 55% and 88% for the second quarter and first six months of 2002, respectively, as compared to the second quarter and first six months of 2001. The Company achieved higher megabit sales for these comparative periods through reductions in inventories and increases in production resulting from ongoing transitions to smaller die size versions of existing memory products ("shrink versions") and shifts to higher density products, partially offset by decreases in total wafer outs.

Net sales for the second quarter of 2002 increased by 52% as compared to the first quarter of 2002 as the result of an approximate 70% increase in average selling prices for the Company's semiconductor memory products, partially offset by an approximate 10% decrease in megabits sold. In the second quarter of 2002 sales were limited by lower levels of production and by the low level of finished goods inventory available, which at quarter end had reached minimum levels necessary to support sales to the Company's key customers. Megabit production in the second quarter of 2002 was approximately 30% lower than the first quarter of 2002 as a result of adjustments to the Company's manufacturing cycle times and the effects of scheduled maintenance and modified production schedules during the holiday season. The Company expects annual megabit production for fiscal 2002 to increase by approximately 30% as compared to fiscal 2001.

The Company's primary memory product in the second quarter and first six months of 2002 was the 128 Meg SDRAM, which constituted approximately 45% and 48%, respectively, of net sales.

Gross Margin

	Second Quarter			Six Months		
	2002	% Change	2001	2002	% Change	2001
Gross margin	\$ 143.0	(28.6)%	\$ 200.3	\$ (69.6)	(107.2)%	\$ 962.8
as a % of net sales	22.1 %		18.8 %	(6.5)%		36.5 %

The lower gross margin for the second quarter and first six months of 2002 as compared to the corresponding periods of 2001 was primarily due to the decreases in average selling prices per megabit of memory. The Company's gross margin for the first quarter of 2002 was negative \$213 million. The

improved gross margin for the second quarter of 2002 as compared to the first quarter of 2002 was primarily due to the approximate 70% increase in average selling prices per megabit of memory and the effects of inventory write-downs.

In recent quarters, the Company has recorded charges to cost of goods sold to write down the carrying value of inventories to market value. The Company's gross margin in the second quarter of 2002 includes a write-down of \$4 million to record inventories of non-volatile (Flash) memory products at their market values. In the first quarter of 2002, the Company recognized a write-down of \$173 million to record inventories of volatile (DRAM and SRAM) and non-volatile memory products at their estimated market values. The Company incurred similar write-downs of \$466 million and \$261 million in the fourth and third quarters of 2001, respectively. Absent inventory write-downs, gross margin would have been negative 18% and negative 83% for the second and first quarters of 2002, respectively, and negative 44% for the first six months of 2002. The Company did not incur any inventory write-downs in the first six months of 2001.

Of the cumulative inventory write-downs recognized in the last four quarters, the Company estimates that approximately \$160 million remains in inventory as of February 28, 2002. The Company estimates that approximately one half of this amount will remain in inventory at the end of the third quarter of 2002.

In recent quarters, average selling prices for the Company's memory products have been below manufacturing costs, and accordingly the Company's results of operations, cash flows and financial condition have been adversely affected. To the extent the estimated market value of products held in finished goods and work in process inventories at a quarter end date is below the cost of these products, the Company would recognize a charge against operations to write down the carrying value of inventory to the estimated market value.

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Subject to specific terms and conditions, the Company has agreed to purchase all of the products manufactured by its joint venture wafer fabrication facility, TECH Semiconductor Singapore Pte. Ltd. ("TECH"). TECH supplied in excess of 20% of the total megabits of memory produced by the Company in the first six months of 2002 and 2001. The Company generally purchases semiconductor memory products from TECH at prices determined quarterly, based on a discount from average selling price realized by the Company for the immediately preceding quarter. Depending on market conditions, the gross margin from the sale of TECH products may be higher or lower than the gross margin from the sale of products manufactured by the Company's wholly-owned facilities. The Company realized higher gross margins on sales of TECH products than for products manufactured by its wholly-owned facilities in the first and second quarters of 2002 and lower gross margins on sales of TECH products for the first and second quarters of 2001. The Company performs assembly and test services on products manufactured by TECH. The Company also provides certain technology, engineering, and training support to TECH. All transactions with TECH are recognized as part of the net cost of products purchased from TECH.

Upon acquisition of the Dominion assets, the Company estimates its wafer output will increase by approximately five to ten percent. The Company expects to transition its product and process technology into the Dominion facility over the next six to twelve months. Until the Company is able to complete the transition of its product and process technology into the acquired Dominion facility, the Company expects that the per unit costs associated with products manufactured at Dominion will exceed the per unit costs of products manufactured at the Company's other facilities, resulting in a near-term adverse impact on the Company's gross margin percentage.

Selling, General and Administrative

	Second Quarter			Six Months	
	2002	% Change	2001	2002	% Change
Selling, general and administrative	\$ 79.3	(27.2)%	\$ 109.0	\$ 159.2	(26.1)%
as a % of net sales	12.3%		10.2%	14.9%	8.2%

Selling, general and administrative expenses ("SG&A") decreased in the second quarter and first six months of 2002 as compared to the comparative periods of 2001 primarily because previously consolidated Web-hosting Operations, which accounted for 16% of total SG&A in the second quarter and first six months of 2001, were disposed of in August 2001. In addition, technical and professional fees associated with the Company's business software and legal costs associated with product and process technology rights litigation were lower in the second quarter and first six months of 2002 as compared to the corresponding periods of 2001. SG&A was \$80 million for the first quarter of 2002.

Research and Development

	Second Quarter			Six Months	
	2002	% Change	2001	2002	% Change
Research and development	\$ 135.9	3.8%	\$ 130.9	\$ 290.4	7.6%
as a % of net sales	21.0%		12.3%	27.1%	10.2%

Research and development expenses vary primarily with the number of development wafers processed, the cost of advanced equipment dedicated to new product and process development and personnel costs. Product development costs are recorded as research and development expense. Development for a product is deemed complete once it has been thoroughly reviewed and tested for performance and reliability and is internally qualified for sale to customers. Research and development expense was \$155 million for the first quarter of 2002. The decrease in research and development expenses in the second quarter of 2002 as compared to the first quarter of 2002 reflects a lower number of development wafers processed for next generation DDR products and 256 Meg products, as many of these products have now been qualified for production.

Process technology research and development efforts are focused on .13μ and .11μ line-width process technologies, which are designed to facilitate the Company's transition to next generation products. In addition to its process technology efforts, the Company continues to emphasize product designs that utilize advanced process technology. Currently these designs include further shrink versions of the Company's 256 Meg and 128 Meg SDRAMs. Efforts towards the design and development of new products are concentrated on the Company's 512 Meg SDRAM, DDR SDRAM, Flash and SRAM memory products. Other research and development efforts are devoted to the design and development of embedded memory and advanced DRAM technology products.

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Other Operating Income and Expense

Other operating income for the second quarter and first six months of 2002 includes net unrealized foreign currency gains of \$11 million and \$17 million, respectively, related primarily to the Company's Yen-denominated debt. These gains are partially offset by losses, net of gains, for the second quarter and first six months of 2002 of \$6 million and \$17 million, respectively, on write-downs and disposals of semiconductor equipment.

Income Taxes

The effective tax rates for the first six months of 2002 and 2001 were 40% and 35%, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes and the effect of foreign income at non-U.S. tax rates. The Company's future effective income tax rate will vary based on fluctuations in the mix of income and losses among tax jurisdictions with differing rates.

Recently Issued Accounting Standards

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes previous guidance for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 is effective for the Company in fiscal 2003. The Company does not expect the adoption of SFAS No. 144 to have a significant impact on the Company's future results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The adoption of SFAS No. 143 is effective for the Company in fiscal 2003. The Company does not expect the adoption of SFAS No. 143 to have a significant impact on the Company's future results of operations or financial position.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations. It requires all business combinations to be accounted for by the purchase method and modifies the criteria for recognition of certain intangible assets separate and apart from goodwill. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and other intangible assets that have indefinite useful lives are not amortized but rather are periodically tested for impairment. The Company adopted both SFAS No. 141 and SFAS No. 142 in the first quarter of 2002. The adoption of SFAS No. 141 and SFAS No. 142 did not have a significant impact on the Company's results of operations or financial position.

Liquidity and Capital Resources

As of February 28, 2002, the Company had cash and liquid investments totaling \$1,481 million, representing a decrease of \$197 million from August 30, 2001. In addition, the Company had marketable investment securities totaling \$201 million as of February 28, 2002 and \$100 million as of August 30, 2001, which are included in other noncurrent assets in the Company's consolidated balance sheet. The Company's liquidity is highly dependent on average selling prices for its semiconductor memory products. The Company's principal source of liquidity during the first six months of 2002 was net cash flow from operations of \$316 million which includes income tax refunds of \$547 million received by the Company in the first quarter of 2002. During the first six months of 2002, the Company spent \$323 million for property, plant and equipment.

The Company believes that to develop new product and process technologies, support future growth, achieve operating efficiencies and maintain product quality, it must continue to invest in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. This investment may also be accomplished through business acquisitions or other transactions. The Company has historically utilized external sources of financing to fund a portion of operations and has a shelf registration statement in place pursuant to which the Company may from time to time issue debt or equity securities for up to \$1 billion. The Company may also seek to raise funds through issuing securities not covered by the existing shelf registration statement or by increasing the size of the existing shelf registration statement. The Company expects capital spending to approximate \$1 billion in 2002. As of February 28, 2002, the Company had commitments extending into 2003 of approximately \$480 million for equipment purchases and software infrastructure, and approximately \$65 million for the construction of facilities.

On December 18, 2001, the Company entered into a memorandum of understanding with Toshiba to acquire substantially all of the assets of Toshiba's DRAM business as currently conducted by Dominion Semiconductor L.L.C. ("Dominion"), a wholly-owned subsidiary of Toshiba located in Virginia. The purchase price of the assets is expected to consist of \$250 million in cash and 1.5 million shares of the Company's common stock. The Company expects the transaction to close in the second quarter of calendar 2002. The proposed transaction is subject the negotiation and execution of definitive documentation, satisfactory completion of due diligence by the Company and regulatory approvals. The transition of the Dominion facility to the Company's process technology would require the expenditure of several hundred million dollars over the next several years. The Company does not expect capital expenditures to increase significantly in 2002 as a result of the acquisition of the Dominion facility.

The Company has pledged \$50 million, which is included in other noncurrent assets in the Company's consolidated balance sheet, as cash collateral for TECH's fully-drawn revolving line of credit.

In addition to the factors discussed elsewhere in this Form 10-Q and in the Company's Form 10-K for the fiscal year ended August 30, 2001, the following are important factors which could cause actual results or events to differ materially from those contained in any forward looking statements made by or on behalf of the Company.

If average selling prices for our memory products do not exceed costs, we would expect to incur losses

Although average selling prices for our memory products were higher in the second quarter of 2002 than in the first quarter of 2002, prices in the second quarter and first six months of 2002 decreased 58% and 78%, respectively, compared to the second quarter and first six months of 2001. In four of the last five fiscal years we experienced the following decreases in average selling prices: 60% in 2001, 37% in 1999, 60% in 1998 and 75% in 1997. We are unable to predict pricing conditions for any future period.

In recent quarters, average selling prices for our memory products have been below our manufacturing costs, and accordingly our results of operations, cash flows and financial condition have been adversely affected. If average selling prices are below costs in future periods, we would expect to incur losses on product sales. To the extent the estimated market value of products held in finished goods and work in process inventories at a quarter end date is below the cost of these products, we would recognize a charge against operations to write down the carrying value of inventory to market value.

If average selling prices of memory products do not improve, we may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments

Our cash flows from operations depend primarily on average selling prices and per megabit manufacturing costs. In recent quarters average selling prices have been below our manufacturing costs. To develop new product and process technologies, support future growth, achieve operating efficiencies and maintain product quality, we must invest significant capital in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. If average selling prices do not improve, we may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

We are dependent on the personal computer ("PC") market as most of the memory products we sell are used in PCs or peripherals. If the growth rate of either PCs sold or the amount of memory included in each PC decreases, sales of our memory products could decrease

We have historically sold most of our memory products to PC or peripheral markets. DRAMs are the most widely used semiconductor memory components in PCs. In recent quarters, the growth rate of PCs sold has slowed or declined. If we experience a sustained reduction in the growth rate of either PCs sold or the average amount of memory included in each PC, sales of our memory products could decrease, and our results of operations, cash flows and financial condition could be adversely affected.

The semiconductor memory industry is highly competitive

The semiconductor memory industry is highly competitive. We face intense competition from a number of companies, including Hynix Semiconductor Inc., Infineon Technologies AG and Samsung Semiconductor, Inc. Some of these competitors are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor memory market, invest in technology and capitalize on growth opportunities. Like us, these competitors aggressively seek to improve yields, reduce die size and decrease mask levels in their product designs. These factors have significantly increased worldwide supply and put downward pressures on prices.

We are currently engaged in discussions with other parties relating to possible acquisitions or other transactions

From time to time we engage in discussions with other parties relating to possible acquisitions or other transactions. In this regard, we recently entered into a memorandum of understanding with Toshiba to acquire

substantially all the assets of Toshiba's DRAM business as currently conducted by Dominion Semiconductor L.L.C., a wholly-owned subsidiary of Toshiba located in Virginia. The proposed transaction with Toshiba is subject to the negotiation and execution of definitive documentation, satisfactory completion of due diligence by the Company and regulatory approvals. In addition, there can be no assurance that we will successfully integrate these operations. If acquired, the success of these operations is dependent on the Company's ability to operate them in a cost-effective manner. There can be no assurance that the Company will be successful in achieving the same level of manufacturing efficiencies in the Virginia facilities as has been achieved in its other facilities.

We expect to make future acquisitions where advisable, which involve numerous risks

We expect to make future acquisitions where we believe it is advisable to enhance our market position. Acquisitions involve numerous risks, including the following:

- increasing our exposure to changes in average selling prices for semiconductor memory products,
- difficulties in integrating the operations, technologies, and products of the acquired companies,
- increasing capital expenditures to upgrade and maintain facilities,
- increasing debt to finance any acquisition,
- diverting management's attention from normal daily operation,
- managing larger operations and facilities and employees in separate geographic areas, and
- hiring and retaining key employees.

Mergers and acquisitions of high-technology companies are inherently risky, and future acquisitions may not be successful and may materially adversely affect our results of operations, cash flows or financial condition.

If any one of our major PC customers significantly reduces its purchases of DRAM from us, our results of operations, cash flows and financial condition could be adversely affected

We supply several major PC customers with more than 30% of their memory requirements. Aggregate sales to three of our PC customers approximated 30% of our net sales in the second quarter of 2002. If any one of our major PC customers significantly reduces its purchases of DRAM from us, our results of operations, cash flows and financial condition could be adversely affected.

Increased worldwide DRAM production could lead to further declines in average selling prices for DRAM

We and our competitors constantly seek to improve yields, reduce die size and use fewer manufacturing steps. These improvements increase worldwide supply of DRAM. In addition, we and several of our competitors are evaluating plans to manufacture, or have begun to manufacture, semiconductors in facilities that process 300-millimeter (“300mm”) wafers. 300mm wafers have approximately 130% greater usable surface area than 200mm wafers, the current industry standard. The widespread use of 300mm wafers in the industry, which is expected to occur within the next two to five years, could lead to a significant increase in the worldwide supply of DRAM. Increases in worldwide supply of DRAM also result from DRAM fab capacity expansions, either by way of new facilities, increased capacity utilization or reallocation of other semiconductor production to DRAM production. Increases in worldwide supply of DRAM, if not offset by increases in demand, could lead to further declines in average selling prices for our products and adversely affect our results of operations, cash flows and financial condition.

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Current economic and political conditions may harm our business

Global economic conditions and the effects of terrorist actions or military actions may cause significant disruptions to worldwide commerce. If these disruptions result in delays or cancellations of customer orders, a decrease in corporate spending on information technology or our inability to effectively market, manufacture or ship our products, our results of operations, cash flows and financial condition could be adversely affected. In addition, our ability to raise capital for capital expenditures, research and development and ongoing operations is dependent upon ready access to capital markets. During times of adverse global economic and political conditions, accessibility to capital markets could decrease. If we are unable to access the capital markets over an extended period of time, we may be unable to invest in capital expenditures, fully carry out our research and development efforts and fund operations, which could materially adversely affect our results of operations, cash flows and financial condition.

If our TECH joint venture experiences financial difficulty, or if our supply of memory products from TECH is disrupted, our results of operations, cash flows and financial condition could be adversely affected

TECH supplied in excess of 20% of our total megabits of memory produced in the first six months of 2002. We have agreements to purchase all of the production from TECH subject to specific terms and conditions. Any reduction in supply could adversely affect our results of operations, cash flows and financial condition. TECH has historically been required to seek additional external financing to fund its ongoing operations and transition to next generation technologies. We have pledged \$50 million as cash collateral for TECH’s fully-drawn line of credit. As of February 28, 2002, the Company had remaining unamortized costs of \$85 million included in noncurrent assets relating to the supply arrangement to purchase product from TECH. We may be required to write off part or all of these capitalized costs in the event supply from TECH is reduced.

We may not be able to maintain or reduce per megabit manufacturing costs at the same rate as we have in the past

In recent years, we have decreased per megabit manufacturing costs through improvements in our manufacturing processes, including reducing the die size of our existing products. In future periods, we may not be able to maintain our per megabit manufacturing costs or reduce costs at historical rates. Our ability to maintain or reduce per megabit manufacturing costs in future periods may be affected by the following:

- our ability to successfully implement product and process technology upgrades,
- our manufacturing yields may decrease as we implement more complex technologies, or
- our ability to ramp the latest reduced die size versions of existing devices or new generation devices.

An adverse determination that our products and processes infringe the intellectual property rights of others could adversely affect our results of operations, cash flows and financial condition

From time to time, others have asserted, and may in the future assert, that our products or processes infringe their product or process technology rights. In this regard, we are currently engaged in litigation with Rambus, Inc. (“Rambus”) relating to certain of Rambus’ patents and certain of our claims and defenses. Lawsuits between Rambus and us are pending in the United States, Germany, France, the United Kingdom and Italy. On August 28, 2000, we filed a declaratory judgment action against Rambus in the U.S. District Court for the District of Delaware. On February 1, 2001, we amended our complaint. Pursuant to our complaint, we are seeking (1) relief under the federal antitrust laws for violations by Rambus of Section 2 of the Sherman Act; (2) a declaratory judgment that (a) certain Rambus patents are not infringed, are invalid and/or are unenforceable, (b) we have an implied license to Rambus’ patents, and (c) Rambus is estopped from enforcing its patents against us because of its conduct in the Joint Electron Device Engineering Council standards setting body; and (3) damages and declaratory relief for Rambus’ breach of contract, fraud, deceptive trade practices, negligent misrepresentation, and conduct requiring the application of equitable estoppel. On February 15, 2001, Rambus filed an Answer and Counterclaim. Rambus denies that we are entitled to relief and has alleged willful infringement by us of eight Rambus patents. We cannot predict the outcome of these suits. A determination that our manufacturing processes or products infringe the

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product or process rights of others could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. Any of the foregoing results could have a material adverse effect on our results of operations, cash flows and financial condition.

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

If we are unable to successfully transition our operations to 300mm wafer manufacturing processes, the results of our results of operations, cash flows and financial condition would be adversely affected

We have in the past reduced our per megabit manufacturing costs by transitioning to larger wafer sizes. By transitioning to larger wafers, we should be able to produce significantly more die for each wafer at a slightly higher cost for each wafer, in part resulting in substantially reduced costs for each die. Several of our competitors are evaluating plans, or have begun, to shift part or all of their memory manufacturing operations to 300mm wafers. If these competitors are able to transition operations to 300mm wafers before us, we would be at a cost disadvantage. Our transition to 300mm wafer processing will require us to make substantial capital investments, which will depend on our ability to generate funds from operations or to obtain funds from external sources. We may also experience disruptions in manufacturing operations and reduced yields during our transition to larger wafer sizes. If we are unable to successfully transition to 300mm wafer processing at the appropriate time, our results of operations, cash flows and financial condition could be adversely affected.

We face risks associated with our foreign sales and operations that could adversely affect our results of operations, cash flows and financial condition

Foreign sales approximated 50% of our consolidated net sales in the second quarter of 2002. In addition, we have or support manufacturing operations in Italy, Japan, Scotland and Singapore. Our foreign sales and foreign operations are subject to a variety of risks, including:

- currency fluctuations, export duties, changes to import and export regulations, and restrictions on the transfer of funds,
- political and economic instability,
- problems with the transportation or delivery of our products,
- issues arising from cultural or language differences and labor unrest,
- longer payment cycles and greater difficulty in collecting accounts receivable, and
- compliance with a variety of foreign laws.

These factors may adversely affect our results of operations, cash flows and financial condition.

Disruptions in our supply of raw materials could adversely affect our results of operations, cash flows and financial position

Our operations require raw materials that meet exacting standards. We generally have multiple sources of supply for our raw materials. However, only a limited number of suppliers are capable of delivering certain raw materials that meet our standards. Various factors could reduce the availability of raw materials such as silicon wafers, photomasks, chemicals, gases, lead frames and molding compound. In addition, any transportation problems could delay our receipt of raw materials. Although raw materials shortages or transportation problems have not interrupted our operations in the past, shortages may occur from time to time in the future. Lead times for the supply of raw materials have been extended in the past. If our supply of raw materials is disrupted or our lead times extended, our results of operations, cash flows and financial condition could be adversely affected.

If our manufacturing process is disrupted, our results of operations, cash flows and financial condition could be adversely affected

We manufacture products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process can reduce yields or disrupt production and may increase our per megabit manufacturing costs. Additionally, if production at a fabrication facility is disrupted for any reason, we may be unable to meet our customers' requirements and they may purchase products from other suppliers. The resulting loss of revenues and damage to customer relationships could be significant.

Products that do not meet specifications or that contain, or are rumored to contain, defects or that are otherwise incompatible with end uses could impose significant costs on us or otherwise adversely affect our results of operations

Because the design and production process for semiconductor memory is highly complex, it is possible that we may produce products that do not comply with customer specifications, contain defects or are otherwise incompatible with end uses. If, despite design review, quality control and product qualification procedures, problems with nonconforming, defective or incompatible products occur after we have shipped such products, we could be adversely affected in the following ways:

- we may need to replace product or otherwise compensate customers for costs incurred or damages caused by defective or incompatible product, and
- we may encounter adverse publicity, which could cause a decrease in sales of our products.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Substantially all of the Company's liquid investments and long-term debt are at fixed interest rates; therefore, the fair value of these instruments is affected by changes in market interest rates. The Company believes that the market risk arising from its holdings of liquid investments is minimal as substantially all of the Company's investments mature within one year. The carrying value of the Company's long-term debt was \$461 million at February 28, 2002, and \$531 million at August 30, 2001. The functional currency for substantially all of the Company's operations is in the U.S. dollar. The Company held aggregate cash and other assets in foreign currency valued at approximately US \$191 million as of February 28, 2002, and US \$239 million as of August 30, 2001 (including deferred tax assets denominated in Japanese Yen valued at approximately US \$149 million as of February 28, 2002, and US \$188 million as of August 30, 2001). The Company also held aggregate foreign currency liabilities valued at approximately US \$354 million as of February 28, 2002, and US \$453 million as of August 30, 2001 (including long-term debt denominated in Japanese Yen valued at approximately US \$229 million as of February 28, 2002, and US \$281 million as of August 30, 2001). Foreign currency receivables and payables are comprised primarily of Japanese Yen, Euros, Singapore Dollars and British Pounds.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 28, 2000, the Company filed suit against Rambus, Inc. ("Rambus") in U.S. District Court for the District of Delaware seeking (1) relief under the federal antitrust laws for violations of Section 2 of the Shearman Act; (2) a declaratory judgment (a) that certain Rambus patents are not infringed by the Company, are invalid, and/or are unenforceable due to, among other reasons, Rambus' fraudulent conduct in misusing and enforcing those patents, (b) that the Company has an implied license to those patents and (c) that Rambus is estopped from enforcing those patents against the Company, and (3) damages and declaratory relief for Rambus' breach of contract, fraud, deceptive trade practices, negligent misrepresentation, and conduct requiring the application of equitable estoppel. On September 1, 2000, Rambus filed suit against Micron Semiconductor GmbH in the District Court of Mannheim, Germany, alleging that certain SDRAM and DDR SDRAM products infringe German patent and utility model counterparts to European patent 525 068. On September 13, 2000, Rambus filed suit against Micron Europe Limited in the High Court of Justice, Chancery Division in London, England, alleging that certain SDRAM and DDR SDRAM products infringe the U.K. counterpart to European patent 525 068. On September 22, 2000, Rambus filed a complaint against the Company and Reptronic (a distributor of the Company's products) in Court of First Instance of Paris, France, alleging that certain SDRAM and DDR SDRAM products infringe the French counterpart to European patent 525 068. In its suits against the Company, Rambus is seeking monetary damages and injunctive relief. On September 29, 2000, the Company filed suit against Rambus in the Civil Court of Milan, Italy alleging invalidity and non-infringement of the Italian counterpart to European patent 525 068. On September 29, 2000, Rambus filed a preliminary proceeding against the Company and EBV (a distributor of the Company's products) in the Civil Court of Monza, Italy, alleging that certain SDRAM and DDR SDRAM products infringe the Italian counterpart to European patent 525 068, and seeking the seizure of certain materials and the entry of a preliminary injunction. On December 21, 2000, an appeals panel of the Court of Monza ordered that the seizure be revoked and held that the Monza Court had no jurisdiction to adjudicate the matter. On December 29, 2000, the Company filed suit against Rambus in the Civil Court of Avezzano, Italy, alleging invalidity and non-infringement of the Italian counterpart to European patent 1 004 956. On August 10, 2001, Rambus initiated a preliminary proceeding against the Company and Assitec S.r.l. (an electronics retail store) in the Civil Court of Pavia, Italy, alleging that certain DDR SDRAM products infringe the Italian counterpart to European patent 1 022 642. In August 2001, Rambus filed various papers seeking to add the German counterpart to European patent 1 022 642 to the pending Mannheim case. The Mannheim Court established a separate proceeding for the '642 patent. The Company is unable to predict the outcome of these suits.

Item 6. Exhibits and Reports on Form 8-K

(a) The following are filed as a part of this report:

Exhibit Number	Description of Exhibit
10.139	1989 Employee Stock Purchase Plan, as Amended

(b) The registrant did not file any reports on Form 8-K during the fiscal quarter ended February 28, 2002.

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SIGNATURES

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

Micron Technology, Inc.
(Registrant)

Dated: April 10, 2002

/s/ W. G. Stover, Jr.

W. G. Stover, Jr., Vice President of Finance and
Chief Financial Officer (Principal Financial and
Accounting Officer)

MICRON TECHNOLOGY, INC.

**1989 EMPLOYEE STOCK
PURCHASE PLAN**

The following constitute the provisions of the 1989 Employee Stock Purchase Plan of Micron Technology, Inc.:

1. **Purpose.** The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.
2. **Definitions.**
 - (a) **"Board"** shall mean the Board of Directors of the Company.
 - (b) **"Code"** shall mean the Internal Revenue Code of 1986, as amended.
 - (c) **"Common Stock"** shall mean the Common Stock, \$.10 par value, of the Company.
 - (d) **"Company"** shall mean Micron Technology, Inc., a Delaware corporation.
 - (e) **"Compensation"** with respect to any Employee means such Employee's wages, salaries, fees for professional services and other amounts received for personal services actually rendered in the course of employment with the Company or its designated subsidiaries to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid to salesmen, compensation for services on the basis of a percentage of profits, tips, and bonuses).

Compensation shall exclude (a)(1) contributions made by the employer to a plan of deferred compensation to the extent that, the contributions are not includible in the gross income of the Employee for the taxable year in which contributed, (2) employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) to the extent such contributions are excludable from the Employee's gross income, (3) any distributions from a plan of deferred compensation; (b) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to substantial risk of forfeiture; (c) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; (d) other amounts which receive special tax benefits, such as premiums for group-term life insurance (but only to the extent that the premiums are not includible in the gross income of the employee), or contributions made by the employer (whether or not under a salary reduction agreement) towards the purchase of any annuity contract described in Code Section 403(b) (whether or not the contributions are actually excludable from the Employee's gross income); (e) reimbursements or other expense allowances; (f) fringe benefits (cash and noncash); (g) moving expenses; and (h) welfare benefits.
 - (f) **"Continuous Status as an Employee"** shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.
 - (g) **"Designated Subsidiaries"** shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.
 - (h) **"Employee"** shall mean any person, including an officer, who is continuously employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries; provided, however, that all employees of an Italian Designated Subsidiary of the Company shall be considered "Employees" under the Plan, without regard as to whether they are continuously employed for at least twenty (20) hours per week or more than five (5) months in a calendar year by an Italian Designated Subsidiary of the Company.
 - (i) **"Enrollment Date"** shall mean the first day of each Offering Period.

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- (j) **"Exercise Date"** shall mean the last day of each Offering Period of the Plan.
 - (k) **"Offering Period"** shall mean a period of three (3) months during which an option granted pursuant to the Plan may be exercised.
 - (l) **"Plan"** shall mean this Employee Stock Purchase Plan.
 - (m) **"Subsidiary"** shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.
3. **Eligibility.**
 - (a) Any Employee as defined in paragraph 2 who has been continuously employed by the Company or any subsidiary of the Company for at least one (1) consecutive month and who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) which permits his rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on or about January 1, April 1, July 1, and October 1 of each year commencing on or about January 1, 1989 or, in the discretion of the committee, April 1, 1989, and continuing thereafter until terminated in accordance with paragraph 20 hereof. Subject to the shareholder approval requirements of paragraph 20, the Board of Directors of the Company shall have the power to change the duration of offering periods with respect to future offerings if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first offering period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll or administrative office at least ten (10) business days prior to the applicable Enrollment Date, unless a different time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in paragraph 11.

6. Payroll Deductions.

(a) At the time a participant files his subscription agreement, he or she shall elect to have payroll deductions made on each payday during the Offering Period in an amount not less than one percent (1%) and not greater than twenty percent (20%) of the Compensation which he or she received on the payday immediately preceding the Enrollment Date, and the aggregate of such payroll deductions during the Offering Period shall not exceed twenty percent (20%) of his or her aggregate Compensation during said Offering Period.

(b) All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in paragraph 11, but may not otherwise change, their rate of payroll deductions during the Offering Period. A participant's subscription agreement shall remain in effect for successive Offering Periods unless revised

as provided herein or terminated as provided in paragraph 11.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and paragraph 3(b) herein, a participant's payroll deductions may be decreased to 0% at such time during any Offering Period which is scheduled to end during the current calendar year that the aggregate of all payroll deductions accumulated with respect to such Offering Period and any other Offering Period ending within the same calendar year equal \$21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in paragraph 11.

7. Grant of Option.

(a) On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Enrollment Date or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Exercise Date; provided that in no event shall an Employee be permitted to purchase during each Offering Period more than a number of shares determined by dividing \$6,250 by the fair market value of a share of the Company's Common Stock on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Section 3(b) and 13 hereof. Exercise of the option shall occur as provided in Section 8, unless the participant has withdrawn pursuant to Section 11, and shall expire on the last day of the Offering Period. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b) herein.

(b) The option price per share of the shares offered in a given Offering Period shall be the lower of: (i) 85% of the fair market value of a share of the Common Stock of the Company on the Enrollment Date; or (ii) 85% of the fair market value of a share of the Common Stock of the Company on the Exercise Date. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its discretion; provided, however that where there is a public market for the Common Stock, the fair market value per share shall be the closing price for the Company's Common Stock (or the closing bid, if no sales were reported) as quoted on any established stock exchange, including without limitation the New York Stock Exchange ("NYSE"), or a national market system (or the exchange with the greatest volume of trading in Common Stock) on the day of determination, as reported by Bloomberg, L.P. or such other source as the Administrator deems reliable.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in paragraph 11, his or her option for the purchase of shares will be exercised automatically on the Exercise Date of the Offering Period, and the maximum number of full shares subject to option will be purchased for him or her at the applicable option price with the accumulated payroll deductions in his account. The shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Exercise Date. During his or her lifetime, a participant's option to purchase shares hereunder is exercisable only by such participant.

9. Paragraph Intentionally Left Blank.

10. Delivery. Following the Exercise Date of each Offering Period, unless a participant requests the issuance of a certificate representing the participant's shares, the Company shall as soon as practicable record the participant's full shares in book entry form. Upon request from a participant, the Company shall arrange for the delivery to the participant of a certificate representing the full shares purchased. Any cash remaining to the credit of a participant's account under the Plan after a purchase by the participant of shares at the termination of each Offering Period, which is insufficient to purchase a full share of Common Stock of the Company, shall be returned to said participant or retained in the participant's account for the subsequent Offering Period, as determined by the Company as to all participants for a given Offering Period.

11. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to such participant's account under the Plan at any time prior to the Exercise Date of the Offering Period by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account will be paid to him or her promptly after receipt of the notice of withdrawal and the participant's option for the current Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement as described in Section 5(a).

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Exercise Date of the Offering Period for any reason, including retirement or death, the payroll deductions credited to such participant's account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under paragraph 15, and such participant's option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the Offering Period in which the Employee is a participant, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his or her account will be returned to him or her and the option terminated.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 18,500,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in paragraph 19. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) hereof on the Enrollment Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each participant affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board of the Company or a committee of members of the Board appointed by the Board. The administration, interpretation or application of the Plan by the Board or its committee shall be final, conclusive and binding upon all participants. Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a Committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the Committee.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death

subsequent to the end of the Offering Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Exercise Date of the Offering Period.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability of Rights. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in paragraph 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with paragraph 11.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees; on no less than an annual basis, promptly following the Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the participant shall have the right to exercise the option as to all of the optioned stock, including shares as to which the option would not otherwise be exercisable. If the Board makes an option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the participant that the option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the option will terminate upon the expiration of such period.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

20. Amendment or Termination. The Board of Directors of the Company may at any time terminate or amend the Plan. Except as provided in paragraph 19, no such termination can affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant, nor may an amendment be made without prior approval of the shareholders of the Company (obtained in the manner described in paragraph 22) if such amendment would:

- (a) Increase the number of shares that may be issued under the Plan;
- (b) Change the designation of the employees (or class of employees) eligible for participation in the Plan; or
- (c) Materially increase the benefits which may accrue to participants under the Plan.

(d) In the event that the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan by means of the following to reduce or eliminate such unfavorable accounting consequence including, but not limited to:

(i) altering the option price per share for any Offering Period, including an Offering Period underway at the time of the change in Purchase Price including an alteration of the option price under paragraph 7(b) to 85% of the fair market value of a share of the Common Stock of the Company on the Exercise Date (without a lookback to the fair market value on the Enrollment Date); and

(ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the shares of the Company present or represented and entitled to vote thereon, which approval shall be:

(a) (1) solicited substantially in accordance with Section 14(a) of the Securities Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder, or (2) solicited after the Company has furnished in writing to the holders entitled to vote substantially the same information concerning the Plan as that which would be required by the rules and regulations in effect under Section 14(a) of the Act at the time such information is furnished; and

(b) obtained at or prior to the first annual meeting of shareholders held subsequent to the first registration of Common Stock under Section 12 of the Act.

In the case of approval by written consent, it must be obtained by the unanimous written consent of all shareholders of the Company, or by written consent of a smaller percentage of shareholders but only if the Board determines, on the basis of advice of the Company's legal counsel, that the written consent of such a smaller percentage of shareholders will comply with all applicable laws and will not adversely affect the qualifications of the Plan under Section 423 of the Code.

23. Conditions Upon Issuance of Shares.

Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

24. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in paragraph 22. It shall continue in effect for a term of twenty (20) years unless sooner terminated under paragraph 20.

REVISION DATE: 3/8/02