MICRON TECHNOLOGY INC
Form 10-Q
April 07, 2014

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

FORM 10-Q
(Mark One)

| | |
|---|---|
| x | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

For the quarterly period ended February 27, 2014

OR

| | |
|---|---|
| o | 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<br>(State or other jurisdiction of incorporation or organization) | 75-1618004<br>(IRS Employer Identification No.) |
| 8000 S. Federal Way, Boise, Idaho<br>(Address of principal executive offices) | 83716-9632<br>(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 x No o

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 x No o

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 x | Accelerated Filer o |
| Non-Accelerated Filer o<br>(Do not check if a smaller reporting company) | Smaller Reporting Company o |

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

Yes o No x

The number of outstanding shares of the registrant's common stock as of April 3, 2014, was 1,070,379,433.

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 | |
|---|---|---|---|---|
| | February 27, 2014 | February 28, 2013 | February 27, 2014 | February 28, 2013 |
| Net sales | $4,107 | $2,078 | $8,149 | $3,912 |
| Cost of goods sold | 2,704 | 1,712 | 5,465 | 3,329 |
| Gross margin | 1,403 | 366 | 2,684 | 583 |
| | | | | |
| Selling, general and administrative | 177 | 123 | 353 | 242 |
| Research and development | 344 | 214 | 664 | 438 |
| Restructure and asset impairments | 12 | 60 | 9 | 39 |
| Other operating (income) expense, net | 1 | (8) | 238 | (16) |
| Operating income (loss) | 869 | (23) | 1,420 | (120) |
| | | | | |
| Interest income | 6 | 3 | 11 | 6 |
| Interest expense | (83) | (56) | (184) | (113) |
| Other non-operating income (expense), net | (122) | (159) | (202) | (218) |
| | 670 | (235) | 1,045 | (445) |
| | | | | |
| Income tax (provision) benefit | (63) | 9 | (143) | (4) |
| Equity in net income (loss) of equity method investees | 134 | (58) | 220 | (110) |
| Net income (loss) | 741 | (284) | 1,122 | (559) |
| | | | | |
| Net income attributable to noncontrolling interests | (10) | (2) | (33) | (2) |
| Net income (loss) attributable to Micron | $731 | $(286) | $1,089 | $(561) |
| | | | | |
| Earnings (loss) per share: | | | | |
| Basic | $0.69 | $(0.28) | $1.03 | $(0.55) |
| Diluted | 0.61 | (0.28) | 0.91 | (0.55) |
| | | | | |
| Number of shares used in per share calculations: | | | | |
| Basic | 1,060 | 1,016 | 1,053 | 1,015 |
| Diluted | 1,201 | 1,016 | 1,199 | 1,015 |

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 27, 2014 | February 28, 2013 | February 27, 2014 | February 28, 2013 |
| Net income (loss) | $741 | $(284) | $1,122 | $(559) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (10) | 2 | (4) | 9 |
| Gain (loss) on derivative instruments, net | (2) | (3) | (4) | (8) |
| Pension liability adjustments | 2 | — | 2 | (1) |
| Gain (loss) on investments, net | 1 | (3) | 2 | (1) |
| Other comprehensive income (loss) | (9) | (4) | (4) | (1) |
| Total comprehensive income (loss) | 732 | (288) | 1,118 | (560) |
| Comprehensive (income) loss attributable to noncontrolling interests | (10) | (2) | (33) | (2) |
| Comprehensive income (loss) attributable to Micron | $722 | $(290) | $1,085 | $(562) |

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

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

| As of | February 27, 2014 | August 29, 2013 |
|---|---|---|
| Assets | | |
| Cash and equivalents | $4,305 | $2,880 |
| Short-term investments | 199 | 221 |
| Receivables | 2,826 | 2,329 |
| Inventories | 2,462 | 2,649 |
| Restricted cash | — | 556 |
| Other current assets | 199 | 276 |
| Total current assets | 9,991 | 8,911 |
| Long-term marketable investments | 552 | 499 |
| Property, plant and equipment, net | 7,859 | 7,626 |
| Equity method investments | 618 | 396 |
| Intangible assets, net | 367 | 386 |
| Deferred tax assets | 741 | 861 |
| Other noncurrent assets | 487 | 439 |
| Total assets | $20,615 | $19,118 |
| | | |
| Liabilities and equity | | |
| Accounts payable and accrued expenses | $2,679 | $2,115 |
| Deferred income | 251 | 243 |
| Equipment purchase contracts | 145 | 182 |
| Current debt | 2,230 | 1,585 |
| Total current liabilities | 5,305 | 4,125 |
| Long-term debt | 4,317 | 4,452 |
| Other noncurrent liabilities | 858 | 535 |
| Total liabilities | 10,480 | 9,112 |
| | | |
| Commitments and contingencies | | |
| | | |
| Redeemable convertible notes | 91 | — |
| | | |
| Micron shareholders' equity: | | |
| Common stock, $0.10 par value, 3,000 shares authorized, 1,070 shares issued and outstanding (1,044 as of August 29, 2013) | 107 | 104 |
| Additional capital | 8,282 | 9,187 |
| Retained earnings (accumulated deficit) | 836 | (212) |
| Accumulated other comprehensive income | 59 | 63 |
| Total Micron shareholders' equity | 9,284 | 9,142 |
| Noncontrolling interests in subsidiaries | 760 | 864 |
| Total equity | 10,044 | 10,006 |
| Total liabilities and equity | $20,615 | $19,118 |

See accompanying notes to consolidated financial statements.

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

| Six Months Ended | February 27, 2014 | February 28, 2013 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) | $ 1,122 | $ (559) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation expense and amortization of intangible assets | 1,008 | 912 |
| Amortization of debt discount and other costs | 94 | 58 |
| Loss on restructure of debt | 166 | 31 |
| Stock-based compensation | 49 | 40 |
| Adjustment to gain on acquisition of Elpida | 33 | — |
| (Gains) losses from currency hedges, net | 21 | 173 |
| Equity in net (income) loss of equity method investees | (220) | 110 |
| Change in operating assets and liabilities: | | |
| Receivables | (458) | (3) |
| Inventories | 188 | 27 |
| Accounts payable and accrued expenses | 489 | (189) |
| Customer prepayments | 153 | (63) |
| Deferred income taxes, net | 127 | — |
| Other | 125 | (67) |
| Net cash provided by operating activities | 2,897 | 470 |
| | | |
| Cash flows from investing activities | | |
| Expenditures for property, plant and equipment | (1,031) | (761) |
| Purchases of available-for-sale securities | (359) | (430) |
| Decrease in restricted cash | 556 | — |
| Proceeds from sales and maturities of available-for-sale securities | 320 | 198 |
| Other | 63 | (6) |
| Net cash used for investing activities | (451) | (999) |
| | | |
| Cash flows from financing activities | | |
| Repayments of debt | (1,987) | (587) |
| Payments on equipment purchase contracts | (203) | (130) |
| Cash paid to purchase common stock | (73) | (5) |
| Cash paid for capped call transactions | — | (48) |
| Proceeds from issuance of debt | 1,062 | 812 |
| Proceeds from issuance of common stock under equity plans | 224 | 24 |
| Cash received from noncontrolling interests | 49 | 10 |
| Proceeds from equipment sale-leaseback transactions | 14 | 73 |
| Cash received from capped call transactions | — | 24 |
| Other | (92) | (42) |
| Net cash provided by (used for) financing activities | (1,006) | 131 |
| | | |
| Effect of changes in currency exchange rates on cash and cash equivalents | (15) | — |

| | | |
|---|---|---|
| Net increase (decrease) in cash and equivalents | 1,425 | (398 ) |
| Cash and equivalents at beginning of period | 2,880 | 2,459 |
| Cash and equivalents at end of period | $4,305 | $2,061 |
| | | |
| Noncash investing and financing activities: | | |
| Exchange of convertible notes | $756 | $— |
| Acquisition of noncontrolling interest | 127 | — |
| Equipment acquisitions on contracts payable and capital leases | 208 | 209 |

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts in millions except per share amounts)
(Unaudited)

Business and Basis of Presentation

Micron Technology, Inc., including its consolidated subsidiaries, (hereinafter referred to collectively as "we," "our," "us" and similar terms unless the context indicates otherwise) is one of the world's leading providers of advanced semiconductor solutions. Through our worldwide operations, we manufacture and market a full range of DRAM, NAND Flash and NOR Flash memory, as well as other innovative memory technologies, packaging solutions and semiconductor systems for use in leading-edge computing, consumer, networking, automotive, industrial, embedded and mobile products. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended August 29, 2013. In the opinion of our management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, consisting of a normal recurring nature, to present fairly 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. Our second quarters of fiscal 2014 and 2013 ended on February 27, 2014 and February 28, 2013, respectively. All period references are to our fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended August 29, 2013.

Variable Interest Entities

We have interests in entities that are Variable Interest Entities ("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 Variable Interest Entities

Inotera: Inotera Memories, Inc. ("Inotera") is a VIE because its equity is not sufficient to permit it to finance its activities without additional support from its shareholders. 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 (1) limitations on our governance rights that require the consent of other parties for key operating decisions and (2) Inotera's dependence on Nanya Technology Corporation ("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 Entities: EQUVO HK Limited and EQUVA Capital 1 Pte. Ltd. (together, the "EQUVO Entities") are special purpose entities created to facilitate equipment sale-leaseback financing transactions between us and a consortium of financial institutions ("Financing Entities"). Neither we nor the Financing Entities have an equity interest in the EQUVO Entities. The EQUVO Entities are VIEs because their equity is not sufficient to permit them to finance their 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 arrangements with the EQUVO Entities are merely financing vehicles and we do not bear any significant risks from variable interests with the EQUVO Entities. Therefore, we have determined that we do not have the power to direct the activities of the EQUVO Entities that most significantly impact their economic performance and we do not consolidate the EQUVO Entities.

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

Consolidated Variable Interest Entities

IMFT: IM Flash Technologies, LLC ("IMFT") is a VIE because all of its costs are passed to us and its other member, Intel Corporation ("Intel"), through product purchase agreements and IMFT is dependent upon us or Intel for any 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 also determined that we have the obligation to absorb losses and the right to receive benefits from IMFT that could potentially be significant to it. As a result, we have determined that we have the power to direct the activities of IMFT that most significantly impact its economic performance and, therefore, we consolidate IMFT.

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

For further information regarding our consolidated VIEs, see "Equity – Noncontrolling Interests in Subsidiaries" note.

Recently Issued Accounting Standards

There have been no recently issued accounting pronouncements that have had or are expected to have a material impact on our financial statements.

Elpida Memory, Inc.

On July 31, 2013, we acquired Elpida Memory, Inc. ("Elpida") and 89% of Rexchip Electronics Corporation ("Rexchip"), now known as Micron Memory Taiwan Co., Ltd. ("MMT") for an aggregate of $949 million in cash (collectively, the "Elpida Acquisition"). In the second quarter of 2014, we purchased an additional 9.87% of MMT's outstanding common stock. (See "Equity – Noncontrolling Interest in Subsidiaries – MMT" note.) Both Elpida and MMT manufacture semiconductor memory products including mobile DRAM targeted toward mobile phones and tablets.

In connection with the Elpida Acquisition, we recorded net assets of $2,601 million and noncontrolling interests of $168 million. Because the fair value of the net assets acquired, less noncontrolling interests, exceeded our purchase price, we recognized a gain on the acquisition of $1,484 million. In the second quarter of 2014, the provisional amounts as of the acquisition date were adjusted, primarily for pre-petition liabilities. As a result, we recorded a charge of $33 million in the second quarter of 2014 in other non-operating expense for these measurement period adjustments to adjust the gain on the acquisition of Elpida.

The following unaudited pro forma financial information presents the combined results of operations as if the Elpida Acquisition had occurred on September 2, 2011. The pro forma financial information includes the accounting effects of the business combination, including adjustments to the amortization of intangible assets, depreciation of property, plant and equipment, interest expense and elimination of intercompany activities. The unaudited pro forma financial information for the quarter and six months ended February 28, 2013 includes our results for the quarter and six months ended February 28, 2013 and the results of Elpida and MMT, including the adjustments described above, for the quarter and six months ended December 31, 2012. The unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the Elpida Acquisition occurred on September 2, 2011.

| | Quarter Ended February 28, 2013 | Six Months Ended February 28, 2013 |
|---|---|---|
| Net sales | $2,912 | $5,531 |
| Net loss | (120) | (346) |
| Net loss attributable to Micron | (132) | (369) |
| Loss per share: | | |
| Basic | $(0.13) | $(0.36) |
| Diluted | (0.13) | (0.36) |

Investments

As of February 27, 2014 and August 29, 2013, the fair values, which approximated amortized costs, of available-for-sale investments were as follows:

| As of | February 27, 2014 | August 29, 2013 |
|---|---|---|
| Money market funds | $1,137 | $1,188 |
| Corporate bonds | 456 | 414 |
| Government securities | 141 | 168 |
| Asset-backed securities | 123 | 97 |
| Certificates of deposit | 100 | 349 |
| Commercial paper | 23 | 61 |
| Marketable equity securities | 1 | 6 |
| | $1,981 | $2,283 |

The table below presents the fair value of available-for-sale debt securities as of February 27, 2014, by contractual maturity:

| | |
|---|---|
| Money market funds not due at a single maturity date | $1,137 |
| Due in 1 year or less | 292 |
| Due in 1 - 2 years | 268 |
| Due in 2 - 4 years | 266 |
| Due after 4 years | 17 |
| | $1,980 |

Proceeds from the sales of available-for-sale securities were $110 million and $223 million for the second quarter and first six months of 2014, respectively, and $67 million and $160 million for the second quarter and first six months of 2013, respectively. Gross realized gains and losses for the second quarter and first six months of 2014 and 2013 were not significant. As of February 27, 2014, no available-for-sale security had been in a loss position for longer than 12 months.

Receivables

| As of | February 27, 2014 | August 29, 2013 |
| --- | --- | --- |
| Trade receivables (net of allowance for doubtful accounts of $4 and $5, respectively) | $2,548 | $2,069 |
| Income and other taxes | 65 | 74 |
| Other | 213 | 186 |
| | $2,826 | $2,329 |

As of February 27, 2014 and August 29, 2013, other receivables included $39 million and $34 million, respectively, due from Intel for amounts related to NAND Flash and certain emerging memory technologies product design and process development activities under cost-sharing agreements. (See "Equity – Noncontrolling Interests in Subsidiaries – IMFT" note.)

Inventories

| As of | February 27, 2014 | August 29, 2013 |
| --- | --- | --- |
| Finished goods | $829 | $796 |
| Work in process | 1,447 | 1,719 |
| Raw materials and supplies | 186 | 134 |
| | $2,462 | $2,649 |

Property, Plant and Equipment

| As of | February 27, 2014 | August 29, 2013 |
| --- | --- | --- |
| Land | $86 | $86 |
| Buildings | 4,962 | 4,835 |
| Equipment | 16,474 | 15,600 |
| Construction in progress | 88 | 84 |
| Software | 329 | 315 |
| | 21,939 | 20,920 |
| Accumulated depreciation | (14,080) | (13,294) |
| | $7,859 | $7,626 |

Depreciation expense was $486 million and $954 million for the second quarter and first six months of 2014, respectively, and $434 million and $871 million for the second quarter and first six months of 2013, respectively. Other noncurrent assets included land held for development of $55 million as of February 27, 2014 and $54 million as of August 29, 2013.

Equity Method Investments

| As of | February 27, 2014 | | August 29, 2013 | |
|---|---|---|---|---|
| | Investment Balance | Ownership Percentage | Investment Balance | Ownership Percentage |
| Inotera[(1)] | $566 | 35 % | $344 | 35 % |
| Tera Probe | 41 | 40 % | 40 | 40 % |
| Other | 11 | Various | 12 | Various |
| | $618 | | $396 | |

[(1)] Entity is a variable interest entity.

As of February 27, 2014, substantially all of our maximum exposure to loss from our VIEs that were not consolidated was our $566 million investment balance in Inotera. We may also incur losses in connection with our rights and obligations to purchase substantially all of Inotera's wafer production capacity under a supply agreement with Inotera.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 27, 2014 | February 28, 2013 | February 27, 2014 | February 28, 2013 |
| Inotera | $131 | $(55) | $215 | $(108) |
| Tera Probe | 4 | — | 6 | — |
| Other | (1) | (3) | (1) | (2) |
| | $134 | $(58) | $220 | $(110) |

Inotera

We have partnered with Nanya in Inotera, a Taiwan DRAM memory company, since the first quarter of 2009. As of February 27, 2014, we held a 35% ownership interest, Nanya and its affiliates held a 36% ownership interest and the remaining ownership interest in Inotera was publicly held.

As of February 27, 2014, the market value of our equity interest in Inotera was $1.81 billion based on the closing trading price of its shares in an active market. As of February 27, 2014 and August 29, 2013, there were gains of $45 million and $44 million, respectively, in accumulated other comprehensive income (loss) for cumulative translation adjustments from our equity investment in Inotera.

As of December 31, 2013, Inotera's current liabilities exceeded its current assets by $129 million, which exposes Inotera to liquidity risk. As of December 31, 2013, Inotera was not in compliance with certain loan covenants and had not been in compliance for the past several years. The terms of the loan covenants require Inotera to cure the noncompliance no later than June 30, 2014. Inotera has requested a waiver from complying with the December 31, 2013 financial covenants. For the year ended December 31, 2013, Inotera generated net income of $703 million, which has improved its liquidity.

Through December 2012, we had rights and obligations to purchase 50% of Inotera's wafer production capacity based on a margin-sharing formula among Nanya, Inotera and us. In the second quarter of 2013, we entered into agreements with Nanya and Inotera to amend the joint venture relationship involving Inotera. The amendments included a new supply agreement (the "Inotera Supply Agreement") with Inotera under which we were obligated to purchase for an initial period through December 2015 substantially all of Inotera's output at a purchase price based on a discount from market prices for our comparable components. The Inotera Supply Agreement contemplates annual negotiations with respect to potential successive one-year extensions, and if in any year the parties do not agree to an extension, the agreement will terminate following the end of the then-existing term plus a subsequent three-year wind-down period. Our share of Inotera's capacity would decline over the three year wind-down period. In the second quarter of 2014, we extended the initial period of the Inotera Supply Agreement through December 2016. Under the Inotera supply agreements, we purchased $714 million and $1,301 million of DRAM products in the second quarter and first six months of 2014, respectively, and $200 million and $401 million in the second quarter and first six months of 2013, respectively.

Pursuant to a cost-sharing arrangement with Nanya, which was effective through December 31, 2012, our research and development ("R&D") costs were reduced by $4 million and $19 million in the second quarter and first six months of 2013, respectively. Nanya ceased participating in the joint development program after December 31, 2012.

Tera Probe

In the fourth quarter of 2013, as part of the Elpida Acquisition, we acquired a 40% interest in Tera Probe, Inc. ("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 earnings through equity in net income (loss) of equity method investees (the "Tera Probe Amortization"). As of February 27, 2014, the remaining balance of the Tera Probe Amortization was $32 million and is expected to be amortized over a weighted-average period of 6 years. As of February 27, 2014, based on the closing trading price of Tera Probe's shares in an active market, the market value of our equity interest was $42 million. Included in our cost of goods sold for the second quarter and first six months of 2014 is $31 million and $64 million, respectively, for services performed by Tera Probe.

Other

Aptina: Other equity method investments included a 30% equity interest in Aptina. The amount of cumulative loss we recognized from our investment in Aptina through the second quarter of 2012 reduced our investment balance to zero and we ceased recognizing our proportionate share of Aptina's results of operations.

In the second quarter and first six months of 2013, we recognized net sales of $48 million and $109 million, respectively, and cost of goods sold of $57 million and $138 million, respectively, from products sold to Aptina under a wafer supply agreement. In the third quarter of 2013, in connection with our sale of Micron Technology Italia, S.r.l. ("MIT") to LFoundry Marsica S.r.l. ("LFoundry"), we assigned to LFoundry our supply agreement with Aptina to manufacture image sensors at MIT. In 2013, we also loaned $45 million to Aptina under a short-term, interest-free, unsecured agreement which was repaid in the first six months of 2014.

Intangible Assets

| As of | February 27, 2014 | | August 29, 2013 | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Product and process technology | $660 | $(307) | $642 | $(269) |
| Customer relationships | 127 | (122) | 127 | (114) |
| Other | 16 | (7) | — | — |
| | $803 | $(436) | $769 | $(383) |

During the first six months of 2014 and 2013, we capitalized $19 million and $16 million, respectively, for product and process technology with weighted-average useful lives of 10 years.

Amortization expense was $31 million and $54 million for the second quarter and first six months of 2014, respectively, and $21 million and $41 million for the second quarter and first six months of 2013, respectively. Annual amortization expense is estimated to be $106 million for 2014, $74 million for 2015, $64 million for 2016, $54 million for 2017 and $44 million for 2018.

Accounts Payable and Accrued Expenses

| As of | February 27, 2014 | August 29, 2013 |
|---|---|---|
| Accounts payable | $1,155 | $1,048 |
| Related party payables | 714 | 374 |
| Salaries, wages and benefits | 352 | 267 |
| Customer advances | 156 | 140 |
| Income and other taxes | 38 | 47 |
| Other | 264 | 239 |
| | $2,679 | $2,115 |

As of February 27, 2014 and August 29, 2013, related party payables included $700 million and $345 million, respectively, due to Inotera primarily for the purchase of DRAM products under the Inotera Supply Agreement. As of February 27, 2014 and August 29, 2013, respectively, related party payables also included $14 million and $29 million due to Tera Probe for probe services performed. (See "Equity Method Investments" note.)

As of February 27, 2014 and August 29, 2013, customer advances included $61 million and $134 million, respectively, for amounts received from Intel to be applied to Intel's future purchases under a NAND Flash supply agreement. (See "Equity – Noncontrolling Interests in Subsidiaries – IMFT" note.) As of February 27, 2014, customer advances also included $90 million for amounts received from a customer in the first quarter of 2014 under a DRAM supply agreement to be applied to purchases at market pricing through September 2016. As of February 27, 2014, other noncurrent liabilities included $135 million from the DRAM supply agreement.

As of February 27, 2014 and August 29, 2013, other accounts payable included $14 million and $8 million, respectively, due to Intel for NAND Flash product design and process development and licensing fees pursuant to cost-sharing agreements. (See "Equity – Noncontrolling Interests in Subsidiaries – IMFT" note.)

Debt

| Instrument[1] | Stated Rate | | Effective Rate | | February 27, 2014 Current | Long-Term | Total | August 29, 2013 Current | Long-Term | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Elpida creditor installment payments; $1,392 and $1,969 principal amount | N/A | | 6.25 | % | $ 189 | $ 926 | $ 1,115 | $ 527 | $ 1,117 | $ 1,644 |
| Capital lease obligations; imputed rate of 4.33% and 4.07% | N/A | | N/A | | 352 | 694 | 1,046 | 407 | 845 | 1,252 |
| 2014 convertible senior notes; $419 and $485 principal amount | 1.875 | % | 7.88 | % | 677 | — | 677 | 465 | — | 465 |
| 2019 senior notes; $462 principal amount | 1.258 | % | 1.97 | % | 92 | 370 | 462 | — | — | — |
| 2022 senior notes; $600 principal amount | 5.875 | % | 6.16 | % | — | 600 | 600 | — | — | — |
| 2027 convertible senior notes; $0 and $175 principal amount | 1.875 | % | 6.95 | % | — | — | — | — | 147 | 147 |
| 2031A convertible senior notes; $0 and $345 principal amount | 1.500 | % | 6.55 | % | — | — | — | — | 277 | 277 |
| 2031B convertible senior notes;[2][3] $114 and $345 principal amount | 1.875 | % | 6.98 | % | 85 | — | 85 | — | 253 | 253 |
| 2032C convertible senior notes;[2] $450 and $550 principal amount | 2.375 | % | 5.95 | % | — | 385 | 385 | — | 463 | 463 |
| 2032D convertible senior notes;[2] $412 and $450 principal amount | 3.125 | % | 6.33 | % | — | 342 | 342 | — | 369 | 369 |
| 2033E convertible senior notes;[2][3] $300 principal amount | 1.625 | % | 4.50 | % | 275 | — | 275 | — | 272 | 272 |
| 2033F convertible senior notes;[2][3] $300 principal amount | 2.125 | % | 4.93 | % | 263 | — | 263 | — | 260 | 260 |
| 2043G convertible senior notes; $1,025 principal amount | 3.000 | % | 6.77 | % | — | 631 | 631 | — | — | — |
| Other notes payable | 2.947 | % | 3.51 | % | 297 | 369 | 666 | 186 | 449 | 635 |

| | | | | | |
|---|---|---|---|---|---|
| $2,230 | $4,317 | $6,547 | $1,585 | $4,452 | $6,037 |

(1) We have the obligation or option to pay cash for the aggregate amount due upon conversion for all of our convertible notes. Since it is our current intent to settle in cash the principal amount of all of our convertible notes upon conversion, the dilutive effect of such notes on earnings per share is computed under the treasury stock method.
(2) Since the closing price of our common stock for at least 20 trading days in the 30 trading day period ending on December 31, 2013 exceeded 130% of the initial conversion price per share, holders have the right to convert their notes at any time during the calendar quarter ended March 31, 2014.
(3) As a result of these notes being convertible at the option of the holder through March 31, 2014, and because the terms of these notes would require us to pay cash for the principal amount of any converted notes, amounts are classified as current.

Debt Restructure

During the first and second quarters of 2014, we initiated a series of actions to restructure our debt as follows:

Exchange Transactions
- In November 2013, we exchanged $440 million in aggregate principal amount of our 2027 Notes, 2031A Notes and 2031B Notes into 3.00% Convertible Senior Notes due 2043.

Debt Conversions and Settlements
- In November 2013, we announced the termination of the conversion rights for our remaining 2027 Notes, effective on December 13, 2013;
- In November 2013, we called for the redemption of our remaining 2031A Notes on December 7, 2013; and
- In January 2014, we called for the redemption of our remaining 2014 Notes on March 3, 2014.

During the first and second quarters of 2014, substantially all of the holders of these notes exercised their options to convert their notes and, in each case, we elected to settle the conversion amounts entirely in cash.

Cash Repurchases

- In January 2014, we repurchased $164 million in aggregate principal amount of our 2031B Notes, 2032C Notes and 2032D Notes in privately-negotiated transactions for an aggregate of $407 million in cash.

Issuance of Non-Convertible Notes

- In February 2014, we issued $600 million in principal amount of 5.875% senior notes due February 2022.

Exchange Transactions: On November 12, 2013, in a series of separate non-cash transactions, we exchanged portions of our 2027 Notes, 2031A Notes and 2031B Notes (collectively, the "Exchanged Notes") into 3.00% Convertible Senior Notes due 2043 (the "2043G Notes") (collectively, the "Exchange Transactions"). In connection with the Exchange Transactions, which were accounted for as extinguishments, we issued to holders of the Exchanged Notes new 2043G Notes with an aggregate principal amount at issuance of $820 million, which accretes up to a principal amount at maturity of $1,025 million (see further discussion in "2043G Notes" below). The liability and equity components of the Exchanged Notes had previously been stated separately within debt and additional capital in our consolidated balance sheet. As a result, our accounting for the Exchanged Notes affected debt and equity. In connection with the Exchanged Notes, we recognized a loss of $38 million based on the difference between the carrying values and the fair values of the debt components of the Exchanged Notes (based on Level 2 fair value measurements), which was included in other non-operating expense for the first quarter of 2014. The table below summarizes the Exchange Transactions:

| | Principal Amount | Carrying Value of Debt | Equity |
|---|---|---|---|
| Amounts reduced in connection with the Exchanged Notes: | | | |
| 2027 Notes | $80 | $68 | $51 |
| 2031A Notes | 155 | 125 | 148 |
| 2031B Notes | 205 | 152 | 212 |
| | 440 | 345 | 411 |
| Amounts added in connection with the issued notes: | | | |
| 2043G Notes | 1,025 | 627 | 173 |
| Net increase (decrease) as a result of the Exchange Transactions | $585 | $282 | $(238) |

Debt Conversions and Settlements: During the first and second quarters of 2014, we initiated a series of actions resulting in a number of debt conversions and settlements. Those actions included the following:

Termination of Conversion Rights of our 2027 Notes – On November 7, 2013, we announced the termination of the conversion rights for our remaining 2027 Notes, effective on December 13, 2013. During the first and second quarters of 2014, substantially all of holders of our 2027 Notes exercised their option to convert their notes and, in each case, we elected to settle the conversion amount entirely in cash.

Redemption of our 2031A Notes – On November 7, 2013, we called for the redemption of our remaining 2031A Notes on December 7, 2013. During the first and second quarters of 2014, substantially all of holders of our 2031A Notes exercised their option to convert their notes and, in each case, we elected to settle the conversion amount entirely in cash.

Redemption of our 2014 Notes – On January 31, 2014, we called for the redemption of our remaining 2014 Notes on March 3, 2014. During the second quarter of 2014, substantially all of the holders of our 2014 Notes exercised their option to convert their notes and, in each case, we elected to settle the conversion amount entirely in cash.

As a result of our elections to settle the conversion amounts in cash, each of the settlement obligations became derivative debt liabilities subject to mark-to-market accounting treatment. Under the terms of the indentures for the above notes, cash settlement amounts for these derivative debt liabilities are determined based on the shares underlying the converted notes multiplied by the volume-weighted-average price of our common stock over a period of 20 consecutive trading days, beginning three days after the holder's election to convert their notes. Therefore, we reclassified the fair values of the equity components of each of the converted notes from additional capital to derivative debt liabilities within current debt in our consolidated balance sheet. In connection with the above, we used an aggregate of $728 million in cash in the second quarter of 2014 to settle conversion activities. A summary of the conversion activities for these notes is as follows:

| | Debt Principal Converted | Carrying Value of Debt Converted | Equity Component Reclassified To Debt[1] | Mark-to-Market Loss(Gain)[2] | Loss on Settlement[2] |
|---|---|---|---|---|---|
| Quarter ended November 28, 2013: | | | | | |
| 2027 Notes | $— | $— | $58 | $22 | $— |
| 2031A Notes | — | — | 115 | 15 | — |
| | — | — | 173 | 37 | — |
| Quarter ended February 27, 2014: | | | | | |
| 2014 Notes | 66 | 65 | 309 | (1) | 1 |
| 2027 Notes | 95 | 80 | — | 4 | 15 |
| 2031A Notes | 190 | 154 | 102 | 12 | 38 |
| | 351 | 299 | 411 | 15 | 54 |
| Six months ended February 27, 2014 | $351 | $299 | $584 | $52 | $54 |

[1] Based on Level 2 fair value measurements.
[2] Included in non-operating expense.

In the third quarter of 2014, we used an aggregate of $718 million in cash to settle the remaining 2014 Notes. In connection therewith, we incurred an additional aggregate $8 million of mark-to-market and settlement losses for the 2014 Notes.

Cash Repurchases: In January 2014, we repurchased $164 million in aggregate principal amount of our 2031B Notes, 2032C Notes and 2032D Notes (collectively, the "Repurchased Notes") in privately-negotiated transactions for an aggregate of $407 million in cash. The liability and equity components of the Repurchased Notes had previously been stated separately within debt and additional capital in our consolidated balance sheet. As a result, our accounting for the Repurchased Notes reduced a component of debt and a component of equity. In connection with the Repurchased Notes, we recognized a loss of $11 million (based on Level 2 fair value measurements), which is included in other non-operating expense in the second quarter of 2014. The table below summarizes activity in the second quarter of 2014 with respect to Repurchased Notes:

| | Principal Amount | Carrying Value of Debt | Equity |
|---|---|---|---|
| 2031B Notes | $26 | $19 | $43 |
| 2032C Notes | 100 | 85 | 159 |
| 2032D Notes | 38 | 31 | 60 |

| | | | |
|---|---|---|---|
| | $164 | $135 | $262 |

Issuance of Non-Convertible Notes:  On February 5, 2014, we issued $600 million in principal amount of 5.875% Senior Notes due February 2022 (the "2022 Notes"). Issuance costs for the 2022 Notes totaled $14 million.

The 2022 Notes contain covenants that, among other things, limit, in certain circumstances, our ability and/or the ability of our domestic restricted subsidiaries (which are generally subsidiaries in the U.S. in which we own at least 80% of the voting stock) to (1) create or incur certain liens and enter into sale and lease-back transactions, (2) create, assume, incur or guarantee certain additional secured indebtedness and unsecured indebtedness of certain of our domestic restricted subsidiaries, and (3) consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our assets, to another entity. These covenants are subject to a number of limitations, exceptions and qualifications.

Cash Redemption at Our Option:  Prior to February 15, 2017, we may redeem the 2022 Notes, in whole or in part, at a price equal to the principal amount of the 2022 Notes to be redeemed plus a make-whole premium as described in the indenture governing the 2022 Notes, together with accrued and unpaid interest. Additionally, we may use the net cash proceeds of one or more equity offerings to redeem up to 35% of the aggregate principal amount of the 2022 Notes at a price equal to 105.875% of the principal amount together with accrued and unpaid interest. On or after February 15, 2017, we may redeem the 2022 Notes, in whole or in part, at prices above principal amount that decline over time, as specified in the indenture, together with accrued and unpaid interest.

Elpida Creditor Installment Payments

In October 2013, we made the first Elpida creditor installment payment of $534 million from funds that had been held in a current restricted cash account since the acquisition date. The remaining payments are due at the end of each calendar year from 2014 through 2019.

2043G Notes

In connection with the Exchange Transactions, on November 12, 2013, we issued $1,025 million principal amount of 2043G Convertible Senior Notes (the "2043G Notes"). Each $1,000 principal amount at maturity had an original issue price of $800. An amount equal to the difference between the original issue price and the principal amount at maturity will accrete in accordance with a schedule set forth in the indenture.  The initial conversion rate for the 2043G Notes is 34.2936 shares of common stock per $1,000 principal amount at maturity, equivalent to an initial conversion price of approximately $29.16 per share of common stock.

Upon issuance of the 2043G Notes, we recorded $627 million of debt, $173 million of additional capital and $5 million of deferred debt issuance costs (included in other noncurrent assets). The amount recorded as debt was based on the fair value of the debt component as a standalone instrument and was determined using an average interest rate for similar nonconvertible debt issued by entities with credit ratings comparable to ours at the time of issuance (Level 2 fair value measurements). We recorded a debt discount of $398 million for the difference between the debt recorded at inception and the principal amount at maturity. Holders of the 2043G Notes have the right to require us to repurchase all or a portion of their notes on November 15, 2028 at the accreted principal amount, which is scheduled to be $917 million at such date. We have the option to pay cash, issue shares of common stock or any combination thereof, for the aggregate amount due upon conversion. It is our current intent to settle in cash the principal amount of the 2043G Notes upon conversion. As a result, the dilutive effect of the 2043G Notes in earnings per share is computed under the treasury stock method.

Conversion Rights:  Holders may convert their 2043G Notes under the following circumstances: (1) if the 2043G Notes are called for redemption; (2) during any calendar quarter if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the conversion price (approximately $37.91 per share) of the 2043G Notes; (3) if the trading price of the 2043G Notes is less than 98% of the product of the closing price of our common stock and the conversion rate of the 2043G Notes during the periods specified in the indenture; (4) if specified distributions or corporate events occur, as set forth in the indenture; or (5) at any time after August 15, 2043.

Cash Redemption at Our Option: Prior to November 20, 2018, we may redeem for cash the 2043G Notes if the closing price of our common stock is more than 130% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending within five trading days prior to the date on which we provide notice of redemption. The redemption price would equal the principal amount at maturity plus accrued and unpaid interest. On or after November 20, 2018, we may redeem for cash the 2043G Notes without regard to the closing price of our common stock. The redemption price would equal the accreted principal amount plus accrued and unpaid interest. If we redeem the 2043G Notes prior to November 20, 2018, we are required to pay in cash a make-whole premium as specified in the indenture.

Cash Repurchase at the Option of the Holder: Holders of the 2043G Notes may require us to repurchase for cash all or a portion of the 2043G Notes on November 15, 2028. The repurchase price is equal to the accreted principal amount at such date plus accrued and unpaid interest. Holders of the 2043G Notes may also require us to repurchase for cash all or a portion of their 2043G Notes at a repurchase price equal to the accreted principal amount plus accrued and unpaid interest upon a change in control or a termination of trading, as defined in the indenture.

2019 Notes

On December 20, 2013, we issued $462 million in principal amount of 1.258% Secured Notes due January 2019 (the "2019 Notes"). The 2019 Notes mature on January 15, 2019 and are collateralized by certain equipment which had a carrying value of $240 million as of February 27, 2014. The principal amount of the 2019 Notes is payable in 10 consecutive semi-annual installments payable in January and July of each year, commencing in July 2014. The Export-Import Bank of the United States ("Ex-Im Bank") guaranteed payment of all regularly scheduled installment payments of principal of, and interest on, the 2019 Notes. We paid $23 million to Ex-Im Bank for its guarantee upon issuance of the 2019 Notes.

The 2019 Notes contains covenants which are customary for financings of this type, including negative covenants that limit or restrict our ability to create liens or dispose of the equipment securing the 2019 Notes. Events of default also include, among others, the occurrence of any event or circumstance that, in the reasonable judgment of Ex-Im Bank, is likely materially and adversely to affect our ability to perform any payment obligation, or any of our other material obligations under the indenture, the 2019 Notes or under any other related transaction documents to which Ex-Im Bank is a party.

Cash Redemption at Our Option: At any time prior to the maturity date of the 2019 Notes, we may redeem the 2019 Notes, in whole or in part, at a price equal to the principal amount of the 2019 Notes to be redeemed plus a make-whole premium as described in the indenture, together with accrued and unpaid interest.

Other Notes Payable

On February 27, 2014, in connection with our acquisition of an additional 9.87% interest in MMT, we recorded a $127 million note payable to the seller in monthly installments, without interest, from March 2014 through December 2014.

Convertible Notes With Debt and Equity Components

Accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion require the debt and equity components to be separately accounted for in a manner that reflects a nonconvertible borrowing rate when interest expense is recognized in subsequent periods. The amount initially recorded as debt is based on the fair value of the debt component as a standalone instrument, determined using an average interest rate for similar nonconvertible debt issued by entities credit ratings similar to ours at the time of issuance. The difference between the debt recorded at inception and its principal amount is accreted to principal through interest expense through the estimated life of the note.

The terms of certain of our convertible notes give holders the right to require us to repurchase all or a portion of their notes at a date or dates earlier than the contractual maturity of the notes or upon the occurrence of certain events or circumstances. In these cases, we amortize any initial debt discount or imputed interest over the period from issuance of the notes through the earliest date that holders can require us to repurchase all or a portion of their notes. As a result, the period of amortization can be significantly shorter than the contractual maturity. (See "Holder Put Date" in the table below.)

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As of February 27, 2014, the trading price of our common stock was higher than the initial conversion prices of all of our outstanding convertible notes, except for the 2043G Notes. As a result, the conversion values were in excess of principal amounts for such notes. The following table sets forth, as of February 27, 2014, a summary of certain features of our convertible notes:

| | Holder Put Date | Outstanding Principal | Shares Issuable Upon Conversion | Initial Conversion Price Per Share | Conversion Price Per Share Threshold[1] | Conversion Value in Excess of Principal[2] |
|---|---|---|---|---|---|---|
| 2031B Notes | August 2020 | $114 | 12 | $9.50 | $12.35 | $176 |
| 2032C Notes | May 2019 | 450 | 47 | 9.63 | 12.52 | 681 |
| 2032D Notes | May 2021 | 412 | 41 | 9.98 | 12.97 | 587 |
| 2033E Notes | February 2018 | 300 | 27 | 10.93 | 14.21 | 364 |
| 2033F Notes | February 2020 | 300 | 27 | 10.93 | 14.21 | 364 |
| 2043G Notes[3] | November 2028 | 1,025 | 35 | 29.16 | 37.91 | — |
| | | $2,601 | 189 | | | $2,172 |

(1) Holders have the right to convert all or a portion of their notes at a date or dates earlier than the contractual maturity if, during any calendar quarter, the closing price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the initial conversion price.

(2) Based on our closing share price of $24.19 as of February 27, 2014.

(3) The original principal amount of $820 million accretes up to $917 million in November 2028 and $1,025 million at maturity in 2043.

Contractual Maturities

The table below sets forth the contractual maturities of the Elpida creditor installment payments, convertible notes and other notes payable as of February 27, 2014:

| | |
|---|---|
| Remainder of 2014 | $883 |
| 2015 | 515 |
| 2016 | 441 |
| 2017 | 410 |
| 2018 | 609 |
| 2019 and thereafter | 3,443 |
| Discounts | (800) |
| | $5,501 |

Contingencies

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

Rambus

On May 5, 2004, Rambus, Inc. ("Rambus") filed a complaint in the Superior Court of the State of California (San Francisco County) against us and other DRAM suppliers which alleged that the defendants harmed Rambus by engaging in concerted and unlawful efforts affecting Rambus DRAM by eliminating competition and stifling innovation in the market for computer memory technology and computer memory chips. Rambus' complaint alleged various causes of action under California state law including, among other things, a conspiracy to restrict output and fix prices, a conspiracy to monopolize, intentional interference with prospective economic advantage, and unfair competition. Rambus sought a judgment for damages of approximately $3.9 billion, joint and several liability, trebling of damages awarded, punitive damages, a permanent injunction enjoining the defendants from the conduct alleged in the complaint, interest, and attorneys' fees and costs. Trial began on June 20, 2011, and the case went to the jury on September 21, 2011. On November 16, 2011, the jury found for us on all claims. On April 2, 2012, Rambus filed a notice of appeal to the California 1st District Court of Appeal.

We were engaged in litigation with Rambus relating to certain of Rambus' patents and certain of our claims and defenses. Our lawsuits with Rambus related to patent matters were 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.

In December 2013, we settled all pending litigation between us and Rambus, including all antitrust and patent matters. We also entered into a 7-year term patent cross-license agreement with Rambus that allows us to avoid costs of patent-related litigation during the term. We agreed to pay Rambus up to $10 million per quarter over seven years, for a total of $280 million, beginning in the second quarter of 2014. The primary benefits we received from these arrangements were (1) the settlement and termination of all existing litigation, (2) the avoidance of future litigation expenses and (3) the avoidance of future management and customer disruptions. As a result, other operating expense for the first quarter of 2014 included a $233 million charge to accrue a liability, which reflects the discounted value of amounts due under this arrangement.

Patent Matters

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

On September 1, 2011, HSM Portfolio LLC and Technology Properties Limited LLC filed a patent infringement action in the U.S. District Court for the District of Delaware against us and seventeen other defendants, including Elpida Memory, Inc. and Elpida Memory (USA) Inc. (collectively “Elpida”). On August 22, 2013, the plaintiffs filed a third amended complaint. The third amended complaint alleges that certain of our DRAM and image sensor products infringe four U.S. patents and that certain Elpida DRAM products infringe two U.S. patents and seeks damages, attorneys' fees, and costs. Trial currently is scheduled for February 8, 2016. On March 23, 2012, Elpida filed a Notice of Filing and Hearing on Petition Under Chapter 15 of the U.S. Bankruptcy Code and Issuance of Provisional Relief that included an order of the U.S. Bankruptcy Court for the District of Delaware staying judicial proceedings against Elpida. Accordingly, the plaintiffs' case against Elpida is stayed.

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

On April 27, 2012, Semcon Tech, LLC filed a patent infringement action against us in the U.S. District Court for the District of Delaware. The complaint alleges that our use of various chemical mechanical planarization systems purchased from Applied Materials and others infringes a single U.S. patent and seeks injunctive relief, damages, attorneys' fees, and costs. On September 24, 2013, the Court entered an order staying our case pending the resolution of co-pending cases brought by Semcon Tech, LLC against Applied Materials and Ebara Technologies, Inc. Subsequently these cases were resolved, and on February 21, 2014, the Court lifted the stay of the case against us. Trial currently is for August 21, 2015.

On December 7, 2007, Tessera, Inc. filed a patent infringement against Elpida Memory, Inc., Elpida Memory (USA) Inc. (collectively "Elpida"), and numerous other defendants, in the United States District Court for the Eastern District of Texas. The complaint alleges that certain Elpida products infringe four U.S. patents and seeks injunctive relief, damages, attorneys' fees, and costs. Prior to answering the complaint, Elpida and other defendants filed motions to stay the case pending final resolution of a case before the International Trade Commission ("ITC") against Elpida and other respondents, alleging infringement of the same patents asserted in the Eastern District of Texas case (In The Matter of Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III), ITC No. 337-TA-630 (the "ITC Action")). On February 25, 2008, the Eastern District of Texas Court granted the defendants' motion to stay the action. On December 29, 2009, the ITC issued a Notice of Final Determination in the ITC Action finding no violation by Elpida. Tessera Inc. subsequently appealed the matter to the U.S. Court of Appeals for the Federal Circuit. On May 23, 2011, the Federal Circuit affirmed the ITC's Final Determination. The Eastern District of Texas case currently remains stayed.

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

We are unable to predict the outcome of assertions of infringement made against us and therefore cannot estimate the range of possible loss. A 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. Any of the foregoing could have a material adverse effect on our business, results of operations or financial condition.

Antitrust Matters

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

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

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

Securities Matters

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

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

Qimonda

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

Following a series of hearings with pleadings, arguments and witnesses on behalf of the Qimonda estate, on March 13, 2014, the Court issued judgments: (i) ordering Micron B.V. to pay approximately $1 million in respect of certain Inotera shares sold in connection with the original share purchase; (ii) ordering Micron B.V. to disclose certain information with respect to any Inotera Shares sold by it to third parties; (iii) ordering Micron B.V. to disclose the benefits derived by it from ownership of the Inotera Shares, including in particular, any profits distributed on such shares and all other benefits; (iv) denying Qimonda's claims against Micron Technology for any damages relating to the joint venture relationship with Inotera; and (v) determining that Qimonda's obligations under the patent cross-license agreement are cancelled. In addition, the Court issued interlocutory judgments ordering, among other things: (i) that Micron B.V. transfer to the Qimonda estate the Inotera Shares still owned by it and pay to the Qimonda estate compensation in an amount to be specified for any Inotera Shares sold to third parties; and (ii) that Micron B.V. pay the Qimonda estate as compensation an amount to be specified for benefits derived by it from ownership of the Inotera Shares. The interlocutory judgments have no immediate, enforceable effect on us, and, accordingly, we expect to be able to continue to operate with full control of the Inotera Shares subject to further developments in the case. All of these judgments are immediately appealable, and we have until April 28, 2014 to file a notice of appeal.

We are unable to predict the outcome of the matter and therefore cannot estimate the range of possible loss. The final resolution of this lawsuit could result in the loss of the Inotera shares or equivalent monetary damages, unspecified damages based on the benefits derived by Micron B.V. from the ownership of the Inotera Shares, and/or the termination of the patent cross-license, which could have a material adverse effect on our business, results of operation or financial condition. As of February 27, 2014, the Inotera Shares had a carrying value for purposes of our financial reporting of $312 million and a market value of $1,002 million.

Other

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

Redeemable Convertible Notes

Under the terms of the indentures of the 2031B and 2033E and 2033F Notes, upon conversion, we would be required to pay cash equal to the lesser of (1) the aggregate principal amount or (2) the conversion value of the notes being converted (we could pay cash, shares of common stock or a combination thereof, at our option, for the remainder, if any, of our conversion obligation). Therefore, the 2031B, 2033E and 2033F Notes were classified as current debt. Since these notes were convertible at the option of the holder and the principal amount of any converted notes would be required to be paid in cash, the aggregate difference of $91 million between the principal amount and the carrying value was classified as redeemable convertible notes in the mezzanine section of the accompanying consolidated balance sheet as of February 27, 2014.

Equity

Changes in the components of equity were as follows:

| | Six Months Ended February 27, 2014 | | | Six Months Ended February 28, 2013 | | |
|---|---|---|---|---|---|---|
| | Attributable to Micron | Noncontrolling Interests | Total Equity | Attributable to Micron | Noncontrolling Interests | Total Equity |
| Beginning balance | $9,142 | $864 | $10,006 | $7,700 | $717 | $8,417 |
| Net income (loss) | 1,089 | 33 | 1,122 | (561) | 2 | (559) |
| Other comprehensive income (loss) | (4) | — | (4) | (1) | — | (1) |
| Comprehensive income (loss) | 1,085 | 33 | 1,118 | (562) | 2 | (560) |
| Contribution from noncontrolling interests | — | 49 | 49 | — | 10 | 10 |
| Distributions to noncontrolling interests | — | (19) | (19) | — | — | — |
| Acquisition of noncontrolling interests in MMT | 31 | (167) | (136) | — | — | — |
| Capital and other transactions attributable to Micron | (974) | — | (974) | 93 | — | 93 |
| Ending balance | $9,284 | $760 | $10,044 | $7,231 | $729 | $7,960 |

Micron Shareholders' Equity

Capped Calls

Issued and Outstanding Capped Calls: We have entered into a series of capped call transactions intended to reduce the effect of potential dilution upon conversion of our convertible notes which may be settled in shares or cash, at our election. The capped call transactions are considered capital transactions and the related cost was recorded as a charge to additional capital.

The following table presents information related to the issued and outstanding capped calls as of February 27, 2014.

| Capped Calls | Expiration Dates | | Strike Price[1] | Cap Price Range | | Common Shares Covered | Value at Expiration[2] | |
|---|---|---|---|---|---|---|---|---|
| | | | | Low | High | | Minimum | Maximum |
| 2031 | Jul 2014 | - Feb 2016 | $9.50 | $11.40 | $13.17 | 73 | $— | $207 |
| 2032C | May 2016 | - Nov 2017 | 9.80 | 14.26 | 15.69 | 56 | — | 307 |
| 2032D | Nov 2016 | - May 2018 | 10.16 | 14.62 | 16.04 | 44 | — | 244 |
| 2033E | Jan 2018 | - Feb 2018 | 10.93 | 14.51 | 14.51 | 27 | — | 98 |
| 2033F | Jan 2020 | - Feb 2020 | 10.93 | 14.51 | 14.51 | 27 | — | 98 |
| | | | | | | 227 | $— | $954 |

(1) Initial strike prices are subject to certain adjustments.

(2) Settlement in cash on the respective expiration dates would result in us receiving an amount ranging from zero, if the market price per share of our common stock is at or below the respective low strike price, to the respective maximum amount if the market price per share of our common stock is at or above the respective high cap price. If share settlement were elected, the number of shares repurchased would be determined by the value of the capped calls at the time of settlement divided by the share price on the settlement date. Settlement of the capped calls prior to the expiration dates may be for an amount less than the maximum value at expiration.

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component in the first six months of 2014 were as follows:

| | Cumulative Foreign Currency Translation Adjustments | Gains (Losses) on Derivative Instruments, Net | Gains (Losses) on Investments, Net | Pension Liability Adjustments | Total |
|---|---|---|---|---|---|
| August 29, 2013 | $44 | $21 | $— | $(2) | $63 |
| Other comprehensive income before reclassifications | (4) | (2) | 4 | 1 | (1) |
| Amount reclassified out of accumulated other comprehensive income | — | (1) | (2) | 1 | (2) |
| Tax effects | — | (1) | — | — | (1) |
| Other comprehensive income (loss) | (4) | (4) | 2 | 2 | (4) |
| February 27, 2014 | $40 | $17 | $2 | $— | $59 |

Noncontrolling Interests in Subsidiaries

| As of | February 27, 2014 | | August 29, 2013 | |
|---|---|---|---|---|
| | Noncontrolling Interest Balance | Noncontrolling Interest Percentage | Noncontrolling Interest Balance | Noncontrolling Interest Percentage |
| IMFT[1] | $640 | 49.00 % | $601 | 49.00 % |
| MP Mask[1] | 93 | | | |