

MICRON TECHNOLOGY INC
Form 10-Q
December 19, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark
One)

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

For the quarterly period ended November 29, 2018

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

For the transition period from _____ to _____

Commission file number 1-10658

Micron Technology, Inc.
(Exact name of registrant as specified in its charter)

Delaware

75-1618004
(IRS Employer
Identification No.)

(State or other jurisdiction of
incorporation or organization)

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 T 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 T No "

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

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

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 December 12, 2018 was 1,121,046,809.

Definitions of Commonly Used Terms

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

Term	Definition	Term	Definition
2022 Term Loan B	Senior Secured Term Loan B due 2022	MMJ Group	MMJ and its subsidiaries
2025 Notes	5.50% Senior Notes due 2025	MMT	Micron Memory Taiwan Co., Ltd.
2032D Notes	3.13% Convertible Senior Notes due 2032	MTTW	Micron Technology Taiwan, Inc.
2033F Notes	2.13% Convertible Senior Notes due 2033	Qimonda	Qimonda AG
2043G Notes	3.00% Convertible Senior Notes due 2043	R&D	Research and Development
IMFT	IM Flash Technologies, LLC	SG&A	Selling, General, and Administrative
Inotera	Inotera Memories, Inc.	SSD	Solid-State Drive
Intel	Intel Corporation	TLC	Triple-Level Cell
Micron	Micron Technology, Inc. (Parent Company)	VIE	Variable Interest Entity
MMJ	Micron Memory Japan, Inc.		

The following Micron subsidiaries appear throughout this report:

Micron Consumer Products Group, Inc	Micron Semiconductor Products, Inc.
Micron Europe Limited	Micron Semiconductor (Shanghai) Co. Ltd.
Micron Semiconductor B.V.,	Micron Semiconductor (Xi'an) Co., Ltd.
Micron Semiconductor (Deutschland) GmbH	

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

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

Forward-Looking Statements

This Form 10-Q contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made regarding our expected NAND and 3D XPoint[™] development activities with Intel; our expectation to exercise our call option to purchase Intel's interest in IMFT and the amount we expect to pay for the transaction; our expectation, from time to time, to engage in additional financing transactions; the sufficiency of our cash and investments, cash flows from operations, and available financing to meet our requirements at least through the next 12 months; and capital spending in 2019. We are under no obligation to update these forward-looking statements. Our actual results could differ materially from our historical results and those discussed in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those identified in "Part II, Other Information – Item 1A. Risk Factors."

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions except per share amounts)

(Unaudited)

Quarter ended	November 29, 2018	November 30, 2017
Revenue	\$ 7,913	\$ 6,803
Cost of goods sold	3,298	3,056
Gross margin	4,615	3,747
Selling, general, and administrative	209	191
Research and development	611	448
Other operating (income) expense, net	36	11
Operating income	3,759	3,097
Interest income	38	23
Interest expense	(33	) (124
Other non-operating income (expense), net	9	(204
	3,773	2,792
Income tax provision	(477	) (114
Net income	3,296	2,678
Net income attributable to noncontrolling interests	(3) —
Net income attributable to Micron	\$ 3,293	\$ 2,678
Earnings per share		
Basic	\$ 2.91	\$ 2.36
Diluted	2.81	2.19
Number of shares used in per share calculations		
Basic	1,133	1,134
Diluted	1,174	1,225

See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

Quarter ended	November 29, 2018	November 30, 2017
Net income	\$ 3,296	\$ 2,678
Other comprehensive income (loss), net of tax		
Gains (losses) on derivative instruments	(12)	(3)
Unrealized gains (losses) on investments	(3)	(1)
Pension liability adjustments	—	(1)
Other comprehensive income (loss)	(15)	(5)
Total comprehensive income	3,281	2,673
Comprehensive income attributable to noncontrolling interests	(3)	—
Comprehensive income attributable to Micron	\$ 3,278	\$ 2,673

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	November 29, 2018	August 30, 2018
Assets		
Cash and equivalents	\$ 4,447	\$ 6,506
Short-term investments	1,116	296
Receivables	5,418	5,478
Inventories	3,876	3,595
Other current assets	182	164
Total current assets	15,039	16,039
Long-term marketable investments	1,565	473
Property, plant, and equipment	24,807	23,672
Intangible assets	356	331
Deferred tax assets	842	1,022
Goodwill	1,228	1,228
Other noncurrent assets	758	611
Total assets	\$ 44,595	\$ 43,376
Liabilities and equity		
Accounts payable and accrued expenses	\$ 4,200	\$ 4,374
Current debt	398	859
Other current liabilities	591	521
Total current liabilities	5,189	5,754
Long-term debt	3,734	3,777
Other noncurrent liabilities	834	581
Total liabilities	9,757	10,112
Commitments and contingencies		
Redeemable convertible notes	2	3
Redeemable noncontrolling interest	97	97
Micron shareholders' equity		
Common stock, \$0.10 par value, 3,000 shares authorized, 1,172 shares issued and 1,120 outstanding (1,170 shares issued and 1,161 outstanding as of August 30, 2018)	117	117
Additional capital	8,350	8,201
Retained earnings	27,769	24,395
Treasury stock, 52 shares held (9 shares as of August 30, 2018)	(2,362	) (429)
Accumulated other comprehensive income (loss)	(5	) 10
Total Micron shareholders' equity	33,869	32,294
Noncontrolling interests in subsidiaries	870	870
Total equity	34,739	33,164

Total liabilities and equity	\$ 44,595	\$ 43,376
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See accompanying notes to consolidated financial statements.

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MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)

(Unaudited)

	Micron Shareholders					Accumulated	Total	Noncontrolling	Total
	Common	Additional	Retained	Treasury		Other	Micron	Interests	Equity
	Stock	Capital	Earnings	Stock		Comprehensive	Shareholders'	in	
	Number	Amount				Income	Equity	Subsidiaries	
	of					(Loss)			
	Shares								
Balance at August 30, 2018	1,170	\$ 117	\$ 8,201	\$ 24,395	\$(429)	\$ 10	\$ 32,294	\$ 870	\$ 33,164
Cumulative effect of adopting new accounting standards			92				92		92
Net income			3,293				3,293	—	3,293
Other comprehensive income (loss), net						(15)	(15)		(15)
Stock issued under stock plans	3	—	15				15		15
Stock-based compensation expense			61				61		61
Repurchase of stock	(1)	—	108	(11)	(1,933)		(1,836)		(1,836)
Reclassification of redeemable convertible notes, net			1				1		1
Conversion and repurchase of convertible notes			(36)				(36)		(36)
Balance at November 29, 2018	1,172	\$ 117	\$ 8,350	\$ 27,769	\$(2,362)	\$ (5)	\$ 33,869	\$ 870	\$ 34,739

	Micron Shareholders					Accumulated	Total	Noncontrolling	Total
	Common	Additional	Retained	Treasury		Other	Micron	Interests	Equity
	Stock	Capital	Earnings	Stock		Comprehensive	Shareholders'	in	
	Number	Amount				Income	Equity	Subsidiaries	
	of					(Loss)			
	Shares								
Balance at August 31, 2017	1,116	\$ 112	\$ 8,287	\$ 10,260	\$(67)	\$ 29	\$ 18,621	\$ 849	\$ 19,470
Net income			2,678				2,678	—	2,678
Other comprehensive income (loss), net						(5)	(5)		(5)
Contributions from noncontrolling interests								18	18
Stock issued in public offering	34	3	1,363				1,366		1,366
	9	1	105				106		106

Stock issued under stock plans									
Stock-based compensation expense			51				51		51
Repurchase of stock	(1)	—	(90)		67		(23)		(23)
Reclassification of redeemable convertible notes, net			3				3		3
Conversion and repurchase of convertible notes			(271)				(271)		(271)
Balance at November 30, 2017	1,158	\$ 116	\$ 9,448	\$ 12,938	\$ —	\$ 24	\$ 22,526	\$ 867	\$ 23,393

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

Quarter ended	November 29, 2018	November 30, 2017
Cash flows from operating activities		
Net income	\$ 3,296	\$ 2,678
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense and amortization of intangible assets	1,335	1,090
Amortization of debt discount and other costs	18	29
Stock-based compensation	61	51
(Gain) loss on debt prepayments, repurchases, and conversions	(14	) 195
Change in operating assets and liabilities		
Receivables	189	(121)
Inventories	(286	) (37)
Deferred tax assets	192	37
Accounts payable and accrued expenses	(46	) (230)
Other	65	(56)
Net cash provided by operating activities	4,810	3,636
Cash flows from investing activities		
Expenditures for property, plant, and equipment	(2,700	) (1,956)
Purchases of available-for-sale securities	(2,047	) (186)
Proceeds from government incentives	236	—
Proceeds from sales of available-for-sale securities	77	554
Proceeds from maturities of available-for-sale securities	60	85
Other	(53	) 69
Net cash provided by (used for) investing activities	(4,427	) (1,434)
Cash flows from financing activities		
Payments to acquire treasury stock	(1,836	) (23)
Repayments of debt	(577	) (2,744)
Payments on equipment purchase contracts	(20	) (133)
Proceeds from issuance of stock	15	1,472
Proceeds from issuance of debt	—	150
Other	(17	) (4)
Net cash provided by (used for) financing activities	(2,435	) (1,282)
Effect of changes in currency exchange rates on cash, cash equivalents, and restricted cash	(10	) (6)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(2,062	) 914
Cash, cash equivalents, and restricted cash at beginning of period	6,587	5,216
Cash, cash equivalents, and restricted cash at end of period	\$ 4,525	\$ 6,130

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)

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Micron and our consolidated subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended August 30, 2018, except for changes related to recently adopted accounting standards. See "Recently Adopted Accounting Standards" note. Prior year information is presented in accordance with the accounting guidance in effect during that period and has not been recast for recently adopted accounting standards. In the opinion of our management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, consisting of a normal recurring nature, to fairly state the financial information set forth herein. Certain reclassifications have been made to prior period amounts to conform to current period presentation.

Our fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. Fiscal years 2019 and 2018 each contain 52 weeks. All period references are to our fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended August 30, 2018.

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

PTI Xi'an: Powertech Technology Inc. Xi'an ("PTI Xi'an") is a wholly-owned subsidiary of Powertech Technology Inc. ("PTI") and was created to provide assembly services to us at our manufacturing site in Xi'an, China. We do not have an equity interest in PTI Xi'an. PTI Xi'an is a VIE because of the terms of its service agreement with us and its dependency on PTI to finance its operations. We have determined that we do not have the power to direct the activities of PTI Xi'an that most significantly impact its economic performance, primarily because we have no governance rights. Therefore, we do not consolidate PTI Xi'an. In connection with our assembly services with PTI, we had capital lease obligations and net property, plant, and equipment of \$60 million and \$61 million, respectively, as of November 29, 2018 and \$63 million and \$63 million, respectively, as of August 30, 2018.

Consolidated VIE

IMFT: IMFT is a VIE because all of its costs are passed to us and its other member, Intel, through product purchase agreements and because IMFT is dependent upon us or Intel for additional cash requirements. The primary activities of IMFT are driven by the constant introduction of product and process technology. Because we perform a significant majority of the technology development, we have the power to direct its key activities. We consolidate IMFT because we have the power to direct the activities of IMFT that most significantly impact its economic performance and because we have the obligation to absorb losses and the right to receive benefits from IMFT that could potentially be significant to it. At any time through December 2018, Intel can exercise its option to require us to purchase, and from January 2019 through December 2021, we can exercise our option to purchase from Intel, Intel's interest in IMFT. On October 18, 2018, we announced our intent to exercise our option to acquire Intel's interest in IMFT. Upon such exercise, Intel can elect to set the closing date of the transaction to be any time between six months and one year from the date we exercise our option. (See "Equity – Noncontrolling Interests in Subsidiaries – IMFT" note.)

Recently Adopted Accounting Standards

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16 – Intra-Entity Transfers Other Than Inventory ("ASU 2016-16"), which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted this ASU in the first quarter of 2019 under the modified retrospective method and, in connection therewith, made certain adjustments as noted in the table below.

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. We adopted this ASU in the first quarter of 2019 under the modified retrospective method, with prospective adoption for amendments related to equity securities without readily determinable fair values. The adoption of this ASU did not have a material impact on our financial statements.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (as amended, "ASC 606"), which supersedes nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States. The core principal of ASC 606 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. ASC 606 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 adopted ASC 606 in the first quarter of 2019 under the modified retrospective method and, in connection therewith, made certain adjustments as noted in the table below.

The following table summarizes the effects of adopting ASU 2016-16 and ASC 606.

	Adjustments from:		
	Ending Balance as of August 30, 2018	ASU ASU 2016-16 ASC 606	Opening Balance as of August 31, 2018
Receivables	\$ 5,478	\$ — \$ 114	\$ 5,592
Inventories	3,595	— (5)	3,590
Other current assets	164	(1) 30	180
Deferred tax assets	1,022	56 (92)	986
Other current liabilities	521	— (4)	517
Other noncurrent liabilities	581	— 1	582
Retained earnings	24,395	42 50	24,487

As a result of the adoption of ASC 606, the opening balances as of August 31, 2018 for receivables, other current assets, and other current liabilities increased as a result of the reclassification of allowances for rebates, pricing adjustments, and returns to conform to the new presentation requirements. The margin from previously deferred sales to distributors was reclassified from other current liabilities to retained earnings. The tax effects of the adoption of ASC 606 were recorded primarily as a reduction of net deferred tax assets, substantially as a result of recognizing income for accounting purposes earlier under ASC 606 than for tax purposes in various jurisdictions.

The effects of ASC 606 to our consolidated statement of operations and balance sheet were as follows:

Quarter ended November 29, 2018	As Reported	Adjustments	Effects of Adoption of ASC 606	Amounts Without the
Revenue	\$ 7,913	\$ (95)	\$ 7,818	
Cost of goods sold	3,298	(41)	3,257	
Interest expense	(33)	2	(31)	
Income tax provision	(477)	3	(474)	
Net income attributable to Micron	3,293	(49)	3,244	

As of November 29, 2018	As Reported	Adjustments	Effects of Adoption of ASC 606	Amounts Without the
Receivables	\$ 5,418	\$ (161)	\$ 5,257	
Other current assets	182	(41)	141	
Deferred tax assets	842	92	934	
Accounts payable and accrued expenses	4,200	(2)	4,198	
Other current liabilities	591	(8)	583	
Other noncurrent liabilities	834	(1)	833	
Retained earnings	27,769	(99)	27,670	

Recently Issued Accounting Standards Not Yet Adopted

In November 2018, the FASB issued ASU 2018-18 – Collaborative Arrangements, which clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. This ASU will be effective for us in the first quarter of 2021 with early adoption permitted. This ASU requires retrospective adoption to the date we adopted ASC 606, August 31, 2018, by recognizing a cumulative-effect adjustment to the opening balance of retained earnings of the earliest annual period presented. We are evaluating the timing and effects of our adoption of this ASU on our financial statements.

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

first quarter of 2020. This ASU requires modified retrospective adoption, with prospective adoption for debt securities for which an other-than-temporary impairment had been recognized before the effective date. We are evaluating the timing and effects of our adoption of this ASU on our financial statements.

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

Cash and Investments

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

As of	November 29, 2018				August 30, 2018			
	Cash and Equivalents	Short-term Investments	Long-term Marketable Investments ⁽¹⁾	Total Fair Value	Cash and Equivalents	Short-term Investments	Long-term Marketable Investments ⁽¹⁾	Total Fair Value
Cash	\$2,073	\$	—\$	—\$2,073	\$3,223	\$	—\$	—\$3,223
Level 1 ⁽²⁾								
Money market funds	2,014	—	—	2,014	2,443	—	—	2,443
Level 2 ⁽³⁾								
Corporate bonds	56	588	943	1,587	3	172	272	447
Government securities	158	309	243	710	5	63	103	171
Asset-backed securities	2	78	369	449	—	34	96	