

MICRON TECHNOLOGY INC
Form 10-Q
April 08, 2016

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 March 3, 2016

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-10658

Micron Technology, Inc.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)

75-1618004
(IRS Employer Identification No.)

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

83716-9632
(Zip Code)

Registrant's telephone number, including area code (208) 368-4000

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Yes No

The number of outstanding shares of the registrant's common stock as of April 1, 2016, was 1,037,043,109.

Definitions of Commonly Used Terms

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

Term	Definition	Term	Definition
2031B Notes	1.875% Convertible Senior Notes due 2031	MMJ	Micron Memory Japan, Inc.
2032 Notes	2032C and 2032D Notes	MMJ Companies	MAI and MMJ
2032C Notes	2.375% Convertible Senior Notes due 2032	MMJ Group	MMJ and its subsidiaries
2032D Notes	3.125% Convertible Senior Notes due 2032	MMT	Micron Memory Taiwan Co., Ltd.
2033 Notes	2033E and 2033F Notes	MP Mask	MP Mask Technology Center, LLC
2033E Notes	1.625% Convertible Senior Notes due 2033	MTI	Micron Technology, Inc.
2033F Notes	2.125% Convertible Senior Notes due 2033	Nanya	Nanya Technology Corporation
2043G Notes	3.00% Convertible Senior Notes due 2043	nm	Nanometer
Elpida	Elpida Memory, Inc.	Photronics	Photronics, Inc.
IMFT	IM Flash Technologies, LLC	PSRAM	Pseudo-static DRAM
Inotera	Inotera Memories, Inc.	Qimonda	Qimonda AG
Intel	Intel Corporation	R&D	Research and Development
Japan Court	Tokyo District Court	RLDRAM	Reduced Latency DRAM
LPDRAM	Mobile Low-Power DRAM	SG&A	Selling, General and Administration
MAI	Micron Akita, Inc.	SSD	Solid-State Drive
MCP	Multi-Chip Package	Tera Probe	Tera Probe, Inc.
Micron	Micron Technology, Inc. (Parent Company)	TLC	Triple-Level Cell
MLC	Multi-Level Cell	VIE	Variable Interest Entity

Additional Information

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions except per share amounts)

(Unaudited)

	Quarter ended		Six months ended	
	March 3, 2016	March 5, 2015	March 3, 2016	March 5, 2015
Net sales	\$2,934	\$4,166	\$6,284	\$8,739
Cost of goods sold	2,355	2,761	4,856	5,696
Gross margin	579	1,405	1,428	3,043
Selling, general, and administrative	175	187	354	380
Research and development	403	379	824	755
Other operating (income) expense, net	6	(16)	) 23	(32)
Operating income (loss)	(5)	) 855	227	1,940
Interest income	12	8	23	15
Interest expense	(97)	) (83)	) (193)	) (173)
Other non-operating income (expense), net	(6)	) (6)	) (10)	) (55)
	(96)	) 774	47	1,727
Income tax (provision) benefit	(5)	) (47)	) (1)	) (122)
Equity in net income of equity method investees	5	208	64	332
Net income (loss)	(96)	) 935	110	1,937
Net (income) loss attributable to noncontrolling interests	(1)	) (1)	) (1)) —
Net income (loss) attributable to Micron	\$(97)	) \$934	\$109	\$1,937
Earnings (loss) per share:				
Basic	\$(0.09)	) \$0.87	\$0.11	\$1.81
Diluted	(0.09)	) 0.78	0.10	1.62
Number of shares used in per share calculations:				
Basic	1,036	1,074	1,035	1,072
Diluted	1,036	1,190	1,072	1,193

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

	Quarter ended		Six months ended	
	March 3, 2016	March 5, 2015	March 3, 2016	March 5, 2015
Net income (loss)	\$ (96	) \$ 935	\$ 110	\$ 1,937
Other comprehensive income (loss), net of tax:				
Gain (loss) on derivatives, net	3	(2	) (1	) (18
Foreign currency translation adjustments	1	(50	) (89	) (74
Pension liability adjustments	1	(1	) (5	) 18
Gain (loss) on investments, net	1	(1	) (2	) (1
Other comprehensive income (loss)	6	(54	) (97	) (75
Total comprehensive income (loss)	(90	) 881	13	1,862
Comprehensive (income) loss attributable to noncontrolling interests	(1	) —	(1	) 1
Comprehensive income (loss) attributable to Micron	\$ (91) \$ 881	\$ 12	\$ 1,863

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(in millions except par value amounts)

(Unaudited)

As of	March 3, 2016	September 3, 2015
Assets		
Cash and equivalents	\$3,078	\$2,287
Short-term investments	957	1,234
Receivables	1,984	2,507
Inventories	2,608	2,340
Other current assets	178	228
Total current assets	8,805	8,596
Long-term marketable investments	1,108	2,113
Property, plant, and equipment, net	11,819	10,554
Equity method investments	1,360	1,379
Intangible assets, net	512	449
Deferred tax assets	668	597
Other noncurrent assets	547	455
Total assets	\$24,819	\$24,143
Liabilities and equity		
Accounts payable and accrued expenses	\$3,087	\$2,611
Deferred income	199	205
Current debt	1,125	1,089
Total current liabilities	4,411	3,905
Long-term debt	6,494	6,252
Other noncurrent liabilities	636	698
Total liabilities	11,541	10,855
Commitments and contingencies		
Redeemable convertible notes	39	49
Micron shareholders' equity:		
Common stock, \$0.10 par value, 3,000 shares authorized; 1,090 shares issued and outstanding (1,084 as of September 3, 2015)	109	108
Additional capital	7,579	7,474
Retained earnings	5,685	5,588
Treasury stock, 53 shares held (45 as of September 3, 2015)	(1,025	) (881
Accumulated other comprehensive income (loss)	(84	) 13
Total Micron shareholders' equity	12,264	12,302
Noncontrolling interests in subsidiaries	975	937
Total equity	13,239	13,239
Total liabilities and equity	\$24,819	\$24,143

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

Six months ended	March 3, 2016	March 5, 2015	
Cash flows from operating activities			
Net income	\$110	\$1,937	
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation expense and amortization of intangible assets	1,511	1,284	
Amortization of debt discount and other costs	64	71	
Stock-based compensation	101	84	
Loss on restructure of debt	1	30	
Equity in net income of equity method investees	(64	) (332)
Change in operating assets and liabilities			
Receivables	542	153	
Inventories	(268	) 78	
Accounts payable and accrued expenses	(67	) (488)
Deferred income taxes, net	(27	) 159	
Other	(20	) (133)
Net cash provided by operating activities	1,883	2,843	
Cash flows from investing activities			
Expenditures for property, plant, and equipment	(2,209	) (1,522)
Purchases of available-for-sale securities	(679	) (2,222)
Payments to settle hedging activities	(66	) (88)
Proceeds from sales and maturities of available-for-sale securities	1,950	631	
Other	(22	) (1)
Net cash provided by (used for) investing activities	(1,026	) (3,202)
Cash flows from financing activities			
Repayments of debt	(519	) (1,149)
Cash paid to acquire treasury stock	(147	) (244)
Proceeds from equipment sale-leaseback transactions	424	254	
Proceeds from issuance of debt	174	1,000	
Contributions from noncontrolling interests	37	20	
Proceeds from issuance of stock under equity plans	24	50	
Other	(61	) (75)
Net cash provided by (used for) financing activities	(68	) (144)
Effect of changes in currency exchange rates on cash and equivalents	2	(100)
Net increase (decrease) in cash and equivalents	791	(603)
Cash and equivalents at beginning of period	2,287	4,150	
Cash and equivalents at end of period	\$3,078	\$3,547	

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts in millions except per share amounts)

(Unaudited)

Business and Basis of Presentation

We are a global leader in advanced semiconductor systems. Our broad portfolio of high-performance memory technologies, including DRAM, NAND Flash, and NOR Flash, is the basis for solid-state drives, modules, multi-chip packages, and other system solutions. Our memory solutions enable the world's most innovative computing, consumer, enterprise storage, networking, mobile, embedded, and automotive applications. The accompanying consolidated financial statements include the accounts of MTI and its consolidated subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended September 3, 2015. In the opinion of our management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, consisting of a normal recurring nature, to fairly state the financial information set forth herein. Certain reclassifications have been made to prior period amounts to conform to current period presentation.

Our fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. Fiscal year 2016 contains 52 weeks and fiscal year 2015 contained 53 weeks. The first quarter of 53-week years contains 14 weeks. All period references are to our fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended September 3, 2015.

Variable Interest Entities

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

Unconsolidated VIEs

Inotera: Inotera is a VIE because of the terms of its supply agreement with us. We have determined that we do not have the power to direct the activities of Inotera that most significantly impact its economic performance, primarily due to limitations on our governance rights that require the consent of other parties for key operating decisions and due to Inotera's dependence on Nanya for financing and the ability of Inotera to operate in Taiwan. Therefore, we do not consolidate Inotera and we account for our interest under the equity method. (See "Equity Method Investments – Inotera" note.)

EQUVO: EQUVO HK Limited ("EQUVO") is a special purpose entity created to facilitate an equipment sale-leaseback financing transaction between us and a consortium of financial institutions. Neither we nor the financing entities have an equity interest in EQUVO. EQUVO is a VIE because its equity is not sufficient to permit it

to finance its activities without additional support from the financing entities and because the third-party equity holder lacks characteristics of a controlling financial interest. By design, the arrangement with EQUVO is merely a financing vehicle and we do not bear any significant risks from variable interests with EQUVO. Therefore, we have determined that we do not have the power to direct the activities of EQUVO that most significantly impact its economic performance and we do not consolidate EQUVO.

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

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

Consolidated VIEs

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

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

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

Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17 – Balance Sheet Classification of Deferred Taxes, which eliminates the requirement to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. We adopted this ASU as of the beginning of our second quarter of 2016 on a prospective basis and did not retrospectively adjust prior periods. As a result of adopting this standard, we presented our deferred tax assets and liabilities as noncurrent. The adoption of this standard did not have a material impact on our financial statements.

In September 2015, the FASB issued ASU 2015-16 – Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. Instead, the cumulative impact of measurement period adjustments, including the impact on prior periods, is required to be recognized in the reporting period in which the adjustment is identified. We adopted this ASU in our second quarter of 2016. The adoption of this standard did not have a material impact on our financial statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02 – Leases, which amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. This ASU

will be effective for us beginning in our first quarter of 2020 and early adoption is permitted. This ASU is required to be adopted using a modified retrospective approach. We are evaluating the timing of our adoption and the effects of the adoption of this ASU on our financial statements.

In January 2016, the FASB issued ASU 2016-01 – Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This ASU will be effective for us beginning in our first quarter of 2019. We are evaluating the effects of the adoption of this ASU on our financial statements.

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

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

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under generally accepted accounting principles in the U.S. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. We are required to adopt this ASU beginning in our first quarter of 2019; however, we are permitted to adopt this ASU as early as our first quarter of 2018. This ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the timing of our adoption, the transition method we will elect, and the effects of the adoption of this ASU on our financial statements.

Pending Acquisition of Inotera

In the second quarter of 2016, we entered into agreements to acquire the remaining interest in Inotera for 30 New Taiwan dollars per share in cash (or the equivalent of approximately \$0.91 per share, assuming 33.1 New Taiwan dollars per U.S. dollar, the exchange rate as of March 3, 2016). As of March 3, 2016, we held a 33% ownership interest in Inotera, Nanya and certain of its affiliates held a 32% ownership interest, and the remaining ownership interest in Inotera was publicly held. Based on the exchange rate as of March 3, 2016, we estimate the aggregate consideration payable for the 67% of Inotera shares not owned by us would be approximately \$4.0 billion. We anticipate financing the acquisition with the proceeds of the 80 billion New Taiwan debt financing referred to below and a combination of cash on hand, additional borrowings under our existing credit agreements, and the issuance of equity and up to \$500 million unsecured debt pursuant to the Private Placement (defined below).

On March 29, 2016, the transaction was approved by the shareholders of Inotera, including Nanya and certain of Nanya's affiliates (which held approximately 32% of Inotera's shares and provided such approval pursuant to voting and support agreements entered into in the second quarter of 2016). Under the voting and support agreements, the parties have further agreed not to transfer any of their Inotera shares so long as the voting and support agreements are in effect. These agreements will terminate automatically upon the termination of the agreement to purchase the Inotera shares.

Consummation of the acquisition of Inotera is subject to various conditions, including but not limited to:

the receipt of necessary regulatory approvals from authorities in Taiwan;
the consummation and funding of debt financing of at least 80 billion New Taiwan dollars (or the equivalent of
approximately \$2.4 billion, assuming 33.1 New Taiwan dollars per U.S. dollar), on terms that are satisfactory to us;
and
unless we determine otherwise, the consummation and funding of the Private Placement (described below).

In addition, the agreement to acquire the Inotera shares contains certain termination rights, including:

• termination by either us or Inotera if we have not completed the purchase of the remaining shares of Inotera by November 30, 2016; or
• termination by us if we have not obtained satisfactory debt commitment letters for the debt financing of at least 80 billion New Taiwan dollars by May 16, 2016.

We currently anticipate completing the Inotera transaction during the fourth quarter of 2016. Consummation of the Inotera transaction is subject to significant uncertainties, including regulatory approvals and availability of debt financing on terms satisfactory to us, and there can be no assurance that the Inotera transaction will be consummated when anticipated or at all.

Issuance of Micron Shares to Nanya: In the second quarter of 2016, we also entered into an agreement with Nanya pursuant to which we have the option to issue shares of our common stock (the "Micron Shares") to Nanya in an amount equivalent to up to 31.5 billion New Taiwan dollars (or the equivalent of approximately \$950 million, assuming 33.1 New Taiwan dollars per U.S. dollar) (the "Private Placement"), which will be used to fund a portion of the consideration for the transaction. The per-share selling price for the Micron Shares will be equal to the New Taiwan dollar equivalent of the average of the closing price of our common stock during the 30 consecutive trading-day period ending 30 days prior to the consummation of the Private Placement and the transaction.

We are currently in discussions about potential changes to the Private Placement commitment, including the possibility of substituting up to \$500 million of unsecured notes (including convertible notes) for the corresponding portion of the shares of our common stock that may be purchased pursuant to the Private Placement.

The consummation of the Private Placement is subject to regulatory approval and various other conditions.

Technology Transfer and License Agreements with Nanya

In the second quarter of 2016, we entered into technology transfer and license agreements pursuant to which Nanya has the option to require us to transfer to Nanya certain technology and deliverables related to the next DRAM process node generation (the "1X Process Node") after our 20nm process node and the next DRAM process node generation after the 1X Process Node for Nanya's use. Under the terms of the agreements, Nanya would pay royalties to us for a license to the transferred technology based on revenues from products implementing the technology, subject to an agreed cap, and we would also receive an equity interest in Nanya upon the achievement of certain milestones.

Cash and Investments

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

As of	March 3, 2016				September 3, 2015			
	Cash and Equivalents	Short-term Investments	Long-term Marketable Investments ⁽³⁾	Total Fair Value	Cash and Equivalents	Short-term Investments	Long-term Marketable Investments ⁽³⁾	Total Fair Value
Cash Level 1 ⁽¹⁾	\$2,343	\$ —	\$ —	\$2,343	\$1,684	\$ —	\$ —	\$1,684
Money market funds Level 2 ⁽²⁾	339	—	—	339	168	—	—	168
Corporate bonds	—	675	673	1,348	2	616	1,261	1,879
Government securities	53	213	97	363	58	391	254	703
Certificates of deposit	331	20	10	361	311	28	23	362
Asset-backed securities	—	6	328	334	—	8	575	583
Commercial paper	12	43	—	55	64	191	—	255
	\$3,078	\$ 957	\$ 1,108	\$5,143	\$2,287	\$ 1,234	\$ 2,113	\$5,634

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

The fair value of Level 2 securities is measured using information obtained from pricing services, which obtain quoted market prices for similar instruments, non-binding market consensus prices that are corroborated by

⁽²⁾ observable market data, or various other methodologies, to determine the appropriate value at the measurement date. We perform supplemental analysis to validate information obtained from these pricing services. As of March 3, 2016, no adjustments were made to such pricing information.

⁽³⁾ The maturities of long-term marketable investments range from one to four years.

Proceeds from sales of available-for-sale securities were \$585 million and \$992 million for the second quarter and first six months of 2016, respectively, and \$143 million and \$376 million for the second quarter and first six months of 2015, respectively. Gross realized gains and losses from sales of available-for-sale securities were not significant for any period presented. As of March 3, 2016, there were no available-for-sale securities that had been in a loss position for longer than 12 months.

Receivables

As of	March 3, 2016	September 3, 2015
Trade receivables	\$1,694	\$2,188
Income and other taxes	93	116
Other	197	203
	\$1,984	\$2,507

As of March 3, 2016 and September 3, 2015, other receivables included \$98 million and \$120 million, respectively, due from Intel for amounts related to product design and process development activities under cost-sharing agreements for NAND Flash memory and 3D XPoint™ memory. (See "Equity – Noncontrolling Interests in

Subsidiaries – IMFT" note.)

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Inventories

As of	March 3, 2016	September 3, 2015
Finished goods	\$793	\$785
Work in process	1,578	1,315
Raw materials and supplies	237	240
	\$2,608	\$2,340

Property, Plant, and Equipment

	September 3, 2015	Additions	Retirements and Other	March 3, 2016	
Land	\$88	\$—	\$—	\$88	
Buildings	5,358	340	(4	) 5,694
Equipment ⁽¹⁾	21,020	1,994	(276	) 22,738
Construction in progress ⁽²⁾	436	411	(28	) 819
Software	373	24	—	397	
	27,275	2,769	(308	) 29,736
Accumulated depreciation	(16,721) (1,451) 255	(17,917)
	\$10,554	\$1,318	\$(53	) \$11,819

(1) Included costs related to equipment not placed into service of \$1.07 billion and \$928 million as of March 3, 2016 and September 3, 2015, respectively.

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

Depreciation expense was \$745 million and \$1.45 billion for the second quarter and first six months of 2016, respectively, and \$611 million and \$1.22 billion for the second quarter and first six months of 2015, respectively.

Equity Method Investments

As of	March 3, 2016		September 3, 2015		
	Investment Balance	Ownership Percentage	Investment Balance	Ownership Percentage	
Inotera ⁽¹⁾	\$1,303	33	% \$1,332	33	%
Tera Probe	44	40	% 38	40	%
Other	13	Various	9	Various	
	\$1,360		\$1,379		

(1) Entity is a variable interest entity.

As of March 3, 2016, substantially all of our maximum exposure to loss from our VIEs that were not consolidated was the \$1.30 billion carrying value of our investment in Inotera. We may also incur losses in connection with our rights and obligations to purchase all of Inotera's wafer production capacity under our supply agreement with Inotera.

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

	Quarter ended		Six months ended	
	March 3, 2016	March 5, 2015	March 3, 2016	March 5, 2015
Inotera	\$2	\$206	\$54	\$335
Tera Probe	3	1	6	(6
Other	—	1	4	3
	\$5	\$208	\$64	\$332

Inotera

We have partnered with Nanya in Inotera, a Taiwan DRAM memory company, since 2009. As of March 3, 2016, we held a 33% ownership interest in Inotera, Nanya and certain of its affiliates held a 32% ownership interest, and the remaining ownership interest in Inotera was publicly held. In the second quarter of 2016 we entered into agreements to acquire the remaining interest in Inotera. (See "Pending Acquisition of Inotera" note.)

As of March 3, 2016, the market value of our equity interest in Inotera was \$1.85 billion based on the closing trading price of 28.55 New Taiwan dollars per share in an active market. As of March 3, 2016 and September 3, 2015, there were losses of \$76 million and gains of \$13 million, respectively, in accumulated other comprehensive income (loss) for cumulative translation adjustments from our equity investment in Inotera.

From January 2013 through December 2015, we purchased all of Inotera's DRAM output under a supply agreement at prices reflecting discounts from market prices for our comparable components. Effective beginning on January 1, 2016, the price for DRAM products sold to us is based on a formula that equally shares margin between Inotera and us. We purchased \$326 million and \$705 million of DRAM products from Inotera in the second quarter and first six months of 2016, respectively, and \$628 million and \$1.36 billion in the second quarter and first six months of 2015, respectively. Due to declines in average selling prices, our per gigabit cost of products purchased from Inotera have decreased significantly throughout 2015 and the first six months of 2016 such that, for the second quarter of 2016, our costs for Inotera products approximated our cost for similar products manufactured in our wholly-owned facilities. In 2015 and the first quarter of 2016, our cost of Inotera products was higher than our cost for similar products manufactured in our wholly-owned facilities. The supply agreement with Inotera (as extended in December 2015) has an initial three-year term, followed by a three-year wind-down period. Upon termination of the initial three-year term, the share of Inotera's capacity we would purchase would decline over the wind-down period.

Tera Probe

In 2013, we acquired a 40% interest in Tera Probe, which provides semiconductor wafer testing and probe services to us and others. The initial net carrying value of our investment was less than our proportionate share of Tera Probe's equity and the difference is being amortized as a credit to our earnings through equity in net income of equity method investees (the "Tera Probe Amortization"). As of March 3, 2016, the remaining balance of the Tera Probe Amortization was \$21 million and is expected to be amortized over a weighted-average period of eight years. Based on closing trading prices, the market value of our equity interest in Tera Probe was \$26 million as of March 3, 2016 and \$36 million as of December 31, 2015. We evaluated our investment in Tera Probe and concluded that the decline in the market value below our carrying value did not indicate an other-than-temporary impairment primarily because of the limited amount of time the market value was below carrying value and the historical volatility of Tera Probe's

stock price. We incurred manufacturing costs for services performed by Tera Probe of \$18 million and \$39 million for the second quarter and first six months of 2016, respectively, and \$22 million and \$47 million for the second quarter and first six months of 2015, respectively.

Intangible Assets and Goodwill

As of	March 3, 2016		September 3, 2015	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortizing assets				
Product and process technology	\$ 824	\$(421)	\$ 864	\$(416)
Other	1	—	2	(1)
	825	(421)	866	(417)
Non-amortizing assets				
In-process R&D	108	—	—	—
	\$ 933	\$(421)	\$ 866	\$(417)
Goodwill ⁽¹⁾	\$ 104		\$ 23	

⁽¹⁾ Included in other noncurrent assets.

During the first six months of 2016 and 2015, we capitalized \$16 million and \$32 million, respectively, for product and process technology with weighted-average useful lives of ten years and seven years, respectively. Amortization expense was \$29 million and \$60 million for the second quarter and first six months of 2016, respectively, and \$30 million and \$60 million for the second quarter and first six months of 2015, respectively. The expected annual amortization expense for intangible assets held as of March 3, 2016 is \$119 million for 2016, \$105 million for 2017, \$93 million for 2018, \$45 million for 2019, and \$29 million for 2020.

In the first quarter of 2016, we acquired Tidal Systems, Ltd., a developer of PCIe NAND Flash storage controllers, to enhance our NAND Flash controller technology for \$148 million. In connection therewith, we recognized \$108 million of in-process R&D; \$81 million of goodwill, which was derived from expected cost reductions and other synergies and was assigned to our Storage Business Unit; and \$41 million of deferred tax liabilities, which, in aggregate, represented substantially all of the purchase price. The in-process R&D was valued using a replacement cost approach, which included inputs of reproduction cost, including developer's profit, and opportunity cost. We will begin amortizing the in-process R&D when development is complete, which is estimated to be in 2017, and will amortize it over its then estimated useful life. The goodwill is not expected to be deductible for tax purposes.

Accounts Payable and Accrued Expenses

As of	March 3, 2016	September 3, 2015
Accounts payable	\$ 1,014	\$ 1,020
Property, plant, and equipment payables	1,123	577
Salaries, wages, and benefits	372	321
Related party payables	234	338
Income and other taxes	65	85
Other	279	270
	\$ 3,087	\$ 2,611

As of March 3, 2016 and September 3, 2015, related party payables included \$225 million and \$327 million, respectively, due to Inotera primarily for the purchase of DRAM products. As of March 3, 2016 and September 3, 2015, related party payables also included \$8 million and \$11 million, respectively, due to Tera Probe for probe

services performed. (See "Equity Method Investments" note.)

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Debt

Instrument ⁽¹⁾	Stated Rate	Effective Rate	March 3, 2016			September 3, 2015		
			Current	Long-Term	Total	Current	Long-Term	Total
MMJ creditor installment payments	N/A	6.25	% \$167	\$ 601	\$768	\$161	\$ 701	\$862
Capital lease obligations ⁽²⁾	N/A	N/A	338	762	1,100	326	466	792
1.258% notes	1.258	% 1.97	% 87	174	261	87	217	304
2022 senior notes	5.875	% 6.14	% —	589	589	—	589	589
2023 senior notes	5.250	% 5.43	% —	989	989	—	988	988
2024 senior notes	5.250	% 5.38	% —	545	545	—	545	545
2025 senior notes	5.500	% 5.56	% —	1,139	1,139	—	1,138	1,138
2026 senior notes	5.625	% 5.73	% —	446	446	—	446	446
2032C convertible senior notes ⁽³⁾	2.375	% 5.95	% —	200	200	—	197	197
2032D convertible senior notes ⁽³⁾	3.125	% 6.33	% —	152	152	—	150	150
2033E convertible senior notes ⁽³⁾	1.625	% 4.50	% 166	—	166	217	—	217
2033F convertible senior notes ⁽³⁾	2.125	% 4.93	% 267					