

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2006

OR

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

For the transition period from to

Commission file number 1-10658

Micron Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

8000 S. Federal Way, Boise, Idaho
(Address of principal executive offices)

75-1618004

(IRS Employer
Identification No.)

83716-9632
(Zip Code)

Registrant's telephone number, including area code

(208) 368-4000

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

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

The number of outstanding shares of the registrant's common stock as of January 4, 2007, was 754,795,709.

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	
	November 30, 2006	December 1, 2005
Net sales	\$ 1,530	\$ 1,362
Cost of goods sold	1,088	1,051
Gross margin	442	311
Selling, general and administrative	180	95
Research and development	183	166
Other operating (income), net	(31)	(12)
Operating income	110	62

Interest income	41	11
Interest expense	(1)	(11)
Other non-operating income, net	3	1
Income before taxes	153	63
Income tax (provision)	(9)	—
Noncontrolling interests in net income	(29)	—
Net income	<u>\$ 115</u>	<u>\$ 63</u>
Earnings per share:		
Basic	\$ 0.15	\$ 0.10
Diluted	0.15	0.09
Number of shares used in per share calculations:		
Basic	767.0	650.1
Diluted	779.6	707.1

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS (Amounts in millions except par value amounts) (Unaudited)

As of	November 30, 2006	August 31, 2006
Assets		
Cash and equivalents	\$ 1,303	\$ 1,431
Short-term investments	1,335	1,648
Receivables	996	956
Inventories	1,114	963
Prepaid expenses	81	77
Deferred income taxes	24	26
Total current assets	4,853	5,101
Intangible assets, net	410	388
Property, plant and equipment, net	7,010	5,888
Deferred income taxes	55	49
Goodwill	502	502
Other assets	244	293
Total assets	<u>\$ 13,074</u>	<u>\$ 12,221</u>
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$ 1,578	\$ 1,319
Deferred income	69	53
Equipment purchase contracts	119	123
Current portion of long-term debt	159	166
Total current liabilities	1,925	1,661
Long-term debt	409	405
Deferred income taxes	27	28
Other liabilities	452	445
Total liabilities	2,813	2,539
Commitments and contingencies		
Noncontrolling interests in subsidiaries	1,982	1,568
Common stock, \$0.10 par value, authorized 3 billion shares, issued and outstanding 754.5 million and 749.4 million shares	75	75
Additional capital	6,604	6,555
Retained earnings	1,600	1,486
Accumulated other comprehensive (loss)	—	(2)
Total shareholders' equity	8,279	8,114
Total liabilities and shareholders' equity	<u>\$ 13,074</u>	<u>\$ 12,221</u>

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

Quarter ended	November 30, 2006	December 1, 2005
Cash flows from operating activities		
Net income	\$ 115	\$ 63
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	380	303
Stock-based compensation	10	4
Gain from sale of product and process technology	(30)	—
Gain from disposition of equipment	(5)	—
Change in operating assets and liabilities:		
Increase in receivables	(2)	(11)
(Increase) decrease in inventories	(151)	89
Increase in accounts payable and accrued expenses	72	16
Deferred income taxes	(1)	(4)
Other	41	(35)
Net cash provided by operating activities	429	425
Cash flows from investing activities		
Expenditures for property, plant and equipment	(1,099)	(269)
Purchases of available-for-sale securities	(827)	(478)
Proceeds from maturities of available-for-sale securities	1,082	530
Proceeds from sales of available-for-sale securities	66	—
Proceeds from sale of product and process technology	30	—
Decrease in restricted cash	14	1
Proceeds from sales of property, plant and equipment	11	5
Other	(45)	(8)
Net cash used for investing activities	(768)	(219)
Cash flows from financing activities		
Capital contribution from noncontrolling interest in IMFT	388	—
Proceeds from issuance of common stock	41	11
Payments on equipment purchase contracts	(161)	(31)
Repayments of debt	(56)	(49)
Other	(1)	—
Net cash provided by (used for) financing activities	211	(69)
Net increase (decrease) in cash and equivalents	(128)	137
Cash and equivalents at beginning of period	1,431	524
Cash and equivalents at end of period	\$ 1,303	\$ 661
Supplemental disclosures		
Income taxes paid, net	\$ (9)	\$ (2)
Interest paid, net of amounts capitalized	(2)	(10)
Noncash investing and financing activities:		
Equipment acquisitions on contracts payable and capital leases	208	62

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in millions except per share amounts)

(Unaudited)

Significant Accounting Policies

Basis of presentation: Micron Technology, Inc. and its subsidiaries (hereinafter referred to collectively as the “Company”) manufacture and market DRAM, NAND Flash memory, CMOS image sensors and other semiconductor components. The Company has two reportable segments, Memory and Imaging. The Memory segment’s primary products are DRAM and NAND Flash and the Imaging segment’s primary product is CMOS image sensors. The

accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. and include the accounts of the Company and its consolidated subsidiaries. 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.

The Company's fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. The Company's first quarter of fiscal 2007 and 2006 ended on November 30, 2006, and December 1, 2005, respectively. The Company's fiscal 2006 ended on August 31, 2006. All period references are to the Company's fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended August 31, 2006.

Recently issued accounting standards: In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." The Company is required to adopt SAB No. 108 by the end of 2007 and does not expect adoption to have a significant impact on the Company's financial position or results of operations.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." Under SFAS No. 158, the Company is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of 2007. The Company does not expect that the adoption of SFAS No. 158 will have a significant impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. The Company is required to adopt SFAS No. 157 effective at the beginning of 2009.

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company is required to adopt FIN 48 effective at the beginning of 2008. The Company is evaluating the impact this statement will have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As of November 30, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. The Company is required to adopt SFAS No. 155 effective at the beginning of 2008.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The Company adopted SFAS

No. 154 at the beginning of 2007. The adoption of SFAS No. 154 did not impact the Company's results of operations and financial condition.

Supplemental Balance Sheet Information

Receivables	November 30, 2006	August 31, 2006
Trade receivables	\$ 782	\$ 811
Taxes other than income	38	18
Other	180	131
Allowance for doubtful accounts	(4)	(4)
	<u>\$ 996</u>	<u>\$ 956</u>

As of November 30, 2006 and August 31, 2006, other receivables include \$65 million and \$51 million, respectively, due from Intel Corporation primarily for amounts related to NAND Flash product design and process development activities, and \$87 million and \$51 million, respectively, due from settlement of litigation. Long-term receivables due from settlement of litigation of \$142 million and \$181 million as of November 30, 2006, and August 31, 2006, respectively, are included in other noncurrent assets in the Company's consolidated balance sheet.

Inventories	November 30, 2006	August 31, 2006
Finished goods	\$ 351	\$ 273
Work in process	578	530
Raw materials and supplies	229	195
Allowance for obsolescence	(44)	(35)
	<u>\$ 1,114</u>	<u>\$ 963</u>

Goodwill and Intangible Assets	November 30, 2006		August 31, 2006	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets:				
Product and process technology	\$ 499	\$ (231)	\$ 460	\$ (219)

Customer relationships	127	(8)	127	(4)
Other	27	(4)	27	(3)
	<u>\$ 653</u>	<u>\$ (243)</u>	<u>\$ 614</u>	<u>\$ (226)</u>

During the first quarter of 2007 and 2006, the Company capitalized \$39 million and \$9 million, respectively, for product and process technology with weighted-average useful lives of 9 years and 10 years, respectively.

Amortization expense for intangible assets was \$17 million and \$13 million for the first quarter of 2007 and 2006, respectively. Annual amortization expense for intangible assets held as of November 30, 2006, is estimated to be \$72 million for 2007, \$72 million for 2008, \$61 million for 2009, \$51 million for 2010 and \$47 million for 2011.

As of November 30, 2006, and August 31, 2006, the Company had goodwill of \$490 million for its Memory segment and \$12 million for its Imaging segment.

<u>Property, Plant and Equipment</u>	<u>November 30, 2006</u>	<u>August 31, 2006</u>
Land	\$ 107	\$ 107
Buildings	2,850	2,763
Equipment	10,574	9,528
Construction in progress	745	484
Software	253	251
	<u>14,529</u>	<u>13,133</u>
Accumulated depreciation	<u>(7,519)</u>	<u>(7,245)</u>
	<u>\$ 7,010</u>	<u>\$ 5,888</u>

Depreciation expense was \$375 million and \$292 million for the first quarter of 2007 and 2006, respectively.

<u>Accounts Payable and Accrued Expenses</u>	<u>November 30, 2006</u>	<u>August 31, 2006</u>
Accounts payable	\$ 1,087	\$ 854
Salaries, wages and benefits	209	220
Income taxes	22	20
Taxes other than income	19	23
Other	241	202
	<u>\$ 1,578</u>	<u>\$ 1,319</u>

<u>Debt</u>	<u>November 30, 2006</u>	<u>August 31, 2006</u>
Capital lease obligations payable in monthly installments through June 2021, weighted-average imputed interest rate of 6.6%	\$ 295	\$ 264
Notes payable in periodic installments through July 2015, weighted-average interest rate of 1.6% and 1.5%	203	237
Convertible subordinated notes payable, interest rate of 5.6%, due April 2010	70	70
	<u>568</u>	<u>571</u>
Less current portion	<u>(159)</u>	<u>(166)</u>
	<u>\$ 409</u>	<u>\$ 405</u>

As of November 30, 2006, notes payable above included \$189 million, denominated in Japanese yen, at a weighted-average interest rate of 1.4%.

The Company's TECH subsidiary has a credit facility that enables it to borrow up to \$400 million at Singapore Interbank Offered Rate ("SIBOR") plus 2.5% subject to customary covenants. Amounts borrowed under the facility would be due in quarterly installments through September 2009. As of November 30, 2006, TECH had not borrowed any amounts against the credit facility.

The Company's \$70 million 5.625% convertible notes ("Notes") assumed in the acquisition of Lexar Media, Inc. are convertible into the Company's common stock any time at the option of the holders of the Notes at a price equal to approximately \$11.28 per share and are subject to customary covenants. The Notes are redeemable for cash at the Company's option beginning on April 1, 2008, at a price equal to the principal amount plus accrued interest. The Company may only redeem the Notes if its common stock has exceeded 175% of the conversion price for at least 20 trading days in the 30 consecutive trading days prior to delivery of a notice of redemption. Upon redemption, the Company will be required to make a payment equal to the net present value of the remaining scheduled interest payments through April 1, 2010.

As is typical in the semiconductor and other high technology industries, from time to time, others have asserted, and may in the future assert, that the Company's products or manufacturing processes infringe their intellectual property rights. In this regard, the Company is engaged in litigation with Rambus, Inc. ("Rambus") relating to certain of Rambus' patents and certain of the Company's claims and defenses. Lawsuits between Rambus and the Company are pending in the U.S. District Court for the District of Delaware, U.S. District Court for the Northern District of California, Germany, France, and Italy. The Company also is engaged in patent litigation with Tadahiro Ohmi ("Ohmi") in the U.S. District Court for the Eastern District of Texas and with Mosaid Technologies, Inc. ("Mosaid") in both the U.S. District Court for the Northern District of California and the U.S. District Court for the Eastern District of Texas. Among other things, the above lawsuits pertain to certain of the Company's SDRAM, DDR SDRAM, DDR2 SDRAM, RDRAM, and image sensor products, which account for a significant portion of net sales.

The Company is unable to predict the outcome of assertions of infringement made against the Company. A court determination that the Company's products or manufacturing processes infringe the intellectual property 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 could have a material adverse effect on the Company's business, results of operations or financial condition.

On June 17, 2002, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice (the "DOJ") into possible antitrust violations in the "Dynamic Random Access Memory" or "DRAM" industry. The Company is cooperating fully and actively with the DOJ in its investigation. The Company's cooperation is pursuant to the terms of the DOJ's Corporate Leniency Policy, which provides that in exchange for the Company's full, continuing and complete cooperation in the pending investigation, the Company will not be subject to prosecution, fines or other penalties from the DOJ. Subsequent to the commencement of the DOJ investigation, at least eighty-four (seven of which have been dismissed) purported class action lawsuits have been filed against the Company and other DRAM suppliers in various federal and state courts in the United States and in Puerto Rico by direct and indirect purchasers alleging price-fixing in violation of federal and state antitrust laws, violations of state unfair competition law, and/or unjust enrichment relating to the sale and pricing of DRAM products. The complaints seek treble damages sustained by purported class members, in addition to restitution, costs and attorneys' fees, as well as an injunction against the allegedly unlawful conduct. The direct purchaser cases were consolidated in the U.S. District Court for the Northern District of California and the Court granted plaintiffs' motion to certify the proposed class of direct purchasers. On January 9, 2007, the Company entered into a settlement agreement with the class of direct purchasers ("Direct Purchaser Settlement"). Under terms of the Direct Purchaser Settlement, the Company will pay \$91 million and will be dismissed with prejudice from the direct purchaser consolidated class-action suit. The Direct Purchaser Settlement is subject to approval by the U.S. District Court for the Northern District of California. The Direct Purchaser Settlement does not resolve the indirect purchaser suits.

The Direct Purchaser Settlement is reflected in the Company's results for the first quarter of 2007 because it provided additional information with regard to the litigation contingency existing at the end of the quarter. As a result of the Direct Purchaser Settlement, the Company recorded a \$50 million charge to revenue and \$31 million net charge to selling, general and administrative expenses for the first quarter of 2007. The aggregate net charge including the impact on the Company's compensation programs was a \$77 million reduction in net income. The Company recorded the costs of the Direct Purchaser Settlement attributable to current customers as a charge to revenue in accordance with generally accepted accounting principles.

Three purported class action lawsuits also have been filed in Canada, alleging violations of the Canadian Competition Act. The substantive allegations in these cases are similar to those asserted in the cases filed in the United States and Puerto Rico. The Direct Purchaser Settlement does not resolve these suits.

In addition, various states, through their Attorneys General, have filed suit against the Company and other DRAM manufacturers. On July 14, 2006, the following states filed suit in the U.S. District Court for the Northern District of California: Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the Commonwealth of the Northern Mariana Islands. The amended complaint, filed September 8, 2006, alleges, among other things, violations of the Sherman Act,

Cartwright Act, and certain other states' consumer protection and antitrust laws and seeks damages, and injunctive and other relief. Additionally, on July 13, 2006, the State of New York filed a similar suit in the U.S. District Court for the Southern District of New York. That case was subsequently transferred to the U.S. District Court for the Northern District of California for pre-trial purposes. The Direct Purchaser Settlement does not resolve these suits.

On October 11, 2006, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the DOJ into possible antitrust violations in the "Static Random Access Memory" or "SRAM" industry. The Company believes that it is not a target of the investigation and is cooperating with the DOJ in its investigation of the SRAM industry.

Subsequent to the issuance of subpoenas to the SRAM industry, a number of purported class action lawsuits have been filed against the Company and other SRAM suppliers. Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that purchased SRAM directly from various SRAM suppliers during the period from January 1, 1998 through December 31, 2005. Additionally, fifty-one cases have filed in various U.S. District Courts asserting claims on behalf of a purported class of individuals and entities that indirectly purchased SRAM and/or products containing SRAM from various SRAM suppliers during the time period from January 1, 1998 through December 31, 2005. The complaints allege price fixing in violation of federal antitrust laws and state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees.

On May 5, 2004, Rambus filed a complaint in the Superior Court of the State of California (San Francisco County) against the Company and other DRAM suppliers. The complaint alleges various causes of action under California state law including conspiracy to restrict output and fix prices on Rambus DRAM ("RDRAM") and unfair competition. The complaint seeks treble damages, punitive damages, attorneys' fees, costs, and a permanent injunction enjoining the defendants from the conduct alleged in the complaint.

The Company is unable to predict the outcome of these lawsuits and investigations. The final resolution of these alleged violations of antitrust laws could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

On February 24, 2006, a putative class action complaint was filed against the Company and certain of its officers in the U.S. District Court for the District of Idaho alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder.

Four substantially similar complaints subsequently were filed in the same Court. The cases purport to be brought on behalf of a class of purchasers of the Company's stock during the period February 24, 2001 to February 13, 2003. The five lawsuits have been consolidated and a consolidated amended class action complaint was filed on July 24, 2006. The complaint generally alleges violations of federal securities laws based on, among other things, claimed misstatements or omissions regarding alleged illegal price-fixing conduct. The complaint seeks unspecified damages, interest, attorneys' fees, costs, and expenses.

In addition, on March 23, 2006 a shareholder derivative action was filed in the Fourth District Court for the State of Idaho (Ada County), allegedly on behalf of and for the benefit of the Company, against certain of the Company's current and former officers and directors. The Company also was named as a nominal defendant. The complaint is based on the same allegations of fact as in the securities class actions filed in the U.S. District Court for the District of Idaho and alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and insider trading. The complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, costs, and expenses. The complaint is derivative in nature and does not seek monetary damages from the Company. However, the Company may be required, throughout the pendency of the action, to advance payment of legal fees and costs incurred by the defendants.

The Company is unable to predict the outcome of these cases. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

In March 2006, following the Company's announcement of a definitive agreement to acquire Lexar Media, Inc. ("Lexar") in a stock-for-stock merger, four purported class action complaints were filed in the Superior Court for the State of California (Alameda County) on behalf of shareholders of Lexar against Lexar and its directors. Two of the complaints also name the Company as a defendant. The complaints allege that the defendants breached, or aided and abetted the breach of, fiduciary duties owed to Lexar shareholders by, among other things, engaging in self-dealing, failing to engage

8

in efforts to obtain the highest price reasonably available, and failing to properly value Lexar in connection with a merger transaction between Lexar and the Company. The plaintiffs seek, among other things, injunctive relief preventing, or an order of rescission reversing, the merger, compensatory damages, interest, attorneys' fees, and costs. On May 19, 2006, the plaintiffs filed a motion for preliminary injunction seeking to block the merger. On May 31, 2006, the Court denied the motion. The Company is unable to predict the outcome of these suits. A court determination against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition. (See "Lexar Media, Inc." note.)

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

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

Equity Plans

As of November 30, 2006, the Company had an aggregate of 159.1 million shares of its common stock reserved for issuance under its various equity plans, of which 125.3 million shares were subject to outstanding stock awards and 33.8 million shares were available for future grants. Awards are subject to terms and conditions as determined by the Company's Board of Directors.

Stock Options: The Company granted 1.0 million and 0.5 million shares of stock options during the first quarter of 2007 and 2006, respectively. The weighted-average grant-date fair value per share was \$5.94 and \$5.66 for options granted during the first quarter of 2007 and 2006, respectively.

The fair value of each option award is estimated as of the date of grant using the Black-Scholes model. Expected volatilities are based on implied volatilities from traded options on the Company's stock and historical volatility. The expected life of options granted is based on historical experience and on the terms and conditions of the options. The risk-free rates are based on the U.S. Treasury yield in effect at the time of the grant. Assumptions used in the Black-Scholes model are presented below:

	Quarter Ended	
	November 30, 2006	December 1, 2005
Average expected life in years	4.25	4.25
Expected volatility	42%	48%
Weighted-average volatility	42%	48%
Risk-free interest rate	4.7%	3.9%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. For purposes of this valuation model, no dividends have been assumed.

Restricted Stock: During the first quarter of 2007, the Company granted 1.0 million shares of service-based restricted awards and 0.9 million shares of performance-based restricted awards. During the first quarter of 2006, the Company granted 0.8 million shares of service-based restricted awards and 0.6 million shares of performance-based restricted awards. The weighted-average grant-date fair value per share was \$17.58 and \$12.21 for restricted stock awards granted during the first quarter of 2007 and 2006, respectively.

Stock-Based Compensation Expense: Total compensation costs for the Company's stock plans in the first quarter of 2007 and 2006 were \$10 million and \$4 million, respectively, and included the following:

	Quarter Ended	
	November 30, 2006	December 1, 2005
Stock-based compensation expense by caption:		
Cost of goods sold	\$ 2	\$ 1
Selling, general and administrative	5	2
Research and development	3	1
	<u>\$ 10</u>	<u>\$ 4</u>
Stock-based compensation expense by type of award:		
Stock options	\$ 6	\$ 2
Restricted stock	4	2
	<u>\$ 10</u>	<u>\$ 4</u>

Stock-based compensation expense of \$2 million was capitalized and remained in inventory at the end of the first quarter of 2007. As of November 30, 2006, \$106 million of total unrecognized compensation costs related to non-vested awards was expected to be recognized over a weighted-average period of 1.5 years.

Stock-based compensation expense in the above presentation does not reflect any significant income taxes, which is consistent with the Company's treatment of income or loss from its U.S. operations. (See "Income Taxes" note.)

Other Operating (Income) Expense, Net

Other operating income for the first quarter of 2007 includes a gain of \$30 million from the sale of certain intellectual property to Toshiba Corporation. Other operating expense in the first quarter of 2007 includes net losses of \$8 million from changes in currency exchange rates. Other operating income for the first quarter of 2006 includes net gains of \$12 million from changes in currency exchange rates.

Income Taxes

Income taxes for 2007 and 2006 primarily reflect taxes on the Company's non-U.S. operations and U.S. alternative minimum tax. The Company has a valuation allowance for its net deferred tax asset associated with its U.S. operations. The provision for taxes on U.S. operations in 2007 and 2006 was substantially offset by a reduction in the valuation allowance. As of November 30, 2006, the Company had aggregate U.S. tax net operating loss carryforwards of \$1.5 billion and unused U.S. tax credit carryforwards of \$169 million. The Company also has unused state tax net operating loss carryforwards of \$1.3 billion and unused state tax credits of \$167 million. Substantially all of the net operating loss carryforwards expire in 2022 to 2025 and substantially all of the tax credit carryforwards expire in 2013 to 2026.

Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of common shares and stock rights outstanding. Diluted earnings per share is computed based on the weighted-average number of common shares outstanding plus the dilutive effects of stock options, warrants and convertible notes. Potential common shares that would increase earnings per share amounts or decrease loss per share amounts are antidilutive and are, therefore, excluded from earnings per share calculations. Antidilutive potential common shares that could dilute basic earnings per share in the future were 105.2 million and 102.5 million for the first quarter of 2007 and 2006, respectively.

	Quarter Ended	
	November 30, 2006	December 1, 2005
Net income available to common shareholders – Basic	\$ 115	\$ 63
Net effect of assumed conversion of debt	—	3
Net income available to common shareholders – Diluted	<u>\$ 115</u>	<u>\$ 66</u>
Weighted-average common shares outstanding – Basic	767.0	650.1
Net effect of dilutive stock options and assumed conversion of debt	12.6	57.0
Weighted-average common shares outstanding – Diluted	<u>779.6</u>	<u>707.1</u>
Earnings per share:		
Basic	\$ 0.15	\$ 0.10
Diluted	0.15	0.09

Comprehensive Income

Comprehensive income for 2007 and 2006 includes net income and de minimis amounts of unrealized gains and losses on investments. Comprehensive income for the first quarter of 2007 and 2006 was \$117 million and \$61 million, respectively.

Lexar Media, Inc. (“Lexar”)

On June 21, 2006, the Company acquired Lexar, a designer, developer, manufacturer and marketer of flash memory products, in a stock for stock merger to broaden the Company’s NAND Flash product offering, enhance its retail presence and strengthen its portfolio of intellectual property. In connection therewith, the Company issued 50.7 million shares of common stock, issued 6.6 million stock options and incurred other acquisition costs resulting in an aggregate purchase price of \$886 million, which was allocated to the assets and liabilities of Lexar based on a preliminary estimate of fair values. The Company recorded total assets of \$1,356 million, including cash and short-term investment of \$101 million, receivables of \$302 million, intangible assets of \$183 million and goodwill of \$486 million; and total liabilities of \$470 million. The Company’s results of operations subsequent to the acquisition date include Lexar, as part of the Company’s Memory segment.

The following unaudited pro forma information presents the consolidated results of operations of the Company as if the acquisition of Lexar had taken place at the beginning of 2006. 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	December 1, 2005
Net sales	\$ 1,599
Net income	34
Earnings per share – diluted	\$ 0.05

Joint Ventures

IM Flash Technologies, LLC (“IMFT”): IMFT, which began operations on January 6, 2006, is a joint venture between the Company and Intel Corporation that was formed to manufacture NAND Flash memory products for the exclusive benefit of its partners. As of November 30, 2006, the Company owned 51% and Intel owned 49% of IMFT. The parties share the output of IMFT generally in proportion to their ownership in IMFT.

The Company has determined that IMFT is a variable interest entity as defined in FIN 46(R), “Consolidation of Variable Interest Entities,” and that the Company is the primary beneficiary. Accordingly, IMFT’s financial results are included in the accompanying consolidated financial statements of the Company. The Creditors of IMFT have recourse only to the assets of IMFT and do not have recourse to any other assets of the Company.

TECH Semiconductor Singapore Pte. Ltd. (“TECH”): Since 1998, the Company has participated in TECH, a semiconductor memory manufacturing joint venture in Singapore among the Company, the Singapore Economic Development Board (“EDB”), Canon Inc. and Hewlett-Packard Company. As of November 30, 2006, the Company owned an approximate 43% interest in TECH. The shareholders’ agreement for the TECH joint venture expires in 2011.

Effective March 3, 2006, the Company entered into an agreement with EDB whereby EDB granted the Company an option to purchase from EDB, and the Company granted EDB an option to sell to the Company, EDB’s shares of TECH common stock (approximately 30% as of November 30, 2006) (collectively, the “TECH Options”). The Company’s option to purchase EDB’s shares in TECH is exercisable at any time prior to October 1, 2009. EDB’s option to put its shares in TECH to the Company is exercisable from March 3, 2008, until October 1, 2010. The Company has determined that TECH is a variable interest entity, and as a result of the put option agreement noted above, the Company concluded it is the primary beneficiary of TECH as defined by FIN 46(R) and therefore began consolidating TECH’s financial results as of the beginning of the Company’s third quarter of 2006. The Creditors of TECH have recourse only to the assets of TECH and do not have recourse to any other assets of the Company.

The option granted by the Company to EDB to sell to the Company EDB’s shares in TECH is being accounted for as if the shares are mandatorily redeemable by the Company. The initial carrying value of the noncontrolling interest in TECH attributable to EDB of \$287 million is being amortized to its estimated redemption value (approximately \$270 million as of November 30, 2006) through March 3, 2008, the date EDB’s option becomes exercisable. The amortization is recognized as other non-operating income in the accompanying consolidated statement of operations and amounted to \$4 million for the first quarter of 2007.

TECH’s semiconductor manufacturing uses 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 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. Through the first quarter of 2006, prior to the consolidation of TECH, all of these transactions with TECH were recognized as part of the net cost of products purchased from TECH. The net cost of products purchased from TECH amounted to \$140 million for the first quarter of 2006.

MP Mask Technology Center, LLC (“MP Mask”): In the third quarter of 2006, the Company formed a joint venture, MP Mask, with Photronics, Inc. (“Photronics”) to produce photomasks for leading-edge and advanced next- generation semiconductors. The Company contributed its then existing reticle manufacturing operation to the venture. In exchange for a 49.99% interest in MP Mask, Photronics paid \$48 million cash and \$15 million in notes due over two years to the Company. In connection with the joint venture, the Company received \$72 million in exchange for entering into a license agreement with Photronics, which will be recognized over the term of the 10-year agreement. The Company and Photronics also entered into supply arrangements wherein the Company is expected to purchase a substantial majority of the reticles produced by MP Mask. The financial results of MP Mask are included in the consolidated financial results of the Company.

Subsequent Events

On December 11, 2006, the Company acquired CMOS image sensor assets from Avago Technologies Limited (“Avago”) for approximately \$53 million, plus additional contingent payments up to \$17 million if certain milestones are met. Mercedes Johnson, a member of the Company’s board of directors, is the Senior Vice President, Finance and Chief Financial Officer, of Avago. Ms. Johnson recused herself from all deliberations of the Company’s board of directors concerning this transaction.

Subsequent to the end of the first quarter of 2007, the Company received approximately \$300 million in proceeds from equipment financing arrangements that are payable in periodic installments over the next five years.

Segment Information

The Company’s reportable segments are Memory and Imaging. The Memory segment’s primary products are DRAM and NAND Flash memory and the Imaging segment’s primary product is CMOS image sensors. Segment information reported below is consistent with how it is reviewed and evaluated by the Company’s chief operating decision maker and is based on the nature of the Company’s operations and products offered to customers. The Company does not identify or report depreciation and amortization, capital expenditures or assets by segment. The information below represents the Company’s reportable segments.

	Quarter ended	
	November 30, 2006	December 1, 2005
Net sales:		
Memory	\$ 1,286	\$ 1,208
Imaging	244	154
Total consolidated net sales	<u>\$ 1,530</u>	<u>\$ 1,362</u>
Operating income:		
Memory	\$ 60	\$ 21
Imaging	50	41
Total consolidated operating income	<u>\$ 110</u>	<u>\$ 62</u>

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

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made in “Overview” regarding growth for CMOS image sensor and NAND Flash markets and allocations of wafer starts to NAND Flash products; in “Net Sales” regarding NAND Flash production in future periods and expected revenue from sales of NAND Flash and Imaging products; in “Selling, General and Administrative” regarding SG&A expenses for the second quarter of 2007; in “Research and Development” regarding R&D costs in future periods; in “Stock-Based Compensation” regarding increases in future stock-based compensation costs; and in “Liquidity and Capital Resources” regarding capital spending in 2007 and future capital contributions to IMFT, IMFS and TECH. 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 “PART II. OTHER INFORMATION – Item 1A. Risk Factors.” This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes and with the Company’s Annual Report on Form 10-K for the year ended August 31, 2006. All period references are to the Company’s fiscal periods unless otherwise indicated. All tabular dollar amounts are in millions. All production data reflects production of the Company and its consolidated joint ventures.

Overview

The Company is a global manufacturer of semiconductor devices, principally semiconductor memory products (including DRAM and NAND Flash) and CMOS image sensors. The Company operates in two segments: Memory and Imaging. Its products are used in a broad range of electronic applications including personal computers, workstations, network servers, mobile phones and other consumer applications including flash memory cards, USB storage devices, digital still cameras, MP3 players and in automotive applications. The Company markets its products through its internal sales force, independent sales representatives and distributors primarily to original equipment manufacturers and retailers located around the world. The Company’s success is largely dependent on the market acceptance of a diversified semiconductor product portfolio, efficient utilization of the Company’s manufacturing infrastructure, successful ongoing development of advanced process technologies and generation of sufficient return on research and development investments.

The Company has strategically diversified its business by expanding into semiconductor products such as specialty memory products (including SDRAM, PSRAM, mobile SDRAM and reduced latency DRAM), NAND Flash memory products and CMOS image sensors. These products are used in a wider range of applications than the computing applications that use the Company’s highest volume products, DDR and DDR2 DRAM. The Company leverages its expertise in semiconductor memory manufacturing and product and process technology to provide products that are differentiated from competitors’ products based on performance characteristics. In 2006, approximately half of the Company’s revenue came from sales of specialty memory products, NAND Flash memory products and CMOS image sensors. The Company expects that the markets for these products will grow in the near term more rapidly than the overall semiconductor market. The Company believes the strategic diversification of its product portfolio will strengthen its ability to allocate manufacturing resources to achieve the highest rate of return.

The Company is taking steps to establish a significant presence in the NAND Flash market. In January 2006, the Company partnered with Intel to form a NAND Flash manufacturing joint venture, IM Flash Technologies, LLC. IMFT’s operations include two 300mm wafer fabrication facilities that are expected

to greatly increase the Company's production of NAND Flash in 2007. The Company also expects its sales of NAND Flash to increase in 2007, as result of its acquisition in June 2006 of Lexar Media, Inc., a designer, developer, manufacturer and marketer of Flash memory products, in a stock-for-stock merger.

The Company's Imaging segment experienced strong growth in recent periods as net sales for the first quarter of 2007 increased 9% from the fourth quarter of 2006 and 2006 net sales increased 147% from 2005. Imaging net sales represented 16% of the Company's net sales in the first quarter of 2007.

The Company makes significant ongoing investments to implement its proprietary product and process technology in its facilities in the United States, Europe and Asia to manufacture semiconductor products with increasing functionality and performance at lower costs. The Company continues to introduce new generations of products that offer improved performance characteristics, such as higher data transfer rates, reduced package size, lower power consumption and increased megapixel count. The Company generally reduces the manufacturing cost of each generation of product through

advancements in product and process technology such as its leading-edge line width process technology and innovative array architecture.

In order to maximize returns from investments in research and development ("R&D"), the Company develops process technology that effectively reduces production costs and leverages the Company's capital expenditures. To leverage its R&D investments, the Company has formed strategic joint ventures under which the costs of developing NAND Flash memory product and process technologies are shared with its joint venture partner. In addition, from time to time, the Company has also sold and/or licensed technology to third parties. To be successfully incorporated in customers' end products, the Company must offer qualified semiconductor solutions at a time when customers are developing their design specifications for their end products. This is especially true for specialty memory products and CMOS image sensors, which are required to demonstrate advanced functionality and performance well ahead of a planned ramp of production to commercial volumes. In addition, DRAM and NAND Flash products necessarily incorporate highly advanced design and process technologies. The Company must make significant investments in R&D to expand its product offering and develop its leading-edge product and process technologies.

Results of Operations

	First Quarter		Fourth Quarter	
	2007	% of net sales	2006	% of net sales
(amounts in millions and as a percent of net sales)				
Net sales:				
Memory	\$1,286	84%	\$1,208	89%
Imaging	244	16%	154	11%
	<u>\$1,530</u>	<u>100%</u>	<u>\$1,362</u>	<u>100%</u>
Gross margin:				
Memory	\$ 340	26%	\$ 238	20%
Imaging	102	42%	73	47%
	<u>\$ 442</u>	<u>29%</u>	<u>\$ 311</u>	<u>23%</u>
Selling, general and administrative	\$ 180	12%	\$ 95	7%
Research and development	183	12%	166	12%
Other operating (income) expense, net	(31)	(2)%	(12)	(1)%
Net income	115	8%	63	5%

On January 9, 2007, the Company reached a settlement agreement with a class of direct purchasers of certain DRAM products ("Direct Purchaser Settlement"). The Direct Purchaser Settlement resolves cases filed in various federal district courts asserting claims on behalf of a class of individuals and entities that purchased DRAM directly from Micron during the period from April 1, 1999, through June 30, 2002. The litigation arose following a 2002 U.S. Department of Justice inquiry into the DRAM industry.

The Direct Purchaser Settlement is reflected in the Company's results for the first quarter of 2007 because it provided additional information with regard to the litigation contingency existing at the end of the quarter. As a result of the Direct Purchaser Settlement, the Company recorded a \$50 million charge to revenue and \$31 million net charge to selling, general and administrative expenses for the first quarter of 2007. The aggregate net charge including the impact on the Company's compensation programs was a \$77 million reduction in net income. The Company recorded the costs of the Direct Purchaser Settlement attributable to current customers as a charge to revenue in accordance with generally accepted accounting principles.

The following discussion takes into account the impact of the Direct Purchaser Settlement on the Company's results for the first quarter of 2007.

Net Sales

Total net sales for the first quarter of 2007 increased 11% as compared to the fourth quarter of 2006 primarily reflecting a 12% increase in Memory sales and a 9% increase in Imaging sales. The increase in Memory sales for the first quarter of 2007 primarily reflects a higher sales volume of NAND Flash memory. Imaging sales increased in the first quarter of 2007 as compared to the fourth quarter of 2006, primarily due to increases in sales volume facilitated by a greater

allocation of manufacturing capacity to Imaging devices. Total net sales for the first quarter of 2007 increased 12% as compared to the first quarter of 2006 due to a 58% increase in Imaging sales and 6% increase in Memory sales.

Memory: Memory sales for the first quarter of 2007 increased 12% from the fourth quarter of 2006 primarily due to a 102% increase in sales of NAND Flash memory products. The 102% increase in sales of NAND Flash products was primarily due to the Company's acquisition of Lexar Media, Inc., which occurred in the fourth quarter of 2006, and a significant increase in megabits manufactured by IMFT, the Company's consolidated joint venture with Intel. The Company's sales of NAND Flash products in the first quarter of 2007 also benefited from an increase in sales of NAND Flash products in packaged form. Megabit production of NAND Flash increased significantly for the first quarter of 2007 as compared to the fourth quarter of 2006, primarily due to IMFT's ramp of its wafer fabrication facility in Virginia. Sales of NAND Flash include sales from IMFT to Intel at long-term negotiated prices approximating cost. Sales of NAND Flash products represented 16% of the Company's total net sales for the first quarter of 2007 as compared to 9% for the fourth quarter of 2006 and 6% for the first quarter of 2006. The Company expects that sales of NAND Flash products will continue to increase in future periods as IMFT ramps additional production capacity.

Sales of DRAM products for the first quarter of 2007 were relatively unchanged from the fourth quarter of 2006 as a 9% increase in average selling prices (which includes the effect of the \$50 million charge to revenue as a result of the Direct Purchaser Settlement) was offset by a 9% decrease in megabits sold. Megabit sales of DRAM decreased due in part to the Company allocation of a larger portion of its manufacturing resources to Imaging products. Sales of DDR and DDR2 DRAM products were 44% of the Company's total net sales in the first quarter of 2007 as compared to 49% for the fourth quarter of 2006 and 52% for the first quarter of 2006, reflecting the Company's progress in diversifying away from the PC market.

Memory sales for the first quarter of 2007 increased 6% as compared to the first quarter of 2006 primarily due to a 224% increase in sales of NAND Flash products partially offset by an 11% decrease in sales of DRAM products. The 224% increase in sales of NAND Flash products was primarily due to the Company's acquisition of Lexar and a significant increase in megabits manufactured by IMFT, partially offset by significant decreases in average selling prices. Megabit production of NAND Flash increased significantly for the first quarter of 2007 as compared to the first quarter of 2006, primarily due to the continued ramp of the Company's wafer fabrication facility in Virginia. The decrease in sales of DRAM products for the first quarter of 2007 as compared to the first quarter of 2006 was primarily due to a 21% decrease in megabits sold mitigated by a 12% increase in average selling prices (which includes the effects of the \$50 million charge to revenue as a result of the Direct Purchaser Settlement). Megabit production of DRAM decreased 13% for the first quarter of 2007 as compared to the first quarter of 2006, primarily due to a reduction in wafer starts as the Company allocated a larger portion of its manufacturing resources to Imaging and NAND Flash products.

Imaging: Imaging sales for the first quarter of 2007 increased by 9% from the fourth quarter of 2006 primarily due to a 9% increase in unit sales as average selling prices were approximately the same. The Company maintained its average selling prices through a shift in the mix of imaging products to those with one megapixel and higher resolutions. Production increased due to the Company's allocation of more wafers to the manufacture of Imaging products as well as improvements in manufacturing efficiency. Imaging sales were 16% of the Company's total net sales in the first quarter of 2007 as compared to 16% for the fourth quarter of 2006 and 11% for the first quarter of 2006. Imaging sales for the first quarter of 2007 increased by 58% as compared to the first quarter of 2006 primarily due to increases in unit sales. Imaging sales over the next few quarters are expected to stabilize at approximately their current levels.

Gross Margin

The Company's overall gross margin for the first quarter of 2007 increased significantly as compared to the fourth quarter of 2006 and the first quarter of 2006 primarily due to increases in the gross margin for Memory.

Memory: The Company's gross margin for Memory for the first quarter of 2007 increased to 26% from 20% for the fourth quarter of 2006 primarily due to improving margins for DRAM and NAND Flash products. The gross margin for DRAM products in the first quarter of 2007 improved significantly from the fourth quarter of 2006 primarily as a result of the 9% increase in average selling price per megabit and lower costs. The Company achieved cost reductions for DRAM products in the first quarter of 2007 through improved product yields and an increase in production utilizing the Company's 95nm and 78nm process technologies.

The Company's gross margin for Memory for the first quarter of 2007 improved to 26% as compared to 20% for the first quarter of 2006. This increase in gross margin was primarily due to improved margins on DRAM products partially

offset by declines in the margins for NAND Flash products. The gross margin for DRAM products in the first quarter of 2007 improved significantly from the first quarter of 2006, primarily due to the 12% increase in average selling prices and reductions in production costs. The Company reduced DRAM product costs through manufacturing efficiencies achieved from improved product yields and increases in production utilizing the Company's 95nm and 78nm process technologies. The Company's gross margin on NAND Flash products for the first quarter of 2007 declined from the first quarter of 2006 primarily due to a 49% decrease in average selling prices.

The Company's TECH Semiconductor Singapore Pte. Ltd. ("TECH") joint venture supplied approximately 25% of the total megabits of memory produced by the Company in recent periods. TECH primarily produced DDR and DDR2 products in 2007 and 2006. As of the beginning of the third quarter of 2006, TECH's results are included in the Company's consolidated results. Through the second quarter of 2006, the Company's results reflected memory products purchased from TECH at prices generally based on a discount from average selling prices realized by the Company for the preceding quarter. In the first six months of 2006, the Company realized higher gross margin percentages on sales of TECH products than on sales of similar products manufactured by the Company's wholly-owned operations. Subsequent to the second quarter of 2006, the Company's purchases from TECH are eliminated in consolidation and, as a result, TECH's actual manufacturing costs are included in the Company's consolidated results of operations. Since TECH utilizes the Company's product designs and process technology and has a similar manufacturing cost structure, the gross margin on sales of TECH products since the third quarter of 2006 approximated those on sales of similar products manufactured by the Company's wholly-owned operations. (See "Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Joint Ventures – TECH Semiconductor Singapore Pte. Ltd.")

Imaging: The Company's gross margin for Imaging for the first quarter of 2007 was the same as for the fourth quarter of 2006. The Company mitigated the effect of declining average selling prices for most of its high-volume Imaging products through a shift in mix of products to those with one megapixel and higher resolutions, which offered higher margins. The Company's gross margin for Imaging declined to 42% for the first quarter of 2007 from 47% for the first quarter of 2006 primarily due to reductions in average selling prices that were partially mitigated by cost reductions and shifts in product mix to higher resolution products.

Selling, General and Administrative

Selling, general and administrative (“SG&A”) expenses for the first quarter of 2007 increased 25% from the fourth quarter of 2006 and 89% from the first quarter of 2006 primarily due to the \$31 million net charge to SG&A as a result of the Direct Purchaser Settlement and higher compensation costs. Compensation costs in the first quarter of 2007 increased from the first quarter of 2006 primarily due to increased headcount resulting in part from the acquisition of Lexar, the formation of IMFT in the second quarter of 2006 and the consolidation of TECH in the third quarter of 2006, as well as higher levels of variable pay and stock-based compensation. The Company expects SG&A expenses to approximate \$140 million to \$150 million for the second quarter of 2007. For the Company’s Memory segment, SG&A expenses as a percentage of Memory sales were 12% in the first quarter of 2007, 10% in the fourth quarter of 2006 and 7% in the first quarter of 2006. For the Imaging segment, SG&A expenses as a percentage of Imaging sales were 11% in the first quarter of 2007, 13% in the fourth quarter of 2006 and 10% in the first quarter of 2006.

Research and Development

Research and development (“R&D”) 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. Because of the lead times necessary to manufacture its products, the Company typically begins to process wafers before completion of performance and reliability testing. The Company deems development of a product complete once the product has been thoroughly reviewed and tested for performance and reliability. R&D expenses can vary significantly depending on the timing of product qualification as costs incurred in production prior to qualification are charged to R&D.

R&D expenses for the first quarter of 2007 increased 12% from the fourth quarter of 2006, principally due to increases in development wafers processed, higher compensation costs and increases in equipment depreciation. The Company and Intel share equally R&D process and design costs for NAND Flash. Under this NAND Flash R&D cost-sharing arrangement, the Company charged Intel \$48 million in the first quarter of 2007 and \$31 million in the fourth quarter of 2006. R&D expenses for the first quarter of 2007 increased 10% from the first quarter of 2006 principally due to increases in development wafers processed, higher compensation costs and increases in equipment depreciation partially mitigated by reimbursements received from Intel under the NAND Flash R&D cost-sharing arrangement. The Company expects that its R&D costs will increase to as much as \$250 million for the second quarter of 2007 as costs associated with preproduction

wafer processing at the Company’s Utah fabrication facility will be reflected as R&D expense. Subsequent to qualification of the Utah facility, R&D expense is expected to decrease to approximately \$200 million per quarter. For the Memory segment, R&D expenses as a percentage of Memory sales were 12% in the first quarter of 2007, the fourth quarter of 2006 and the first quarter of 2006. For the Imaging segment, R&D expenses as a percentage of Imaging sales were 13% in the first quarter of 2007, 10% in the fourth quarter of 2006 and 12% in the first quarter of 2006.

The Company’s process technology R&D efforts are focused primarily on development of successively smaller line-width process technologies which are designed to facilitate the Company’s transition to next-generation memory products and CMOS image sensors. Additional process technology R&D efforts focus on specialty memory products (including PSRAM, mobile SDRAM and reduced latency DRAM) and new manufacturing materials. Product design and development efforts are concentrated on the Company’s 1 Gb and 2 Gb DDR, DDR2 and DDR3 products as well as high density and mobile NAND Flash memory (including multi-level cell technology), CMOS image sensors and specialty memory products.

Other Operating (Income) Expense, Net

Other operating income for the first quarter of 2007 includes a gain of \$30 million from the sale of certain intellectual property to Toshiba Corporation. Other operating expense in the first quarter of 2007 includes net losses of \$8 million from changes in currency exchange rates. Other operating income for the fourth quarter of 2006 includes \$16 million in additional amounts expected to be reimbursed resulting from the extension of an economic development agreement, which allows the Company to recover amounts relating to certain investments in the IMFT Utah facility. Other operating income for the first quarter of 2006 includes net gains of \$12 million from changes in currency exchange rates.

Income Taxes

Income taxes for 2007 and 2006 primarily reflect taxes on the Company’s non-U.S. operations and U.S. alternative minimum tax. The Company has a valuation allowance for its net deferred tax asset associated with its U.S. operations. The provision for taxes on U.S. operations in 2007 and 2006 was substantially offset by reductions in the valuation allowance. As of November 30, 2006, the Company had aggregate U.S. tax net operating loss carryforwards of \$1.5 billion and unused U.S. tax credit carryforwards of \$169 million. The Company also has unused state tax net operating loss carryforwards of \$1.3 billion and unused state tax credits of \$167 million. Substantially all of the net operating loss carryforwards expire in 2022 to 2025 and substantially all of the tax credit carryforwards expire in 2013 to 2026.

Stock-Based Compensation

Total compensation cost for the Company’s equity plans was \$10 million, \$8 million and \$4 million for the first quarter of 2007, fourth quarter of 2006 and first quarter of 2006, respectively. As of November 30, 2006, \$2 million of stock compensation costs were capitalized and remained in inventory. As of November 30, 2006, there was \$106 million of total unrecognized compensation cost related to equity plans, which is expected to be recognized over a weighted-average period of 1.5 years. In 2005, the Company accelerated the vesting of substantially all of its unvested stock options then outstanding under the Company’s stock plans to reduce compensation costs recognized subsequent to the adoption in 2006 of Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment.” Because the Company’s stock-based compensation costs were reduced by the effect of the acceleration of vesting in 2005, stock-based compensation costs will continue to grow in future periods if the Company continues to grant amounts of new stock-based compensation awards similar to recent periods.

Liquidity and Capital Resources

The Company’s liquidity is highly dependent on average selling prices for its products and the timing of capital expenditures, both of which can vary significantly from period to period. As of November 30, 2006, the Company had cash and equivalents and short-term investments totaling \$2.6 billion

compared to \$3.1 billion as of August 31, 2006. The balance as of November 30, 2006, included an aggregate of \$589 million held at, and anticipated to be used in the near term by, IMFT and TECH.

Operating Activities: For the first quarter of 2007, the Company generated \$429 million of cash from operating activities, which principally reflects the Company's \$115 million of net income adjusted by \$380 million for non-cash depreciation and amortization expense. Cash provided by operations was net of the effects of an increase of \$151 million in inventories primarily due to an increase in production and higher levels of inventories required to support a more

diversified product portfolio. The Company expects to make payments of \$91 million in the second quarter of 2007 in connection with the Direct Purchaser Settlement.

Investing Activities: For the first quarter of 2007, net cash used by investing activities was \$768 million, which included cash expenditures for property, plant and equipment of \$1.1 billion partially offset by the net effect of purchases, sales and maturities of investment securities of \$321 million. A significant portion of the capital expenditures relate to the ramp of IMFT and 300mm conversion at TECH. 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 technologies, facilities and capital equipment, research and development, and product and process technologies. The Company projects 2007 capital spending to approximate \$4 billion, of which approximately \$1.5 billion is expected to be funded by capital contributions from joint venture partners. As of November 30, 2006, the Company had commitments of approximately \$1.4 billion for the acquisition of property, plant and equipment, nearly all of which are expected to be paid within one year.

On December 11, 2006, the Company acquired CMOS image sensor assets from Avago Technologies Limited for approximately \$53 million in cash, plus additional contingent payments up to \$17 million if certain milestones are met.

Financing Activities: For the first quarter of 2007, net cash provided by financing activities was \$211 million, which includes \$388 in capital contributions received from a joint venture partner. The Company also made an aggregate of \$217 million in scheduled debt payments and payments on equipment purchase contracts in the first quarter of 2007.

The Company's TECH joint venture has a credit facility that enables it to borrow up to \$400 million in future periods to fund its capital expenditures.

Subsequent to the end of its first quarter of 2007, the Company received approximately \$300 million in proceeds from equipment financing arrangements that are payable in periodic installments over 5 years.

Access to capital markets has historically been important to the Company. Depending on market conditions, the Company may issue registered or unregistered securities to raise capital to fund a portion of its operations.

Joint Ventures: As of November 30, 2006, IMFT had \$485 million of cash and marketable investment securities. IMFT's cash and marketable investment securities are not anticipated to be made available to finance the Company's other operations. Subject to certain conditions, the Company is required to make additional contributions to IMFT of approximately \$800 million over the next two years and expects to make additional investments as appropriate to support the growth of IMFT's operations.

On November 6, 2006, the Company announced plans to form a new joint venture with Intel to construct a facility in Singapore for the manufacture of NAND Flash memory. The Company expects to contribute approximately \$1.5 billion in cash to the new joint venture over the next three years, with similar contributions to be made by Intel.

As of November 30, 2006, TECH had \$104 million of cash and marketable investment securities. TECH's cash and marketable investment securities are not anticipated to be made available to finance the Company's other operations. The Company has an option to purchase the equity interest of another TECH shareholder, EDB, which is exercisable at any time until October 1, 2009. EDB also has an option to put its shares in TECH to the Company, which is exercisable from March 3, 2008 until October 1, 2010. Exercise of either option would require the Company to pay approximately \$270 million to EDB. (See "Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Joint Ventures – TECH Semiconductor Singapore Pte. Ltd.")

Contractual Obligations: As of November 30, 2006, contractual obligations for notes payable, capital lease obligations and operating leases were as follows:

	Total	Remainder of 2007	2008	2009	2010	2011	2012 and thereafter
Notes payable (including interest)	\$ 291	\$ 48	\$ 68	\$ 51	\$ 120	\$ 4	\$ —
Capital lease obligations	351	75	86	81	16	15	78
Operating leases	109	27	31	17	8	4	22

Capital lease obligation shown above does not include approximately \$300 million in equipment financing that was obtained subsequent to the end of the first quarter of 2007.

In September 2006, the SEC staff issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” The Company is required to adopt SAB No. 108 by the end of 2007 and does not expect adoption to have a significant impact on the Company’s financial position or results of operations.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R).” Under SFAS No. 158, the Company is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of 2007. The Company does not expect that the adoption of SFAS No. 158 will have a significant impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. The Company is required to adopt SFAS No. 157 effective at the beginning of 2009.

In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.” The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company is required to adopt FIN 48 effective at the beginning of 2008. The Company is evaluating the impact this statement will have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments.” SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As of November 30, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. The Company is required to adopt SFAS No. 155 effective at the beginning of 2008.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections.” SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The Company adopted SFAS No. 154 at the beginning of 2007. The adoption of SFAS No. 154 did not impact the Company’s results of operations and financial condition.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. 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 various other assumptions that the Company believes to be reasonable under the circumstances. Estimates and judgments may vary under different assumptions or conditions. The Company evaluates its estimates and judgments on an ongoing basis. Management believes the accounting policies below are critical in the portrayal of the Company’s financial condition and results of operations and require management’s most difficult, subjective or complex judgments.

Acquisitions and consolidations: Determination and the allocation thereof of the purchase price of acquired operations significantly influences the period in which costs are recognized. Accounting for acquisitions and consolidations requires the Company to estimate the fair value of the individual assets and liabilities acquired as well as various forms of consideration given. The Company typically obtains independent third party valuation studies to assist in determining fair values, which may include assistance in determining future cash flows, appropriate discount rates and comparable market values. The estimation of the fair values of consideration given and assets and liabilities acquired involves a number of judgments, assumptions and estimates that could materially affect the amount and timing of costs recognized.

Contingencies: The Company is subject to the possibility of losses from various contingencies. Considerable judgment is necessary to estimate the probability and amount of any loss from such contingencies. An accrual is made when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. The Company accrues a liability and charges operations for the estimated costs of adjudication or settlement of asserted and unasserted claims existing as of the balance sheet date.

Goodwill and intangible assets: The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. Determining whether impairment has occurred requires valuation of the respective reporting unit. If the analysis indicates goodwill is impaired, measuring the impairment requires a fair value estimate of each identified tangible and intangible asset. The Company tests other identified intangible assets with defined useful lives and subject to amortization by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. The Company tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows. Estimating fair values involves significant assumptions, especially regarding future sales prices, sales volumes, costs and discount rates.

Income taxes: The Company is required to estimate its provision for income taxes and amounts ultimately payable or recoverable in numerous tax jurisdictions around the world. Estimates involve interpretations of regulations and are inherently complex. Resolution of income tax treatments in individual jurisdictions may not be known for many years after completion of any fiscal year. The Company is also required to evaluate the realizability of its deferred tax assets on an ongoing basis in accordance with U.S. GAAP, which requires the assessment of the Company’s performance and other relevant factors when determining the need for a valuation allowance with respect to these deferred tax assets. Realization of deferred tax assets is dependent on the Company’s ability to generate future taxable income.

Inventories: Inventories are stated at the lower of average cost or market value. Cost includes labor, material and overhead costs, including product and process technology costs. Determining market value of inventories involves numerous judgments, including projecting average selling prices and sales volumes for future periods and costs to complete products in work in process inventories. To project average selling prices and sales volumes, the Company reviews recent sales volumes, existing customer orders, current contract prices, industry analysis of supply and demand, seasonal factors, general economic trends and other information. When these analyses reflect estimated market values below the Company’s manufacturing costs, the Company records a charge

to cost of goods sold in advance of when the inventory is actually sold. Differences in forecasted average selling prices used in calculating lower of cost or market adjustments can result in significant changes in the estimated net realizable value of product inventories and accordingly the amount of write-down recorded. Due to the volatile nature of the semiconductor memory industry, actual selling prices and volumes often vary significantly from projected prices and volumes and, as a result, the timing of when product costs are charged to operations can vary significantly.

U.S. GAAP provides for products 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 Company's inventories have been categorized as Memory products or Imaging products. 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 or to patent technology developed by the Company are capitalized and amortized on a straight-line basis over periods currently ranging up to 10 years. The Company capitalizes a portion of costs incurred based on its analysis of historical and projected patents issued as a percent of patents filed. Capitalized product and process technology costs are amortized over the shorter of (i) the estimated useful life of the technology, (ii) the patent term or (iii) the term of the technology agreement.

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 or group of assets may not be recoverable from the estimated future cash flows expected to result from its use and/or disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the amount by which the carrying value exceeds the estimated fair value of the assets. The estimation of future cash flows involves numerous assumptions which require judgment by the Company, 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 production and sales volumes. In addition, judgment is required by the Company in determining the groups of assets for which impairment tests are separately performed.

Research and development: Costs related to the conceptual formulation and design of products and processes are expensed as research and development when incurred. Determining when product development is complete requires judgment by the Company. The Company deems development of a product complete once the product has been thoroughly reviewed and tested for performance and reliability.

Stock-based compensation: Under the provisions of SFAS No. 123(R), stock-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. The Company develops its estimates based on historical data and market information which can change significantly over time. A small change in the estimates used can result in a relatively large change in the estimated valuation.

The Company uses the Black-Scholes option valuation model to value employee stock awards. The Company estimates stock price volatility based on an average of its historical volatility and the implied volatility derived from traded options on the Company's stock. Estimated option life and forfeiture rate assumptions are derived from historical data. For stock based compensation awards with graded vesting that were granted after 2005, the Company recognizes compensation expense using the straight-line amortization method.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of November 30, 2006, \$478 million of the Company's \$568 million in total debt was at fixed interest rates. As a result, the fair value of the debt fluctuates based on changes in market interest rates. The estimated fair market value of the Company's debt was \$606 million as of November 30, 2006. The difference between the estimated fair value of the Company's debt and its recorded value is primarily attributable to the Company's convertible debt.

Foreign Currency Exchange Rate Risk

The information in this section should be read in conjunction with the information related to changes in the exchange rates of foreign currency in "Item 1A. Risk Factors." Changes in foreign currency exchange rates could materially adversely affect the Company's results of operations or financial condition.

The functional currency for substantially all of the Company's operations is the U.S. dollar. The Company held aggregate cash and other assets in foreign currencies valued at U.S. \$368 million as of November 30, 2006, and U.S. \$425 million as of August 31, 2006 (including cash and equivalents denominated in yen valued at U.S. \$173 million as of November 30, 2006, and U.S. \$222 million as of August 31, 2006; cash and equivalents denominated in Singapore dollars valued at U.S. \$12 million as of November 30, 2006 and \$42 million as of August 31, 2006; and deferred income tax assets denominated in yen valued at U.S. \$67 million as of November 30, 2006, and U.S. \$64 million as of August 31, 2006). The Company also held aggregate foreign currency liabilities valued at U.S. \$707 million as of November 30, 2006, and U.S. \$615 million as of August 31, 2006 (including debt denominated in yen valued at U.S. \$198 million as of November 30, 2006, and U.S. \$228 million as of August 31, 2006). Foreign currency receivables and payables as of November 30, 2006, were comprised primarily of yen, euros, Singapore dollars and British pounds. The Company estimates that, based on its assets and liabilities denominated in currencies other than U.S. dollar as of November 30, 2006, a 1% change in the exchange rate versus the U.S. dollar would result in foreign currency gains or losses of approximately \$2 million for the euro, \$1 million for the yen and \$1 million for the Singapore dollar.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

On August 28, 2000, the Company filed a complaint against Rambus, Inc. ("Rambus") in the U.S. District Court for the District of Delaware seeking monetary damages and declaratory and injunctive relief. Among other things, the Company's complaint (as amended) alleges violation of federal antitrust laws, breach of contract, fraud, deceptive trade practices, and negligent misrepresentation. The complaint also seeks a declaratory judgment (a) that certain Rambus patents are not infringed by the Company, are invalid, and/or are unenforceable, (b) that the Company has an implied license to those patents, and (c) that Rambus is estopped from enforcing those patents against the Company. On February 15, 2001, Rambus filed an answer and counterclaim in Delaware denying that the Company is entitled to relief, alleging infringement of the eight Rambus patents named in the Company's declaratory judgment claim, and seeking monetary damages and injunctive relief. A number of other suits are currently pending in Europe alleging that certain of the Company's SDRAM and DDR SDRAM products infringe various of Rambus' country counterparts to its European patent 525 068, including: on September 1, 2000, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany; on September 22, 2000, Rambus filed a complaint against the Company and Repronix (a distributor of the Company's products) in the Court of First Instance of Paris, France; on September 29, 2000, the Company filed suit against Rambus in the Civil Court of Milan, Italy, alleging invalidity and non-infringement. In addition, 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. Additionally, other suits are pending alleging that certain of our DDR SDRAM products infringe Rambus' country counterparts to its European patent 1 022 642, including: on August 10, 2001, Rambus filed suit against the Company and Assitec (an electronics retailer) in the Civil Court of Pavia, Italy; and on August 14, 2001, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany. In the European suits against the Company, Rambus is seeking monetary damages and injunctive relief. Subsequent to the filing of the various European suits, the European Patent Office declared Rambus' 525 068 and 1 004 956 European patents invalid and revoked the patents. On January 13, 2006, Rambus filed a lawsuit against the Company in the U.S. District Court for the Northern District of California alleging infringement of eighteen Rambus patents.

On June 2, 2005, Tadahiro Ohmi ("Ohmi") filed suit against the Company in the U.S. District Court for the Eastern District of Texas (amended on August 31, 2005) alleging infringement of a single Ohmi patent.

On July 24, 2006, the Company filed a declaratory judgment action against Mosaid Technologies, Inc. ("Mosaid") in the U.S. District Court for the Northern District of California seeking, among other things, a court determination that fourteen Mosaid patents are invalid, not enforceable, and/or not infringed. On July 26, 2006, Mosaid filed a lawsuit against the Company and others in the U.S. District Court for the Eastern District of Texas alleging infringement of nine Mosaid patents. On August 31, 2006, Mosaid filed an amended complaint adding two additional Mosaid patents. On October 23, 2006, the California Court dismissed the Company's declaratory judgment suit based on lack of jurisdiction.

Among other things, the above lawsuits pertain to certain of the Company's SDRAM, DDR SDRAM, DDR2 SDRAM, RDRAM, and image sensor products, which account for a significant portion of the Company's net sales.

The Company is unable to predict the outcome of these suits. A court determination that the Company's products or manufacturing processes infringe the product or process intellectual property 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.

On June 17, 2002, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice (the "DOJ") into possible antitrust violations in the "Dynamic Random Access Memory" or "DRAM" industry. The Company is cooperating fully and actively with the DOJ in its investigation. The Company's cooperation is pursuant to the terms of the DOJ's Corporate Leniency Policy, which provides that in exchange for

our full, continuing and complete cooperation in the pending investigation, the Company will not be subject to prosecution, fines or other penalties from the DOJ.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits have been filed against the Company and other DRAM suppliers. Eighteen cases have been filed in various federal district courts (two of which have been dismissed) asserting claims on behalf of a purported class of individuals and entities that purchased DRAM directly from the various DRAM suppliers during the period from April 1, 1999 through at least June 30, 2002. All of the cases have been transferred to the U.S. District Court for the Northern District of California for consolidated proceedings. The complaints allege price-fixing in violation of federal antitrust laws and seek treble damages sustained by purported class members, in addition to restitution, costs and attorneys' fees, as well as an injunction against the allegedly unlawful conduct. On June 5, 2006, the Court granted plaintiffs' motion to certify the proposed class of direct purchasers. On January 9, 2007, Micron entered into a settlement agreement with the class of direct purchasers ("Direct Purchaser

Settlement”). Under terms of the Direct Purchaser Settlement, Micron will pay \$91 million and will be dismissed with prejudice from the direct purchaser consolidated class-action suit. The Direct Purchaser Settlement is subject to approval by the U.S. District Court for the Northern District of California.

Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that indirectly purchased DRAM and/or products containing DRAM from various DRAM suppliers during the time period from April 1, 1999 through at least June 30, 2002. The complaints allege price fixing in violation of federal antitrust laws and various state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys’ fees. In addition, at least sixty-two cases have been filed in various state courts (five of which have been dismissed) asserting claims on behalf of a purported class of indirect purchasers of DRAM. Cases have been filed in the following states: Arkansas, Arizona, California, Florida, Hawaii, Iowa, Kansas, Massachusetts, Maine, Michigan, Minnesota, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Hampshire, New Jersey, New Mexico, Nevada, New York, Ohio, Pennsylvania, South Dakota, Tennessee, Utah, Vermont, Virginia, Wisconsin, and West Virginia, and also in the District of Columbia and Puerto Rico. The complaints purport to be on behalf of a class of individuals and entities that indirectly purchased DRAM and/or products containing DRAM in the respective jurisdictions during various time periods ranging from 1999 through the filing date of the various complaints. The complaints allege violations of the various jurisdictions’ antitrust, consumer protection and/or unfair competition laws relating to the sale and pricing of DRAM products and seek treble monetary damages, restitution, costs, interest and attorneys’ fees. A number of these cases have been removed to federal court and transferred to the U.S. District Court for the Northern District of California (San Francisco) for consolidated proceedings. The Direct Purchaser Settlement does not resolve these suits.

Additionally, three cases have been filed in the following Canadian courts: Superior Court, District of Montreal, Province of Quebec; Ontario Superior Court of Justice, Ontario; and Supreme Court of British Columbia, Vancouver Registry, British Columbia. The substantive allegations in these cases are similar to those asserted in the cases filed in the United States. The Direct Purchaser Settlement does not resolve these suits.

In addition, various states, through their Attorneys General, have filed suit against the Company and other DRAM manufacturers. On July 14, 2006, the following states filed suit in the U.S. District Court for the Northern District of California: Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the Commonwealth of the Northern Mariana Islands. The amended complaint, filed September 8, 2006, alleges, among other things, violations of the Sherman Act, Cartwright Act, and certain other states’ consumer protection and antitrust laws and seeks damages, and injunctive and other relief. Additionally, on July 13, 2006, the State of New York filed a similar suit in the U.S. District Court for the Southern District of New York. That case was subsequently transferred to the U.S. District Court for the Northern District of California for pre-trial purposes. The Direct Purchaser Settlement does not resolve these suits.

On October 11, 2006, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the DOJ into possible antitrust

violations in the “Static Random Access Memory” or “SRAM” industry. The Company believes that it is not a target of the investigation and is cooperating with the DOJ in its investigation of the SRAM industry.

Subsequent to the issuance of subpoenas to the SRAM industry, a number of purported class action lawsuits have been filed against the Company and other SRAM suppliers. Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that purchased SRAM directly from various SRAM suppliers during the period from January 1, 1998 through December 31, 2005. Additionally, fifty-one cases have filed in various U.S. District Courts asserting claims on behalf of a purported class of individuals and entities that indirectly purchased SRAM and/or products containing SRAM from various SRAM suppliers during the time period from January 1, 1998 through December 31, 2005. The complaints allege price fixing in violation of federal antitrust laws and state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys’ fees.

On May 5, 2004, Rambus filed a complaint in the Superior Court of the State of California (San Francisco County) against the Company and other DRAM suppliers. The complaint alleges various causes of action under California state law including a conspiracy to restrict output and fix prices on Rambus DRAM (“RDRAM”) and unfair competition. The complaint seeks treble damages, punitive damages, attorneys’ fees, costs, and a permanent injunction enjoining the defendants from the conduct alleged in the complaints.

The Company is unable to predict the outcome of these lawsuits and investigations. The final resolution of these alleged violations of antitrust laws could result in significant liability and could have a material adverse effect on the Company’s business, results of operations or financial condition.

On February 24, 2006, a putative class action complaint was filed against the Company and certain of its officers in the U.S. District Court for the District of Idaho alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Four substantially similar complaints subsequently were filed in the same Court. The cases purport to be brought on behalf of a class of purchasers of the Company’s stock during the period February 24, 2001 to February 13, 2003. The five lawsuits have been consolidated and a consolidated amended class action complaint was filed on July 24, 2006. The complaint generally alleges violations of federal securities laws based on, among other things, claimed misstatements or omissions regarding alleged illegal price-fixing conduct or the Company’s operations and financial results. The complaint seeks unspecified damages, interest, attorneys’ fees, costs, and expenses.

In addition, on March 23, 2006 a shareholder derivative action was filed in the Fourth District Court for the State of Idaho (Ada County), allegedly on behalf of and for the benefit of the Company, against certain of the Company’s current and former officers and directors. The Company also was named as a nominal defendant. The complaint is based on the same allegations of fact as in the securities class actions filed in the U.S. District Court for the District of Idaho and alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and insider trading. The complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys’ fees, costs, and expenses. The complaint is derivative in nature and does not seek monetary damages from the Company. However, the Company may be required, throughout the pendency of the action, to advance payment of legal fees and costs incurred by the defendants.

The Company is unable to predict the outcome of these cases. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company’s business, results of operations or financial condition.

In March 2006, following the Company's announcement of a definitive agreement to acquire Lexar Media, Inc. ("Lexar") in a stock-for-stock merger, four purported class action complaints were filed in the Superior Court for the State of California (Alameda County) on behalf of shareholders of Lexar against Lexar and its directors. Two of the complaints also name the Company as a defendant. The complaints allege that the defendants breached, or aided and abetted the breach of, fiduciary duties owed to Lexar shareholders by, among other things, engaging in self-dealing, failing to engage in efforts to obtain the highest price reasonably available, and failing to properly value Lexar in connection with a merger transaction between Lexar and the Company. The plaintiffs seek, among other things, injunctive relief preventing, or an order of rescission reversing, the merger, compensatory damages, interest, attorneys' fees, and costs. On May 19, 2006, the plaintiffs filed a motion for preliminary injunction seeking to block

the merger. On May 31, 2006, the Court denied the motion. The Company is unable to predict the outcome of these suits. A court determination against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition. (See "PART I. FINANCIAL INFORMATION – Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Lexar Media, Inc.")

(See "Item 1A. Risk Factors")

Item 1A. Risk Factors

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

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

Per megabit average selling prices for our semiconductor memory products decreased 34% in 2006 as compared to 2005. In recent years, we have also experienced annual decreases in per megabit average selling prices for our memory products including: 24% in 2005, 17% in 2003, 53% in 2002 and 60% in 2001. At times, average selling prices for our memory products have been below our costs. If average selling prices for our memory products decrease faster than we can decrease per megabit costs, our business, results of operations or financial condition could be materially adversely affected.

Increased worldwide semiconductor memory production or lack of demand for semiconductor memory could lead to further declines in average selling prices.

The transitions to smaller line-width process technologies and 300mm wafers in the industry have resulted in significant increases in the worldwide supply of semiconductor memory and will likely lead to future increases. Increases in worldwide supply of semiconductor memory also result from semiconductor memory fab capacity expansions, either by way of new facilities, increased capacity utilization or reallocation of other semiconductor production to semiconductor memory production. We and several of our competitors have announced plans to increase production through construction of new facilities or expansion of existing facilities. Increases in worldwide supply of semiconductor memory, if not accompanied with commensurate increases in demand, would lead to further declines in average selling prices for our products and would materially adversely affect our business, results of operations or financial condition.

We may be unable to reduce our per megabit manufacturing costs at the same rate as we have in the past.

Historically, our gross margin has benefited from decreases in per unit manufacturing costs achieved through improvements in our manufacturing processes, including reducing the die size of our existing products. In future periods, we may be unable to reduce our per unit manufacturing costs or reduce these costs at historical rates due to strategic product diversification decisions affecting product mix, the ever increasing complexity of manufacturing processes, changes in process technologies or products which inherently may require relatively larger die sizes. Per unit manufacturing costs may also be affected by the relatively smaller production quantities and shorter product lifecycles of Imaging and certain specialty memory products.

Our plans to significantly increase our NAND Flash memory production and sales have numerous risks.

We plan to significantly increase our NAND Flash production and sales in future periods. As part of this plan we have formed a manufacturing joint venture with Intel and made substantial investments in capital expenditures for equipment and new facilities as well as research and development. Our plans also require significant future investments in capital expenditures and research and development. These investments involve numerous risks. In addition we are required to devote a significant portion of our existing semiconductor manufacturing capacity to the production of NAND Flash instead of the Company's other products. We are party to a contract with Apple Inc.

to provide NAND Flash products for an extended period of time at contractually determined prices. We currently have a relatively small share of the worldwide market for NAND Flash.

Our NAND Flash strategy involves numerous risks, and may include the following:

- increasing our exposure to changes in average selling prices for NAND Flash;
- difficulties in establishing new production operations at multiple locations;
- increasing capital expenditures to increase production capacity and modify existing processes to produce NAND Flash;

- increasing debt to finance future investments;
- diverting management's attention from DRAM and CMOS Image sensor operations;
- managing larger operations and facilities and employees in separate geographic areas; and
- hiring and retaining key employees.

Our NAND Flash strategy may not be successful and could materially adversely affect our business, results of operations or financial condition.

The future success of our Imaging business will be dependent on continued market acceptance of our products and the development, introduction and marketing of new Imaging products.

Our Imaging business has grown rapidly in the recent periods. Sales of Imaging products increased substantially and represented 16% of our net sales in the first quarter of 2007. Our Imaging products have higher gross margins than the recent overall gross margins from our Memory products. There can be no assurance that we will be able to maintain our market share or gross margins. The continued success of our Imaging products will depend on a number of factors, including:

- development of products that maintain a technological advantage over the products of our competitors;
- accurate prediction of market requirements and evolving standards, including pixel resolution, output interface standards, power requirements, optical lens size, input standards and other requirements;
- timely completion and introduction of new Imaging products that satisfy customer requirements;
- timely achievement of design wins with prospective customers, as manufacturers may be reluctant to change their source of components due to the significant costs, time, effort and risk associated with qualifying a new supplier; and
- efficient, cost-effective manufacturing as we transition to new products and higher volumes.

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 the volume of semiconductor memory and CMOS image sensors sold, average selling prices and per unit manufacturing costs. To develop new product and process technologies, support future growth, achieve operating efficiencies and maintain product quality, we must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. Cash and investments of IMFT and TECH are generally not available to finance our other operations. In addition to cash provided by operations, we have from time to time utilized external sources of financing. Depending on general market and economic conditions or other factors, we may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

The semiconductor industry is highly competitive.

We face intense competition in the semiconductor memory market from a number of companies, including Elpida Memory, Inc.; Hynix Semiconductor Inc.; Qimonda AG ADS; Samsung Electronics Co., Ltd.; SanDisk Corporation; Toshiba Corporation and from emerging companies in Taiwan and China, who have announced plans to significantly expand the scale of their operations. Some of our competitors are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor markets in which we compete, invest in technology and capitalize on growth opportunities. Our competitors seek to increase silicon capacity, improve yields, reduce die size and minimize mask levels in their product designs. These factors have significantly increased worldwide supply and put downward pressure on prices.

We face competition in the image sensor market from a number of suppliers of CMOS image sensors including MagnaChip Semiconductor Ltd.; OmniVision Technologies, Inc.; Samsung Electronics Co., Ltd.; Sony Corporation; STMicroelectronics NV; Toshiba Corporation and from a number of suppliers of CCD image sensors Matsushita Electric Industrial Co., Ltd.; Sharp Corporation and Sony Corporation. In recent periods, a number of new companies have entered the CMOS image sensor market. Competitors include many large domestic and international companies that have greater presence in key markets, better access to certain customer bases, greater name recognition and more established strategic and financial relationships than the Company.

We may have difficulty integrating the operations of Lexar.

If we are unable to successfully combine and integrate the Lexar operations, we may not be able to realize many of the anticipated benefits of the merger, which could harm our results of operations. In order to realize the benefits of the merger, we will need to timely integrate the technology, operations, and personnel of Lexar. Integrating the two companies will be a complex, time-consuming and expensive process that, even with proper planning and implementation, could significantly disrupt the businesses of Micron and Lexar. The challenges involved in this integration include: combining product and service offerings, optimizing inventory management over a broader distribution chain, and preserving customer, supplier and other important relationships of both Micron and Lexar. If we are not able to successfully integrate our operations with those of Lexar, our results of operations could be materially adversely affected.

Our internal control over financial reporting could be adversely affected by material weaknesses in Lexar's internal controls.

In Lexar's Annual Report on Form 10-K for the period ended December 31, 2005, and its Quarterly Report on Form 10-Q for the period ended March 31, 2006, Lexar reported material weaknesses with respect to its revenue recognition controls and inventory accounting controls. These control deficiencies resulted in audit adjustments to revenues, accounts receivable, cost of product revenues, deferred revenue, sales related accruals and inventory in Lexar's 2005 consolidated financial statements. As a result of these material weaknesses, Lexar concluded in its Annual Report and Quarterly Report that its control over financial reporting was not effective as of the end of the periods covered by the reports. While prior to the close of the merger Lexar continued

to take steps to remediate these material weaknesses, there can be no assurance that we will be able to completely remediate these material weaknesses such that we will be able to conclude that our internal control over financial reporting is effective. We began consolidating the financial results of Lexar on June 22, 2006. However, due to the timing of the acquisition, the internal control over financial reporting relating to Lexar was exempt from testing and evaluation for 2006. To the extent we do not remediate the material weaknesses, the effectiveness of our internal control over financial reporting may be adversely affected.

Our net operating loss carryforwards may be limited as a result of the Lexar merger.

Micron and Lexar had net operating loss carryforwards for federal income tax purposes prior to the merger and both entities had provided significant valuation allowances against the tax benefit of such losses as well as certain tax credit carryforwards. Utilization of these net operating losses and credit carryforwards are dependent upon us achieving profitable results following the Lexar merger. As a consequence of the merger, as well as earlier issuances of common stock consummated by both companies and business combinations by the Company, utilization of the tax benefits of these carryforwards are subject to limitations imposed by Section 382 of the Internal

Revenue Code. The determination of the limitations is complex and requires significant judgment and analysis of past transactions. Accordingly, some portion or all of these carryforwards may not be available to offset any future taxable income.

Our resellers receive price protections which may have an adverse affect on our gross margins.

NAND Flash sales are made through resellers which traditionally have been provided price protection. In an environment of slower demand and abundant supply of products, price declines and channel promotions expenses are more likely to occur. Further, in this environment, high channel inventory may result in substantial price protection charges. These price protection charges have the effect of reducing gross sales and gross margin. We expect to continue to incur price protection charges for the foreseeable future due to competitive pricing pressures and, as a result, our revenues and gross margins could be adversely affected.

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

Our financial statements are prepared in accordance with U.S. GAAP and are reported in U.S. dollars. Across our multi-national operations, there are transactions and balances denominated in other currencies, primarily the euro, yen and Singapore dollar. The Company estimates that, based on its assets and liabilities denominated in currencies other than U.S. dollar as of November 30, 2006, a 1% change in the exchange rate versus the U.S. dollar would result in foreign currency gains or losses of approximately \$2 million for the euro, \$1 million for the yen and \$1 million for the Singapore dollar. In the event that the U.S. dollar weakens significantly compared to the euro, yen or Singapore dollars, our results of operations or financial condition will be adversely affected.

New product development may be unsuccessful.

We are developing new products that complement our traditional memory products or leverage their underlying design or process technology. We have made significant investments in product and process technologies and anticipate expending significant resources for new semiconductor product development over the next several years. The process to develop NAND Flash, Imaging and certain specialty memory products requires us to demonstrate advanced functionality and performance, many times well in advance of a planned ramp of production, in order to secure design wins with our customers. There can be no assurance that our product development efforts will be successful, that we will be able to cost-effectively manufacture these new products, that we will be able to successfully market these products or that margins generated from sales of these products will recover costs of development efforts.

An adverse determination that our products or manufacturing processes infringe the intellectual property rights of others could materially adversely affect our business, results of operations or financial condition.

As is typical in the semiconductor and other high technology industries, from time to time, others have asserted, and may in the future assert, that our products or manufacturing processes infringe their intellectual property rights. In this regard, we are engaged in litigation with Rambus, Inc. ("Rambus") relating to certain of Rambus' patents and certain of our claims and defenses. On August 28, 2000, we filed a complaint (subsequently amended) against Rambus in the U.S. District Court for the District of Delaware seeking monetary damages and declaratory and injunctive relief. Among other things, our amended complaint alleges violation of federal antitrust laws, breach of contract, fraud, deceptive trade practices, and negligent misrepresentation. The complaint also seeks a declaratory judgment (a) that certain Rambus patents are not infringed by us, are invalid, and/or are unenforceable, (b) that we have an implied license to those patents, and (c) that Rambus is estopped from enforcing those patents against us. On February 15, 2001, Rambus filed an answer and counterclaim in Delaware denying that we are entitled to relief, alleging infringement of the eight Rambus patents named in our declaratory judgment claim, and seeking monetary damages and injunctive relief. A number of other suits are pending in Europe alleging that certain of our SDRAM and DDR SDRAM products infringe various of Rambus' country counterparts to its European patent 525 068, including: on September 1, 2000, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany; on September 22, 2000, Rambus filed a complaint against us and Reptronic (a distributor of our products) in the Court of First Instance of Paris, France; and on September 29, 2000, we filed suit against Rambus in the Civil Court of Milan, Italy, alleging invalidity and non-

infringement. In addition, on December 29, 2000, we 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. Additionally, other suits are pending alleging that certain of our DDR SDRAM products infringe Rambus' country counterparts to its European patent 1 022 642, including: on August 10, 2001, Rambus filed suit against us and Assitec (an electronics retailer) in the Civil Court of Pavia, Italy; and on August 14, 2001, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany. In the European suits against us, Rambus is seeking monetary damages and injunctive relief. Subsequent to the

filing of the various European suits, the European Patent Office declared Rambus' 525 068 and 1 004 956 European patents invalid and revoked the patents. On January 13, 2006, Rambus filed a lawsuit against us in the U.S. District Court for the Northern District of California alleging infringement of eighteen Rambus patents. We also are engaged in litigation with Tadahiro Ohmi ("Ohmi"). On June 2, 2005, Ohmi filed suit against us in the U.S. District Court for the Eastern District of Texas (amended on August 31, 2005) alleging infringement of a single Ohmi patent. We are also engaged in litigation with Mosaid Technologies, Inc. ("Mosaid"). On July 24, 2006, we filed a declaratory judgment action against Mosaid in the U.S. District Court for the Northern District of California seeking, among other things, a court determination that fourteen Mosaid patents are invalid, not enforceable, and/or not infringed. On July 26, 2006, Mosaid filed a lawsuit against us and others in the U.S. District Court for the Eastern District of Texas alleging infringement of nine Mosaid patents. On August 31, 2006, Mosaid filed an amended complaint adding two additional Mosaid patents. On October 23, 2006, the California Court dismissed our declaratory judgment suit based on lack of jurisdiction.

Among other things, the above lawsuits pertain to certain of our SDRAM, DDR SDRAM, DDR2 SDRAM, RDRAM, and image sensor products, which account for a significant portion of our net sales.

A court determination that our products or manufacturing processes infringe the intellectual property rights of others could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. We are unable to predict the outcome of assertions of infringement made against us. Any of the foregoing could have a material adverse effect on our business, results of operations or 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.

Allegations of anticompetitive conduct.

On June 17, 2002, we received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice (the "DOJ") into possible antitrust violations in the "Dynamic Random Access Memory" or "DRAM" industry. We are cooperating fully and actively with the DOJ in its investigation of the DRAM industry. Our cooperation is pursuant to the terms of the DOJ's Corporate Leniency Policy, which provides that in exchange for our full, continuing and complete cooperation in the pending investigation, we will not be subject to prosecution, fines or other penalties from the DOJ.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits have been filed against us and other DRAM suppliers. Eighteen cases have been filed in various federal district courts (two of which have been dismissed) asserting claims on behalf of a purported class of individuals and entities that purchased DRAM directly from various DRAM suppliers during the period from April 1, 1999 through at least June 30, 2002. All of the cases have been transferred to the U.S. District Court for the Northern District of California for consolidated proceedings. The complaints allege price-fixing in violation of federal antitrust laws and seek treble damages sustained by purported class members, in addition to restitution, costs and attorneys' fees, as well as an injunction against the allegedly unlawful conduct. On June 5, 2006, the Court granted plaintiffs' motion to certify the proposed class of direct purchasers. On January 9, 2007, we entered into a settlement agreement with the class of direct purchasers ("Direct Purchaser Settlement"). Under terms of the Direct Purchaser Settlement, we will pay \$91 million and will be dismissed with prejudice from the direct purchaser consolidated class-action suit. The Direct Purchaser Settlement is subject to approval by the U.S. District Court for the Northern District of California.

Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that indirectly purchased DRAM and/or products containing DRAM from various DRAM suppliers during the time period from April 1, 1999 through at least June 30, 2002.

The complaints allege price fixing in violation of federal antitrust laws and various state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees. In addition, at least sixty-two cases have been filed in various state and federal courts (five of which have been dismissed) asserting claims on behalf of a purported class of indirect purchasers of DRAM. Cases have been filed in the following states: Arkansas, Arizona, California, Florida, Hawaii, Iowa, Kansas, Massachusetts, Maine, Michigan, Minnesota, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Hampshire, New Jersey, New Mexico, Nevada, New York, Ohio, Pennsylvania, South Dakota, Tennessee, Utah, Vermont, Virginia, Wisconsin, and West Virginia, and also in the District of Columbia and Puerto Rico. The complaints purport to be on behalf of individuals and entities that indirectly purchased DRAM and/or products containing DRAM in the respective jurisdictions during various time periods ranging from 1999 through the filing date of the various complaints. The complaints allege violations of various jurisdictions' antitrust, consumer protection and/or unfair competition laws relating to the sale and pricing of DRAM products and seek treble monetary damages, restitution, costs, interest and attorneys' fees. A number of these cases have been removed to federal court and transferred to the U.S. District Court for the Northern District of California (San Francisco) for consolidated proceedings. The Direct Purchaser Settlement does not resolve these suits.

Additionally, three cases have been filed in the following Canadian courts: Superior Court, District of Montreal, Province of Quebec; Ontario Superior Court of Justice, Ontario; and Supreme Court of British Columbia, Vancouver Registry, British Columbia. The substantive allegations in these cases are similar to those asserted in the cases filed in the United States. The Direct Purchaser Settlement does not resolve these suits.

In addition, various states, through their Attorneys General, have filed suit against us and other DRAM manufacturers. On July 14, 2006, the following states filed suit in the U.S. District Court for the Northern District of California: Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the Commonwealth of the Northern Mariana Islands. The amended complaint, filed September 8, 2006, alleges, among other things, violations of the Sherman Act, Cartwright Act, and certain other states' consumer protection and antitrust laws and seeks damages, and injunctive and other relief. Additionally, on July 13, 2006, the State of New York filed a similar suit in the U.S. District Court for the Southern District of New York. That case was subsequently transferred to the U.S. District Court for the Northern District of California for pre-trial purposes. The Direct Purchaser Settlement does not resolve these suits.

On October 11, 2006, we received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the DOJ into possible antitrust violations in the "Static Random Access Memory" or "SRAM" industry. We believe that we are

not a target of the investigation and we are cooperating with the DOJ in its investigation of the SRAM industry.

Subsequent to the issuance of subpoenas to the SRAM industry, a number of purported class action lawsuits have been filed against us and other SRAM suppliers. Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that purchased SRAM directly from various SRAM suppliers during the period from January 1, 1998 through December 31, 2005. Additionally, forty-three cases have been filed in various U.S. District Courts asserting claims on behalf of a purported class of individuals and entities that indirectly purchased SRAM and/or products containing SRAM from various SRAM suppliers during the time period from January 1, 1998 through December 31, 2005. The complaints allege price fixing in violation of federal antitrust laws and state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees.

On May 5, 2004, Rambus filed a complaint in the Superior Court of the State of California (San Francisco County) against us and other DRAM suppliers. The complaint alleges various causes of action under California state law including conspiracy to restrict output and fix prices on Rambus DRAM ("RDRAM"), and unfair competition. The complaint seeks treble damages, punitive damages, attorneys' fees, costs, and a permanent injunction enjoining the defendants from the conduct alleged in the complaints.

We are unable to predict the outcome of these lawsuits and investigations. The final resolution of these alleged violations of antitrust laws could result in significant liability and could have a material adverse effect on our business, results of operations or financial condition.

Allegations of violations of securities laws.

On February 24, 2006, a putative class action complaint was filed against us and certain of our officers in the U.S. District Court for the District of Idaho alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Four substantially similar complaints subsequently were filed in the same Court. The cases purport to be brought on behalf of a class of purchasers of our stock during the period February 24, 2001 to February 13, 2003. The five lawsuits have been consolidated and a consolidated amended class action complaint was filed on July 24, 2006. The complaint generally alleges violations of federal securities laws based on, among other things, claimed misstatements or omissions regarding alleged illegal price-fixing conduct. The complaint seeks unspecified damages, interest, attorneys' fees, costs, and expenses.

In addition, on March 23, 2006 a shareholder derivative action was filed in the Fourth District Court for the State of Idaho (Ada County), allegedly on behalf of and for our benefit, against certain of our current and former officers and directors. We were also named as a nominal defendant. The complaint is based on the same allegations of fact as in the securities class actions filed in the U.S. District Court for the District of Idaho and alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and insider trading. The complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, costs, and expenses. The complaint is derivative in nature and does not seek monetary damages from us. However, we may be required, throughout the pendency of the action, to advance payment of legal fees and costs incurred by the defendants.

In March 2006, following our announcement of a definitive agreement to acquire Lexar Media, Inc. ("Lexar") in a stock-for-stock merger, four purported class action complaints were filed in the Superior Court for the State of California (Alameda County) on behalf of shareholders of Lexar against Lexar and its directors. Two of the complaints also name us as a defendant. The complaints allege that the defendants breached, or aided and abetted the breach of, fiduciary duties owed to Lexar shareholders by, among other things, engaging in self-dealing, failing to engage in efforts to obtain the highest price reasonably available, and failing to properly value Lexar in connection with a merger transaction between Lexar and us. The plaintiffs seek, among other things, injunctive relief preventing, or an order of rescission reversing, the merger, compensatory damages, interest, attorneys' fees, and costs. On May 19, 2006, the plaintiffs filed a motion for preliminary injunction seeking to block the merger. On May 31, 2006, the Court denied the motion.

We are unable to predict the outcome of these cases. A court determination in any of the class actions against us could result in significant liability and could have a material adverse effect on our business, results of operations or financial condition.

The Company is unable to predict the outcome of these cases. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

In March 2006, following the Company's announcement of a definitive agreement to acquire Lexar Media, Inc. ("Lexar") in a stock-for-stock merger, four purported class action complaints were filed in the Superior Court for the State of California (Alameda County) on behalf of shareholders of Lexar against Lexar and its directors. Two of the complaints also name the Company as a defendant. The complaints allege that the defendants breached, or aided and abetted the breach of, fiduciary duties owed to Lexar shareholders by, among other things, engaging in self-dealing, failing to engage in efforts to obtain the highest price reasonably available, and failing to properly value Lexar in connection with a merger transaction between Lexar and the Company. The plaintiffs seek, among other things, injunctive relief preventing, or an order of rescission reversing, the merger, compensatory damages, interest, attorneys' fees, and costs. On May 19, 2006, the plaintiffs filed a motion for preliminary injunction seeking to block the merger. On May 31, 2006, the Court denied the motion. The Company is unable to predict the outcome of these suits. A court determination against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition. (See "PART I. FINANCIAL

Current economic and political conditions may harm our business.

Global economic conditions and the effects of military or terrorist 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. Global economic conditions may also affect consumer demand for devices that incorporate our products such as mobile phones, personal computers, flash memory cards and USB devices. As a result, our business, results of operations or financial condition could be materially adversely affected.

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

Sales to customers outside the United States approximated 70% of our consolidated net sales for the first quarter of 2007. In addition, we have manufacturing operations in Italy, Japan, Puerto Rico and Singapore. Our international sales and operations are subject to a variety of risks, including:

- currency exchange rate fluctuations,
- export and import 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 trade and other laws in a variety of jurisdictions.

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

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

We manufacture products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process or the effects from a shift in product mix can reduce yields or disrupt production and may increase our per megabit manufacturing costs. Additionally, our control over operations at our IMFT, TECH and MP Mask joint ventures may be limited by our agreements with our partners. From time to time, we have experienced minor disruptions in our manufacturing process as a result of power outages or equipment failures. If production at a fabrication facility is disrupted for any reason, manufacturing yields may be adversely affected or we may be unable to meet our customers' requirements and they may purchase products from other suppliers. This could result in a significant increase in manufacturing costs or loss of revenues or damage to customer relationships, which could materially adversely affect our business, results of operations or financial condition.

Disruptions in our supply of raw materials could materially adversely affect our business, results of operations or financial condition.

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. Shortages may occur from time to time in the future. In addition, disruptions in transportation lines could delay our receipt of raw materials. Lead times for

the supply of raw materials have been extended in the past. If our supply of raw materials is disrupted or our lead times extended, our business, results of operations or financial condition could be materially adversely affected.

Products that do not meet specifications or that contain, or are perceived by our customers to contain, defects or that are otherwise incompatible with end uses could impose significant costs on us or otherwise materially adversely affect our business, results of operations or financial condition.

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 several ways, including the following:

- we may 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.

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 shareholder value. Acquisitions involve numerous risks, including:

- 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 operations,

- 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 business, results of operations or financial condition.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

During the first quarter of 2007, the Company acquired, as payment of withholding taxes in connection with the vesting of restricted stock awards, an aggregate of 109,072 shares of its common stock as follow:

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
September 1 – October 5	71,261	\$ 17.40	N/A	N/A
November 3 – November 30	37,811	\$ 14.57	N/A	N/A
Total	109,072	\$ 16.42		

Item 4. *Submission of Matters to a Vote of Shareholders*

The registrant's 2006 Annual Meeting of Shareholders was held on December 5, 2006. At the meeting, the following items were submitted to a vote of the shareholders:

(a) The following nominees for Directors were elected. Each person elected as a Director will serve until the next annual meeting of shareholders or until such person's successor is elected and qualified.

Name of Nominee	Votes Cast For	Votes Cast Against/Withheld
Steven R. Appleton	632,178,964	51,940,192
Teruaki Aoki	564,231,098	119,888,058
James W. Bagley	626,201,663	57,917,493
Mercedes Johnson	616,487,701	67,631,455
Lawrence N. Mondry	564,216,981	119,902,175
Gordon C. Smith	632,234,359	51,884,797
Robert E. Switz	638,794,633	45,324,523

(b) The proposal by the Company to approve an amendment to the Company's 2004 Equity Incentive Plan increasing the number of shares of Common Stock reserved for issuance thereunder by 30,000,000 was approved with 408,220,320 votes in favor, 174,530,141 votes against, 8,105,481 abstentions and 93,263,214 broker non-votes.

(c) The ratification of the appointment of PricewaterhouseCoopers LLP as the independent Registered Public Accounting Firm of the Company for the fiscal year ending August 30, 2007, was approved with 662,238,694 votes in favor, 14,619,752 votes against and 7,260,710 abstentions.

(d) The proposal by a shareholder relating to certain of the Company's policies on discrimination was approved with 299,901,550 votes in favor, 240,749,801 votes against, 50,204,591 abstentions and 93,263,214 broker non-votes.

Item 6. *Exhibits*

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of Registrant, Restated (1)
3.7	Bylaws of the Registrant, As Amended (2)
10.65*	Settlement and Release Agreement dated September 15, 2006, by and among Toshiba Corporation, Micron Technology, Inc. and Acclaim Innovations, LLC
10.66*	Patent License Agreement dated September 15, 2006, by and among Toshiba Corporation, Acclaim Innovations, LLC and Micron Technology, Inc.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

* Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Commission.

- (1) Incorporated by reference to Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2001
- (2) Incorporated by reference to Current Report on Form 8-K dated December 5, 2006

SIGNATURES

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

Micron Technology, Inc.
(Registrant)

Date: January 16, 2007

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

[***] DENOTES CONFIDENTIAL MATERIALS OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement (“**Agreement**”) is made as of September 15, 2006 (“**Effective Date**”) by and among Toshiba Corporation, a corporation organized under the laws of Japan, with its principal office at 1 1 Shibaura 1 chome, Minato-ku, Tokyo 105-8001, Japan (“**Toshiba**”), Micron Technology, Inc., a corporation organized under the laws of Delaware, with its principal place of business at 8000 S. Federal Way, Boise, Idaho (“**Micron**”), and Acclaim Innovations, LLC, a limited liability company, organized under the laws of Delaware with its principal place of business at 209 West Main Street, Boise, Idaho (“**Acclaim**”) (each a “**Party**” and collectively, the “**Parties**”).

RECITALS

WHEREAS, Toshiba and certain of its Subsidiaries and Micron, through one of its Subsidiaries, Lexar Media, Inc. (“**Lexar**”), are currently engaged in litigation pending in California State Court, Sixth District Court of Appeal, No. H029625 and Superior Court of California, County of Santa Clara, No. 1-02-CV-812458 (the “**State Court Litigation**”);

WHEREAS, Toshiba and certain of its Subsidiaries and customers and Lexar and Acclaim are currently engaged in the following litigation: Civil Case No. C-02-05273 and Civil Case No. C-03cv167, pending in the Northern District of California; and Inv. No. 337-TA-570, pending in the United States International Trade Commission (collectively, the “**Patent Litigation**” and together with the State Court Litigation, the “**Pending Litigation**”);

WHEREAS, the Parties wish to resolve all claims [***];

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and other terms and conditions contained herein, the sufficiency of which is hereby acknowledged, the Parties, intending to be legally bound, do hereby agree as follows:

Agreement

1. DEFINITIONS

In addition to other terms defined elsewhere herein, the following terms, as used in this Agreement, shall have the following meanings:

1.1 “**Acclaim Released Claims**” is defined in Section 2.3.

1.2 “**Ancillary Parts**” shall mean supporting means, terminal members, leads and/or envelope means for surrounding and protecting a Semiconductor Device, and any means included within or unitary with such supporting means, terminal members, leads and/or envelope means.

1.3 “**Claim(s)**” is defined in Article 6.1.

1.4 “**Complete Release**” means each of the following conditions having been satisfied:

- (a) all Dismissals shall have been filed by Micron, Acclaim, Toshiba and their respective Subsidiaries (as appropriate); and
- (b) the Patent License Agreement shall have been executed and delivered by each of the parties thereto.

1.5 “**Cross License**” means the Patent License Agreement between Toshiba and Micron, dated August 4, 1997.

1.6 “**Customer Claims**” is defined in Section 2.4(b).

1.7 “**Dismissals**” is defined in Section 2.5.

1.8 “**Indemnifying Party**” is defined in Section 6.1.

1.9 “**Lexar Patents**” means all of the Patents, applications and inventions existing and owned or controlled, in whole or in part, by Lexar immediately prior to the formation of Acclaim, including, without limitation, the patents and patent applications listed on Exhibit F.

1.10 “**Losses**” is defined in Section 6.1.

1.11 [***].

1.12 [***].

1.13 “**Micron Parties**” is defined in Section 6.2.

1.14 [***].

1.15 [***].

1.16 “**Patent Infringement Claims**” is defined in Section 2.2(a).

1.17 “**Patent License Agreement**” means the Patent License Agreement between the Parties dated as of September 11, 2006, in the form of Exhibit D.

1.18 “**Patents**” shall mean all classes or types of patents, including original patents, design patents, utility models, as well as divisions, reissues, reexaminations, continuations, continuations in part, and applications for any of the aforementioned in all countries of the world.

1.19 “**Person**” means any corporation, limited liability company or partnership, general or limited partnership, sole proprietorship, association, joint venture, individual in

whatever capacity (including as trustee, receiver, conservator, administrator or liquidator), governmental authority, or other entity or body, whether domestic or foreign.

1.20 “**Releases**” is defined in Section 2.5.

1.21 “**Retained Patents**” means all Lexar Patents except the Transferred Patents, including, without limitation, the patents and patent applications listed on Exhibit G.

1.22 [***].

1.23 [***].

1.24 “**Semiconductor Device**” shall mean a device consisting primarily of a body or film of Semiconductor Material having a plurality of electrodes associated therewith (whether or not said body consists of a single Semiconductor Material or of a multiplicity of such materials, and whether or not said body includes one or more layers or other regions of a material or materials which are of a type other than Semiconductor Material); and if provided as part thereof, said device includes all Ancillary Parts. The term “**Semiconductor Device**” shall also include (i) any memory module and any memory card (both in the meaning which is widely used in the industry), and (ii) a printed circuit board having memory functionality sold by an entity where each such board sold by an entity includes memory manufactured by such entity and affixed onto such board prior to sale, and where such sale is to an OEM customer. Printed circuit boards sold by an entity which do not include memory manufactured by such entity and which are sold to end users are expressly excluded from the term Semiconductor Device.

1.25 “**Semiconductor Material**” shall mean any material having an electrical charge carrier concentration which increases with temperature over some temperature range; and having a resistivity in its normal operating temperature range of between $10E(-4)$ and $10E11$ ohm-centimeters.

1.26 “**Subsidiary**” shall mean a legal entity of which a Person, as of the Effective Date or at any time during the Term, owns or controls, directly or indirectly, either of the following (but only for so long as such ownership or control exists):

(a) if such Person has shares or other securities, more than fifty percent (50%) of the outstanding voting shares or securities entitled to vote for the election of directors or others having similar managing authority; or

(b) if such Person does not have shares or other securities, more than fifty percent (50%) of the ownership interests that represent the right to vote for the election of managers, directors, or others having similar managing authority or the right to make decisions for such Person.

1.27 “**Third Party Litigation**” shall mean the following litigation: Case No. 00-CV-4770 pending in the Northern District of California (Lexar Media, Inc. v Pretec Electronics Corp. et al.); Case No. 03-CV-00355 pending in the Northern District of California (Lexar Media, Inc. v Fuji Photo Film USA, Inc.); and Case No. 06-01571 pending in the

Northern District of California (Fuji Photo Film Co., Ltd. And Fuji Photo Film U.S.A., Inc., v. Lexar Media, Inc.).

1.28 [***].

1.29 [***].

1.30 “**Toshiba Parties**” is defined in Section 6.1.

1.31 [***].

1.32 [***].

1.33 “**Transferred Patents**” means all Lexar Patents (whether filed as of the Effective Date or filed later and based on inventions assigned by Lexar to Acclaim) that Lexar has assigned or otherwise transferred to Acclaim prior to the Effective Date, including, without limitation, the patents and patent applications listed on Exhibit H.

2. EFFECTIVENESS OF AGREEMENT; RELEASES AND SETTLEMENT

2.1 Dismissal of Pending Litigation.

(a) Within ten (10) days after the Effective Date, the Parties shall cause to be completed, executed and filed stipulated dismissals with prejudice of all Pending Litigation, consistent with this Agreement and in the form attached hereto as Exhibits A, B, C and C-1.

(b) With respect to Third Party Litigation, each Party shall, within thirty (30) days after the Effective Date, take (and, in the case of Micron, shall cause Lexar to take) such actions as required of such Party to dismiss from the Third Party Litigation any claims, demands, and actions that arise from products made, sold, offered for sale, imported or exported by or on behalf of Toshiba or any of its Subsidiaries, and shall not subsequently assert any such claims, demands or actions in any Third Party Litigation.

2.2 **Release of Micron Claims.** Subject to Section 2.5, Micron, on behalf of itself and its Subsidiaries, including, without limitation, Lexar and its Subsidiaries, and all agents, representatives, directors, employees, and successors and assigns of each of the foregoing, hereby irrevocably releases and forever discharges Toshiba and its Subsidiaries [***] (each a “**Toshiba Released Party**”) [***] shall be referred to as “**Micron Released Claims**”):

(a) [***]

(b) [***].

[***].

2.3 **Release of Acclaim Claims.** Subject to Section 2.5, Acclaim, on behalf of itself, its Subsidiaries and all agents, representatives, directors, employees, and successors and

assigns of each of the foregoing, hereby irrevocably releases and forever discharges each Toshiba Released Party, [***] with respect to the following (claims identified in subsections 2.3(a) and 2.3(b) shall be referred to as “**Acclaim Released Claims**”):

(a) [***]

(b) [***].

[***].

2.4 **Release of Toshiba Claims.** Toshiba, on behalf of itself, its Subsidiaries, and all agents, representatives, directors, employees, and successors and assigns of each of the foregoing, hereby irrevocably releases and forever discharges Micron and its Subsidiaries [***] (each a “**Micron Released Party**”) [***] with respect to the following (claims identified in subsections 2.4(a) and 2.4(b) shall be referred to as “**Toshiba Released Claims**”):

(a) [***].

(b) [***].

[***].

2.5 **Effect of Dismissals and Releases.** The Parties intend that the dismissals contemplated by Section 2.1 (the “**Dismissals**”), and the releases contemplated by Sections 2.2, 2.3, and 2.4 (the “**Releases**”) will effect, without limitation, [***]:

(a) [***]

(b) [***].

2.6 **Waiver.** Each of Toshiba, Micron, and Acclaim, on behalf of itself and its Subsidiaries, agents, representatives, directors, employees, licensees, sublicensees, and successors and assigns, each hereby irrevocably and forever waives all rights it may have arising under California Civil Code Section 1542, or any analogous requirement of law, with respect to the Pending Litigation and the Releases. Further, Toshiba, Micron, and Acclaim, each on behalf of itself and its Subsidiaries, agents, representatives, directors, employees, licensees, sublicensees, and successors and assigns, each hereby confirms that it understands that Section 1542 provides that:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Each Party acknowledges that it has been fully informed by its counsel concerning the effect and import of this Agreement under California Civil Code Section 1542 and other

analogous requirements of law. The Parties acknowledge that they are aware that they may hereafter discover facts in addition to or different from those which they now know or believe to be true with respect to the subject matter of the Pending Litigation and the Releases, but that they intend to, and do hereby, [***] solely contingent upon the occurrence of a Complete Release, without regard to the subsequent discovery or existence of different or additional facts.

2.7 **No Admission.** This Agreement is entered into in order to compromise and settle disputed claims, without any acquiescence, acknowledgement, or agreement by any Party as to the merit of any claims, counterclaims, demands, actions, causes of action, affirmative defenses, damages, liabilities, losses, payments, obligations, costs or expenses (including, without limitation, attorneys' fees and costs) related to the Pending Litigation, Third Party Litigation or any claims within the scope of the Releases. Neither this Agreement nor any part thereof shall be, or be used as, an admission of infringement or liability by anyone, at any time, for any purpose.

2.8 **Basis for Settlement.** Each Party acknowledges and agrees that the terms of this Agreement are, and have been agreed to, for their mutual convenience, in part to avoid the expense, distraction, risk and uncertainty of further litigation, and after considering the risks of litigation and the circumstances of their respective businesses. Each Party also acknowledges and agrees that it has relied entirely on its own judgment, belief and knowledge (including its judgment, belief and knowledge with respect to the foregoing, the extent and duration of the claimed damages in the Pending Litigation and Third Party Litigation, and the value of settling the Pending Litigation and Third Party Litigation at this time) and the advice and recommendations of its own independently selected counsel, and, accordingly, neither it nor its Subsidiaries shall (or shall have the right to) deny or challenge the validity of this Agreement or any of the obligations of the Parties hereunder.

2.9 **Attorneys Fees and Costs.** Except as set forth in Section 6, each party shall be responsible for its own costs and attorneys' fees, if any, in connection with this Agreement, including, without limitation, in connection with preparing and filing the Dismissals and the Releases.

2.10 **Effectiveness of Releases.** The Releases shall not be effective unless and until a Complete Release is in effect.

3. LICENSES AND RELATED COVENANTS

3.1 [***].

3.2 Concurrently with the execution of this Agreement, Acclaim, Micron, and Toshiba each agrees to enter into the Patent License Agreement.

3.3 Micron hereby covenants that:

(a) It shall require that any assignees, exclusive licensees or other transferees of any Retained Patents agree as a condition to the effectiveness of such assignment, license or other transfer to the terms and conditions of this Agreement and the Patent License

Agreement, and that such assignees, exclusive licensees or other transferees require any subsequent assignees, exclusive licensees or other transferees to agree to do so.

(b) [***].

(c) In the event that it sells or otherwise transfers any of its interest in Acclaim, it shall require the purchaser thereof to agree to all of Micron's undertakings hereunder, provided, however, that such agreement shall not release Micron from its undertakings hereunder.

(d) It shall require any of its successors in interest (including, without limitation, any purchaser of all or substantially all its assets) to agree to all of Micron's undertakings hereunder.

(e) Any purported or attempted assignment, license, or other transfer not effected in accordance with this Section shall be null and void.

3.4 Acclaim hereby covenants that:

(a) It shall require that any assignees, exclusive licensees or other transferees of any Transferred Patents agree as a condition to the effectiveness of such assignment, license or other transfer to the terms and conditions of this Agreement and the Patent License Agreement, and that such assignees, exclusive licensees or other transferees require any subsequent assignees, exclusive licensees or other transferees to agree to do so.

(b) [***].

(c) It shall require any of its successors in interest (including, without limitation, any purchaser of all or substantially all its assets) to agree to all of Acclaim's undertakings hereunder.

(d) Any purported or attempted assignment, license, or other transfer not effected in accordance with this Section shall be null and void.

4. REPRESENTATIONS, WARRANTIES AND COVENANTS

4.1 **Representations and Warranties of all Parties.** Each Party represents and warrants that:

(a) It has the full power to enter into this Agreement, and, together with its Subsidiaries, has the sole right and authority to grant the licenses, dismissals and releases to be granted by that Party hereunder, without the need for any licenses, releases, consents, approvals or immunities not yet granted or obtained;

(b) It has not assigned or transferred any right or interest in the Micron Released Claims, Acclaim Released Claims, or Toshiba Released Claims, as the case may be, to any other Person; and

(c) The execution, delivery and performance of this Agreement by such Party does not and will not conflict with, or result in any breach or violation of, or default under (with or without notice or lapse of time, or both) any contract or other agreement or instrument, permit, concession, franchise or license to which such Party is a party.

4.2 Representations and Warranties of Micron. Micron represents and warrants that:

(a) No inventions or industrial property rights not claimed in Patents were transferred by Lexar to Acclaim.

(b) [***].

(c) All Lexar Patents either (1) have been retained by Lexar or (2) if they have been transferred (in whole or in part), were transferred solely to Acclaim and, as of the Effective Date and the date of a Complete Release, are owned solely by Acclaim.

(d) Neither Micron nor any Micron Subsidiary other than Lexar is a party to any Pending Litigation or Third Party Litigation or has any right to prosecute any Pending Litigation or Third Party Litigation, and Lexar has transferred all rights to prosecute actions for past damages under the Transferred Patents to Acclaim (and has not transferred any such rights to Micron or any Micron Subsidiary other than Lexar), and to the extent any rights to recover for damages under the Transferred Patents are retained by Lexar, such claims are subject to the release set forth in Section 2.2 above.

5. CONSIDERATION

5.1 Acclaim and Micron each agree that, except in accordance with Article 5 of the Patent License Agreement, no money is or shall be due to Acclaim, Lexar, Micron or any of their respective Subsidiaries by Toshiba or any other Toshiba Released Party as consideration for any of the licenses, covenants, Releases and other rights in this Agreement or the Patent License Agreement.

6. [***].

6.1 [***].

6.2 [***].

7. CONFIDENTIAL INFORMATION

7.1 **Confidentiality of Terms.** The Parties intend for the terms of this Agreement to be and remain confidential and, except as provided below, each Party shall maintain the confidentiality hereof.

7.2 **Obligations.** Notwithstanding the confidentiality of this Agreement, the Parties may disclose the existence (but not any of the terms, except as provided in this Section 7.2) of this Agreement to any third party. Without limiting the generality of the foregoing, no

Party shall issue any press releases, make any statements to the media, or make any other public statements regarding this Agreement without the prior written consent of the other Parties, except for (a) press releases and statements approved in writing by the other Parties on or around the Effective Date and (b) statements based on and consistent with such press releases and statements. In connection herewith, the Parties agree to issue press releases announcing the settlement of the Pending Litigation in the form of Exhibit E hereto. In addition, if a Party determines upon the advice of legal counsel that disclosure of this Agreement or its terms to a third party is required by applicable law, regulation (including regulations under the Securities Exchange Act of 1934, as amended), court order, government agency or arbitration proceeding, such Party may make such disclosure, provided that the disclosing Party exercises reasonable efforts to limit the disclosure and seek confidential treatment of this Agreement and its terms to the maximum extent permitted by law. In addition, a Party may disclose this Agreement and its terms (i) in confidence, to its Subsidiaries, (ii) [***]; (iv) to its and its Subsidiaries' financial, accounting, legal and other advisors, (v) [***], (vi) to any court or governmental body or agency to as required to effect termination or dismissal of any proceeding that is to be terminated or dismissed under the Settlement and Release Agreement, including but not limited to any proceeding before the International Trade Commission; and (vii) to the extent disclosure is required to enforce the terms of this Agreement.

8. TERM

This Agreement shall commence on the Effective Date and shall continue to be in effect until the expiration of the last to expire of the Lexar Patents and all Patents that later issue based on any applications claiming priority to any of the Lexar Patents.

9. GENERAL

9.1 **Notices.** Any notice, request, demand or other communication required or permitted hereunder shall be in writing, shall reference this Agreement and shall be: (a) delivered personally; (b) sent by facsimile to a number designated in advance by the recipient Party; (c) sent by registered or certified mail, return receipt requested, postage prepaid; or (d) sent by a private industry express courier, with written confirmation of receipt. All notices shall be sent to the address set forth in the preamble on the first page of this Agreement and to the attention of the person executing this Agreement on such Party's behalf (or to such other address or person as may be designated by a Party by giving written notice to the other Parties pursuant to this Section 9.1).

9.2 **Governing Law.** This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Delaware (without giving effect to the laws, rules or principles thereof regarding conflict of laws).

9.3 **Jurisdiction.** Each Party (i) hereby irrevocably submits itself to and consents to the exclusive jurisdiction of the United States District Court for the District of Delaware (or, if such court lacks jurisdiction, the courts of the State of Delaware) for the purposes of any action, claim, suit or proceeding arising out of or relating to this Agreement, and (ii) hereby waives, and agrees not to assert, by way of motion, as a defense or otherwise, in any such action, claim, suit or proceeding, any argument that it is not personally subject to the

9

jurisdiction of such court(s), that the action, claim, suit or proceeding is brought in an inconvenient forum, or that the venue of the action, claim, suit or proceeding is improper. Each Party hereby agrees to the entry of an order and to the confession of judgment to enforce any resolution, settlement, order or award made pursuant to this Section 9.3 by such court and in connection therewith hereby waives, and agrees not to assert by way of motion, as a defense or otherwise, any claim that such resolution, settlement, order or award is inconsistent with or violates any laws or public policy.

9.4 **Relationship of Parties.** Nothing contained in this Agreement shall be deemed or construed as creating a joint venture, partnership, agency, employment or fiduciary relationship among the Parties. None of the Parties nor their respective agents have any authority of any kind to bind any other Party or Parties in any respect whatsoever, and the relationship of the Parties is, and at all times shall continue to be, that of independent contractors.

9.5 **Assignment.** This Agreement may not be assigned by a Party without the prior written consent of the other Parties, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, a Party has the right to assign this Agreement, without the other Parties' consent, to a Person that succeeds to all or substantially all of a Party's business or assets relating to this Agreement, whether by sale, merger, operation of law or otherwise, provided that such assignee or transferee agrees in writing to be bound by the terms and conditions of this Agreement, and provided further that no such assignment shall limit the effectiveness of the releases set forth in this Agreement or excuse any obligations of the assigning Party under this Agreement. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assigns.

9.6 **Further Assurances.** Each Party agrees to take or cause to be taken (including, in the case of Micron, to cause Lexar to take) such further actions, and to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and to obtain such consents, as may be reasonably required or requested in order to effectuate fully the purposes, terms and conditions of this Agreement.

9.7 **Waiver.** A waiver, express or implied, by a Party of any right under this Agreement or of any failure to perform or breach hereof by another Party hereto shall not constitute or be deemed to be a waiver of any other right hereunder or of any other failure to perform or breach hereof by such other Party, whether of a similar or dissimilar nature thereto.

9.8 **Severability.** If any provision of this Agreement is unenforceable or invalid under any applicable law or is so held by applicable court decision, such unenforceability or invalidity shall not render this Agreement unenforceable or invalid as a whole, and, in such event, such provision shall be changed and interpreted so as to best accomplish the objectives of the Parties within the limits of applicable law or applicable court decision.

9.9 **Captions and Headings.** The captions and headings used in this Agreement are inserted for convenience only, do not form a part of this Agreement, and shall not be used in any way to construe or interpret this Agreement.

10

9.10 **Construction.** This Agreement has been negotiated by the Parties and shall be interpreted fairly in accordance with its terms and without any construction in favor of or against any of the Parties.

9.11 **Counterparts.** This Agreement may be executed (including, without limitation, by facsimile signature) in one or more counterparts, with the same effect as if the Parties had signed the same document. Each counterpart so executed shall be deemed to be an original, and all such counterparts shall be construed together and shall constitute one Agreement.

9.12 **Entire Agreement; Amendment.** This Agreement (including the Exhibit(s) attached hereto which are incorporated herein by reference), the Patent License Agreement, and the Cross License constitute the entire agreement and understanding among the Parties with respect to the subject matter hereof, and supersede any and all prior or contemporaneous negotiations, representations, agreements and understandings, written or oral, that the Parties may have reached with respect to the subject matter hereof. No agreements altering or supplementing the terms hereof may be made except by means of a written document expressly referring to this Agreement which expressly identifies the specific terms to be altered or supplemented and is signed by a duly authorized representative of each of the Parties hereto.

11

IN WITNESS WHEREOF, the Parties hereto have caused their duly authorized representatives to execute this Agreement as of the Effective Date.

Toshiba Corporation

By: /s/ Masashi Muromachi
Name: Masashi Muromachi
Title: Corporate Executive Vice President,

Micron Technology, Inc.

By: /s/ Steven R. Appleton
Name: Steven R. Appleton
Title: President

Acclaim Innovations, LLC

By: /s/ Scot Ludwig
Name: Scot Ludwig
Title: Authorized Representative

Exhibits

Exhibit A	Stipulated Dismissals
Exhibit B	Stipulated Dismissals
Exhibit C	Stipulated Dismissals
Exhibit C-1	Stipulated Dismissals
Exhibit D	Patent License Agreement between Toshiba, Micron and Acclaim
Exhibit E	Press Release
Exhibit F	List of Lexar Patents
Exhibit G	List of Retained Patents
Exhibit H	List of Transferred Patents

*****] DENOTES CONFIDENTIAL MATERIALS OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

PATENT LICENSE AGREEMENT

This agreement (this “Agreement”) is made this 15th day of September, 2006 (“Effective Date”) by and among Toshiba Corporation, a Japanese corporation duly organized and existing under the laws of Japan and having its principal place of business at 1 1, Shibaura 1 Chome, Minato Ku, Tokyo 105-8001, Japan (“Toshiba”), Acclaim Innovations, LLC, a limited liability corporation duly organized and existing under the laws of the state of Delaware, United States of America and having its principal place of business at 209 West Main Street, Boise, Idaho (“Acclaim”), and Micron Technology, Inc., a corporation organized and existing under the laws of Delaware, United States of America and having its principal place of business at 8000 S. Federal Way, Boise, Idaho (“Micron”).

RECITALS

WHEREAS the Parties have concurrently entered into that Settlement and Release Agreement, dated September 15, 2006 (the “Settlement and Release Agreement”);

WHEREAS Micron owns or controls, or has rights directly or through Subsidiaries in, various patents issued, and applications for patents pending, which patents and pending applications relate to semiconductor devices and integrated circuits, in various countries of the world, and Toshiba desires to obtain rights under or to such patents;

WHEREAS Acclaim owns or controls, or has rights directly or through Subsidiaries in, various patents issued, and applications for patents pending, which patents and pending applications relate to semiconductor devices and integrated circuits, in various countries of the world, and Toshiba desires to obtain rights under or to such patents;

WHEREAS Micron, Acclaim and Toshiba each represents, on its own behalf, that it is fully authorized to deal generally with and to make this Agreement respecting the subject matter hereof;

NOW THEREFORE, in consideration of the mutual covenants, representations, warranties and other terms and conditions hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

1.1 In this Agreement, capitalized terms have the meanings specified in attached Schedule 1.

ARTICLE 2

LICENSE GRANTS

2.1 Acclaim hereby grants to Toshiba and its Subsidiaries a worldwide, nonexclusive, irrevocable, nontransferable license, without the right to sublicense third parties, under the Acclaim Patents to make, have made, use, sell, offer for sale, import or otherwise dispose of Licensed Products and to use any methods covered by Acclaim Patents in connection with Licensed Products. The license granted to Toshiba and its Subsidiaries under this Article 2.1 shall be effective until the end of the License Term.

2.2 Micron hereby grants to Toshiba and its Subsidiaries a worldwide, nonexclusive, irrevocable, nontransferable license, without the right to sublicense third parties, under the Retained Patents to make, have made, use, sell, offer for sale, import or otherwise dispose of Licensed Products and to use any methods covered by Retained Patents in connection with Licensed Products. The license granted to Toshiba and its Subsidiaries under this Article 2.2 shall be effective until the end of the License Term.

2.3 The right to “have made” as used in this Agreement shall mean [***].

2.4 With respect to any legal entity which qualifies as a Subsidiary on the Effective Date but later ceases to qualify as a Subsidiary (“Former Subsidiary”), the licenses granted pursuant to Articles 2.1 and 2.2 and covenants granted pursuant to Article 3, which are in effect on the date such Former Subsidiary ceases to qualify as a Subsidiary [***].

2.4.1 [***].

2.5 No licenses under any copyrights, mask work rights, trademarks or other intellectual property rights other than Retained Patents and Acclaim Patents are granted under this Agreement.

2.6 Micron and Acclaim make no express or implied warranty or representation that the manufacture, use, sale, offer for sale, importation or other disposition of Licensed Products by Toshiba and/or its Subsidiaries will not infringe patents or other intellectual property rights of third parties.

2.7 Micron and Acclaim make no express or implied representation nor assume any responsibility or obligation regarding the scope, validity, or enforcement of any Patent licensed hereunder.

2.8 No license is granted by Micron, Acclaim, or any of their Subsidiaries, either directly or by implication, estoppel or otherwise, under any Patent licensed by reason of this Agreement, to any third party which acquires the Licensed Products and combines one or more Licensed Products with any

other product(s). For the avoidance of doubt, the licenses granted under this Agreement exclude any implied license to purchasers from Toshiba with respect to other patented products that utilize a Licensed Product or which utilize a plurality of separate Licensed Products.

ARTICLE 3

[***]

3.1 [***].

3.2 [***]:

3.2.1 [***]

3.2.2 [***]:

(i) [***]

(ii) [***].

3.2.3 [***].

3.3 [***]:

3.3.1 [***].

3.3.2 [***]:

(i) [***]

(ii) [***]

(iii) [***].

ARTICLE 4

REPRESENTATIONS, WARRANTIES AND COVENANTS

4.1 Representations and Warranties of all Parties. Each Party represents and warrants that:

4.1.1 It has the full power to enter into this Agreement, and, together with its Subsidiaries, has the sole right and authority to grant the licenses and agree to any other term or provision of this Agreement, without the need for any licenses, releases, consents, approvals or immunities not yet granted or obtained;

4.1.2 The execution, delivery and performance of this Agreement by such Party does not and will not conflict with, or result in any breach or violation of, or default under (with or without notice or lapse of time, or both) any contract or other agreement or instrument, permit, concession, franchise or license to which such Party is a party; and

4.1.3 It has relied entirely on its own judgment, belief and knowledge and the advice and recommendations of its own independently selected counsel, and accordingly, neither

it nor its Subsidiaries shall (or shall have the right to) deny or challenge the validity of this Agreement or the obligations of the Parties hereunder.

4.2 Micron hereby represents, warrants and covenants that:

4.2.1 No inventions or industrial property rights not claimed in Patents were transferred by Lexar to Acclaim.

4.2.2 To the knowledge of Micron, Lexar has not transferred or assigned any Patent, invention or other industrial property right that Lexar owned or controlled during the period beginning on the date that is the earliest filing date of any lawsuit alleging patent infringement that is dismissed under the Settlement and Release Agreement and extending through the Effective Date, other than Transferred Patents transferred to Acclaim.

4.2.3 All Lexar Patents either (i) have been retained by Lexar or (ii) if they have been transferred (in whole or in part), were transferred solely to Acclaim, and as of the Effective Date are owned solely by Acclaim.

4.2.4 It shall require that any assignees, exclusive licensees or other transferees of any Retained Patents agree as a condition to the effectiveness of such assignment, license or other transfer to the terms and conditions of this Agreement and the Settlement and Release Agreement, and that

such assignees, exclusive licensees or other transferees require any subsequent assignees, exclusive licensees or other transferees to agree to do so.

4.2.5 [***].

4.2.6 In the event that it sells or otherwise transfers any of its interest in Acclaim and/or Lexar, Micron shall require the purchaser(s) thereof to agree to all of Micron's undertakings hereunder, provided, however, that such agreement shall not release Micron from its undertakings hereunder.

4.2.7 It shall require any of its successors in interest (including without limitation any purchaser of all or substantially all its assets) to agree to all of Micron's undertakings hereunder.

4.2.8 Any purported or attempted assignment, license, or other transfer not effected in accordance with this Article 4.2 shall be null and void.

4.3 Acclaim hereby represents, warrants and covenants that:

4.3.1 As of the Effective Date, all Transferred Patents are owned solely by Acclaim and no rights under or with respect to the Transferred Patents have been granted, assigned or transferred to any third party.

4.3.2 It shall require that any assignees, exclusive licensees or other transferees of any Acclaim Patents agree as a condition to the effectiveness of such assignment, license or other transfer to the terms and conditions of this Agreement and the Settlement and Release

4

Agreement, and that such assignees, exclusive licensees or other transferees require any subsequent assignees, exclusive licensees or other transferees to agree to do so.

4.3.3 [***].

4.3.4 It shall require any of its successors in interest (including without limitation any purchaser of all or substantially all its assets) to agree to all of Acclaim's undertakings hereunder.

4.3.5 Any purported or attempted assignment, license, or other transfer not effected in accordance with this Article 4.3 shall be null and void.

4.4 [***].

[***].

[***].

ARTICLE 5

PAYMENT

5.1 In consideration of the licenses granted by Micron and Acclaim under Articles 2.1 and 2.2, Toshiba will [***], provided that Toshiba's payment obligations to Micron under this Article 5.1 shall only arise upon the Settlement and Release Agreement's having been entered into by the Parties thereto. The foregoing semi-annual payments shall be made in accordance with the following schedule:

5.1.1 [***]

5.1.2 [***]

5.1.3 [***]

5.1.4 [***]

5.1.5 [***]

5.1.6 [***].

5.2 Acclaim and Micron each agree that, other than the amounts set forth in Article 5.1, no money is or shall be due to Acclaim, Lexar, Micron or any of their respective Subsidiaries by a Toshiba Party as consideration for any of the licenses, covenants, releases and other rights in this Agreement and in the Settlement and Release Agreement.

5.3 Toshiba agrees to make all necessary filings, and take all other actions reasonably necessary to ensure that no payments hereunder are subject to any Japanese withholding tax to the fullest extent permitted under Japanese law, provided that Micron provides all cooperation and information necessary to enable Toshiba to make such filings and take such other actions. If,

5

notwithstanding the foregoing, the Japanese government imposes any withholding taxes upon any payments made hereunder, such taxes shall be borne by Micron. Toshiba shall assist Micron in any intervention necessary to exempt such payments from or minimize the amount of any such withholding taxes, and Toshiba shall make all necessary filings, and take such other actions, as are reasonably necessary to assist Micron with the foregoing. Toshiba shall withhold the amount of any such withholding taxes levied by the Japanese government from the relevant payment(s) to which such taxes correspond, shall promptly remit such withholding taxes to the Japanese Tax Office; and shall promptly deliver to Micron the official certificate of its payment of such withholding taxes to enable Micron to support a claim of foreign tax credit with respect to such withholding taxes against taxes levied by the United States Government against Micron.

5.4 All amounts due hereunder shall be paid in US dollars by wire transfer to such financial institution and account number as Micron designates in writing to Toshiba.

ARTICLE 6

TERMINATION

6.1 In the event of a material breach of this Agreement by either Acclaim or Micron, on the one hand, or Toshiba, on the other hand, if such material breach is not corrected within sixty (60) days after written notice thereof is received by Acclaim or Micron, on the one hand, or Toshiba, on the other hand, as the breaching Party, [***].

6.2 Either Micron or Acclaim shall have the right, upon written notice to Toshiba, to terminate this Agreement forthwith (i) in the event the normal business conduct of Toshiba ceases for a period of not less than 3 months, or (ii) in the event Toshiba becomes bankrupt or files for bankruptcy protection, within 3 months after such event.

6.3 Toshiba shall have the right, upon written notice to Micron, to terminate this Agreement forthwith (i) in the event the normal business conduct of Micron ceases for a period of not less than 3 months, or (ii) in the event Micron becomes bankrupt or files for bankruptcy protection, within 3 months after such event.

6.4 Notwithstanding any provision of this Agreement, if Toshiba terminates this Agreement under either Article 6.1 or Article 6.3, Articles 2, 3, 4, 6.1, 6.4, 7 and 8 shall survive any expiration or termination of this Agreement.

ARTICLE 7

ASSIGNMENT

7.1 No Party or Subsidiary shall assign, extend or otherwise transfer any of its rights or privileges hereunder, nor shall they inure to the benefit of any successor of such Party, whether by operation of law or otherwise, without the prior written consent of Micron, in the case of any such assignment, extension or transfer by Toshiba or any of its Subsidiaries, or of Toshiba, in the case of any such assignment, extension or transfer by Micron, Acclaim or any of their Subsidiaries. In the event that a Party or its Subsidiary is ever acquired by or merged with or into another company or entity, the license granted to such Party or Subsidiary herein shall not

extend to any operations or activities of such other company or entity (whether preexisting or later created) with which such Party or Subsidiary is or becomes combined or merged. The provisions of this Article 7.1 are not intended to terminate, diminish, expand, extend or otherwise affect any preexisting licenses or releases granted to the other company or entity by the licensing Party or Parties, [***].

ARTICLE 8

CONFIDENTIALITY

8.1 The Parties hereto shall keep the terms of this Agreement confidential, except that:

8.1.1 a Party may disclose the terms of this Agreement to any court or governmental body or agency compelling such disclosure, but only to the extent so compelled;

8.1.2 a Party may disclose the terms of this Agreement as otherwise may be required by any law and the rules or regulations promulgated under such law;

8.1.3 a Party may disclose the terms of this Agreement to any court or governmental body or agency as required to effect termination or dismissal of any proceeding that is to be terminated or dismissed under the Settlement and Release Agreement, including but not limited to any proceeding before the International Trade Commission;

8.1.4 a Party may disclose this Agreement and its terms to its and its Subsidiaries' financial, accounting, legal and other advisors, provided that such advisors agree to be bound by confidentiality provisions prohibiting disclosure of this Agreement to other third parties;

8.1.5 [***];

8.1.6 [***];

8.1.7 [***];

8.1.8 a Party may disclose to third parties that this Agreement exists; and

The Parties understand and agree that Micron has determined that it is required to file a copy of this Agreement and the Settlement and Release Agreement as an attachment to its upcoming filing on Form 10-Q with the United States Securities and Exchange Commission ("SEC") pursuant to United States securities laws. Micron agrees that it will initially file the Agreement and the Settlement and Release Agreement in the form attached hereto as Exhibit D, and shall request confidential treatment for all portions of the Agreement highlighted in Exhibit D. If the SEC refuses to grant the request for confidential treatment without modification, Micron will seek to obtain confidential treatment that is consistent with its duties under applicable United States securities laws. Micron agrees to take reasonable efforts to share any

SEC comments with Toshiba ; provided, however, Toshiba shall have no more than 24 hours to provide Micron with its views as to the SEC written comments. Micron shall have no obligation to Toshiba to reflect Toshiba's comments, if any, in Micron's response to the SEC and Micron shall have no liability to Toshiba for the ultimate disclosure agreed upon between the SEC and Micron.

8.2 A Party receiving a request, subpoena or order for the disclosure of the terms or production of this Agreement shall notify the other Party as soon as practicable and, if at all possible, in sufficient time to allow the other Party to oppose disclosure or seek appropriate protective orders. The Party receiving such request, subpoena or order shall cooperate to the extent reasonably possible with the other Party in any effort to so oppose disclosure or seek protective orders.

ARTICLE 9

MISCELLANEOUS

9.1 This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware, U.S.A., without regard to its conflict of law principles.

9.2 Each Party (i) hereby irrevocably submits itself to and consents to the exclusive jurisdiction of the United States District Court for the District of Delaware (or, if such court lacks jurisdiction, the courts of the State of Delaware) for the purposes of any action, claim, suit or proceeding arising out of or relating to this Agreement, and (ii) hereby waives, and agrees not to assert, by way of motion, as a defense or otherwise, in any such action, claim, suit or proceeding, any argument that it is not personally subject to the jurisdiction of such court(s), that the action, claim, suit or proceeding is brought in an inconvenient forum, or that the venue of the action, claim, suit or proceeding is improper. Each Party hereby agrees to the entry of an order and to the confession of judgment to enforce any resolution, settlement, order or award made pursuant to this Article 8.2 by such court and in connection therewith hereby waives, and agrees not to assert by way of motion, as a defense or otherwise, any claim that such resolution, settlement, order or award is inconsistent with or violates any laws or public policy.

9.3 Each Party hereby irrevocably waives, to the fullest extent permitted by applicable law, the right to a trial by jury of any action, claim, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, in any action, proceeding or other litigation of any type brought by such Party, whether with respect to contract claims, tort claims, or otherwise. The Parties agree that any such action, claim, suit or proceeding shall be tried by a court trial without a jury. Without limiting the foregoing, the Parties further agree that the right to a trial by jury is waived by operation of this Article 8.3 as to any action, counterclaim or other proceeding which seeks, in whole or in part, to challenge the validity or enforceability of this Agreement or any provision hereof. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Agreement.

9.4 Each Party agrees to take or cause to be taken (including without limitation causing its Subsidiaries to take or cause to be taken) such further actions, and to execute, deliver and file, or cause to be executed, delivered and filed (including without limitation causing its

Subsidiaries to execute, deliver and file) such further documents and instruments, and to obtain such consents, as may be reasonably required or requested in order to effectuate fully the purposes, terms and conditions of this Agreement.

9.5 This Agreement (including the Schedule and Exhibits attached hereto which are incorporated herein by reference), the Settlement and Release Agreement, and the Cross License, set forth the entire agreement and understanding among the Parties with respect to the subject matter hereof, and supersede all previous understandings, agreements, contracts, communications and representations, whether written or oral, concerning the subject matter to which this Agreement relates and shall not be extended, supplemented or amended in any manner, except by an instrument in writing duly executed by authorized officers or representatives of the Parties hereto which expressly identifies the specific terms to be extended, supplemented or amended. [***].

9.6 Any notice, request, demand or other communication required or permitted hereunder shall be in writing, shall reference this Agreement and shall be: (a) delivered personally; (b) sent by facsimile, with written confirmation of receipt; (c) sent by registered or certified mail, return receipt requested, postage prepaid; or (d) sent by a private industry express courier, with written confirmation of receipt; and in the case of Acclaim shall be addressed to:

Acclaim Innovations, LLC
209 West Main Street
Boise, ID 83702
USA
Attention: [***]
Telephone:

and in the case of Micron to:

8000 S. Federal Way
Boise, ID 83716-9632
USA
Attention: General Counsel
Telephone: +1-208-368-4517

and in the case of Toshiba to:

Toshiba Corporation
1-1, Shibaura, 1-chome
Minato-ku, Tokyo 105-8001
JAPAN
Attention: General Manager, IP Division,
Semiconductor Company
Telephone: +81-3-3457-3422

9

or to such other address or addresses as a Party may from time to time designate as its address by notice in writing to the other Parties. All notices so addressed are effective when received.

9.7 If any provision, or portion thereof, of this Agreement, or application thereof to any person, place, or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable, or void, the remainder of this Agreement and such provision as otherwise applied shall remain in full force.

9.8 If necessary, the Parties shall file necessary applications or documents with the government under the laws of their respective countries and do their best to have this Agreement approved. This Agreement shall come into force on the date of its approval by the U.S. and Japanese Government, whichever occurs later, as and if necessary.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

10

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed in duplicate on the dates set forth below:

ACCLAIM INNOVATIONS, LLC

TOSHIBA CORPORATION

By: /s/ Scot Ludwig

Name: Scot Ludwig

Title: Authorized Representative

/s/ Masashi Muromachi

Name: Masashi Muromachi

Title: Corporate Executive Vice President,
President and CEO
Semiconductor Company

Date: September 11, 2006

Date: September 11, 2006

MICRON TECHNOLOGY, INC.

By: /s/ Steven R. Appleton

Name: Steven R. Appleton
President

Date: September 11, 2006

SCHEDULE 1

DEFINITIONS

1. "Acclaim" shall have the meaning set forth in the initial paragraph of this Agreement.

2. "Acclaim Patents" means all Lexar Patents (whether issued or filed as of the Effective Date or filed later and claiming priority to a Lexar Patent that was issued or filed as of the Effective Date) that Lexar has assigned or otherwise transferred to Acclaim prior to the Effective Date (the "Transferred Patents"), and any other Patents which are counterparts, continuations, divisionals, continuations in part, reissues, or reexaminations of any of

the Transferred Patents, and all Patents entitled to claim a priority date from any of the foregoing, which Acclaim or any of its Subsidiaries now or in the future owns or controls, or as to which Acclaim or any of its Subsidiaries has the right to grant licenses or accord freedom from suit, including without limitation the patents and patent applications listed on Exhibit A. Without limiting the foregoing and notwithstanding anything else to the contrary in this Agreement, Acclaim Patents shall include all Patents issued as of the Effective Date or issued after the Effective Date on patent applications filed as of the Effective Date or filed later and claiming priority to Patents issued or filed as of the Effective Date and assigned by Lexar to Acclaim, where such Patent (including such patent applications) was assigned by Lexar to Acclaim prior to the Effective Date.

3. "Agreement" shall have the meaning set forth in the initial paragraph of this Patent License Agreement.
 4. "Ancillary Parts" shall mean supporting means, terminal members, leads and/or envelope means for surrounding and protecting a Semiconductor Device, and any means included within or unitary with such supporting means, terminal members, leads and/or envelope means.
 5. [***].
 6. [***].
 7. "Associate" shall mean, in relation to an entity, any Subsidiary of such entity, or any customer of such entity or of its Subsidiaries.
 8. [***].
 9. [***].
 10. "Cross License" shall mean the Patent License Agreement between Toshiba and Micron, dated August 4, 1997.
 11. [***].
-
12. "Effective Date" shall have the meaning set forth in the initial paragraph of this Agreement.
 13. [***].
 14. [***].
 15. "Former Subsidiary" shall have the meaning set forth in Article 2.4.
 16. [***].
 17. [***].
 18. [***].
 19. [***].
 20. "Lexar" means Lexar Media, Inc.
 21. "Lexar Patents" means all of the Patents, applications and inventions existing and owned or controlled, in whole or in part, by Lexar immediately prior to the formation of Acclaim, including without limitation the patents and patent applications listed on Exhibit B.
 22. "License Term" means the period from the Effective Date until the expiration of the last to expire of the Patents included within the Applicable Patents.
 23. "Licensed Products" shall mean all devices and products covered by a Retained Patent or a Transferred Patent. Licensed Products shall not include Exception Products.
 24. [***].
 25. "Micron" shall have the meaning set forth in the initial paragraph of this Agreement.
 26. "NAND Flash Memory Device" shall mean a non-volatile memory Semiconductor Device that includes a plurality of memory cell transistors connected in series, each having a floating gate or charge-trapping region which is electrically programmable and electrically erasable in blocks or chunks, which device is in the form of a discrete chip.
 27. "Parties" shall mean Toshiba, Acclaim and Micron, collectively.
 28. "Party" shall mean Toshiba, Acclaim or Micron.
 29. "Patent Holder" shall mean Acclaim, with respect to the Acclaim Patents, and Micron, with respect to the Retained Patents.
 30. "Patents" shall mean all classes or types of patents, including original patents, design patents, utility models, as well as divisions, reissues, reexaminations, continuations,

continuations in part, and applications for any of the aforementioned in all countries of the world.

31. "Person" means any corporation, limited liability company or partnership, general or limited partnership, sole proprietorship, association, joint venture, individual in whatever capacity (including as trustee, receiver, conservator, administrator or liquidator), governmental authority, or other entity or body, whether domestic or foreign.

32. "Retained Patents" means all Lexar Patents that Lexar owns or controls as of the Effective Date (the "Pre-existing Patents"), and any other Patents which are counterparts, continuations, divisionals, continuations in part, reissues, or reexaminations of any of the Pre-existing Patents, and all Patents entitled to claim a priority date from any of the foregoing, which Micron or any of its Subsidiaries now or in the future owns or controls, or as to which Micron or any of its Subsidiaries has the right to grant licenses or accord freedom from suit, including without limitation the patents and patent applications listed on Exhibit C.

33. [***].

34. [***].

35. "Semiconductor Device" shall mean a device consisting primarily of a body or film of Semiconductor Material having a plurality of electrodes associated therewith (whether or not said body consists of a single Semiconductor Material or of a multiplicity of such materials, and whether or not said body includes one or more layers or other regions of a material or materials which are of a type other than Semiconductor Material); and if provided as part thereof, said device includes all Ancillary Parts. The term "Semiconductor Device" shall also include (i) any memory module and any memory card (both in the meaning which is widely used in the industry), and (ii) a printed circuit board having memory functionality sold by an entity where each such board sold by an entity includes memory manufactured by such entity and affixed onto such board prior to sale, and where such sale is to an OEM customer. Printed circuit boards sold by an entity which do not include memory manufactured by such entity and which are sold to end users are expressly excluded from the term Semiconductor Device.

36. "Semiconductor Material" shall mean any material having an electrical charge carrier concentration which increases with temperature over some temperature range; and having a resistivity in its normal operating temperature range of between 10E(-4) and 10E11 ohm-centimeters.

37. "Settlement and Release Agreement" shall have the meaning set forth in the Recitals to this Agreement.

38. [***].

39. [***].

40. [***].

41. "Subsidiary" shall mean a legal entity of which a Person, as of the Effective Date or at any time during the Term, owns or controls, directly or indirectly, either of the following (but only for so long as such ownership or control exists):

a. if such entity has shares or other securities, more than fifty percent (50%) of the outstanding voting shares or securities entitled to vote for the election of directors or others having similar managing authority; or

b. if such entity does not have shares or other securities, more than fifty percent (50%) of the ownership interests that represent the right to vote for the election of managers, directors, or others having similar managing authority or the right to make decisions for such entity.

42. "Technology" shall mean all existing and future designs, materials, techniques, processes, inventions, methods, applications, know-how, data, technical information, intellectual property or other technology.

43. "Toshiba" shall have the meaning set forth in the initial paragraph of this Agreement.

44. "Toshiba Party" shall mean Toshiba, its Subsidiaries (including, for the avoidance of doubt, FlashVision LLC and FlashPartners LLC), and each of their respective agents, representatives, directors, employees, successors and assigns, distributors, resellers, and other direct or indirect customers.

45. "Transferred Patents" shall have the meaning set forth in the definition of Acclaim Patents above.

46. [***].

Exhibits

Exhibit A Acclaim Patents

Exhibit B Lexar Patents

Exhibit C Retained Patents

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

I, Steven R. Appleton, certify that:

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

Date: January 16, 2007

/s/ STEVEN R. APPLETON

Steven R. Appleton

Chairman, Chief Executive Officer and President

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

I, W. G. Stover, Jr., certify that:

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

Date: January 16, 2007

/s/ W. G. STOVER, JR.

W. G. Stover, Jr.

Vice President of Finance and Chief Financial Officer

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

I, Steven R. Appleton, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Micron Technology, Inc. on Form 10-Q for the period ended November 30, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Micron Technology, Inc.

Date: January 16, 2007

By: /s/ STEVEN R. APPLETON
Steven R. Appleton
Chairman, Chief Executive Officer and President

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

I, W. G. Stover, Jr., certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Micron Technology, Inc. on Form 10-Q for the period ended November 30, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Micron Technology, Inc.

Date: January 16, 2007

By: /s/ W. G. STOVER, JR.
W. G. Stover, Jr.
Vice President of Finance and Chief Financial Officer
