MICRON TECHNOLOGY INC
Form 10-Q
January 13, 2009

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 December 4, 2008

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 (State or other jurisdiction of incorporation or organization)	75-1618004 (IRS Employer Identification No.)
8000 S. Federal Way, Boise, Idaho (Address of principal executive offices)	83716-9632 (Zip Code)
Registrant's telephone number, including area code	(208) 368-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 definition 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 (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 January 8, 2009 was 763,793,881.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions except per share amounts)
(Unaudited)

Quarter ended	December 4, 2008	November 29, 2007
Net sales	$ 1,402	$ 1,535
Cost of goods sold	1,851	1,530
Gross margin	(449)	5
Selling, general and administrative	102	112
Research and development	178	163
Restructure	(66)	13
Other operating (income) expense, net	9	(23)
Operating loss	(672)	(260)
Interest income	10	30
Interest expense	(30)	(21)
Other non-operating income (expense), net	(14)	(1)
Loss before taxes and noncontrolling interests	(706)	(252)
Income tax (provision)	(13)	(7)
Noncontrolling interests in net (income) loss	13	(3)
Net loss	$ (706)	$ (262)
Loss per share:		
Basic	$ (0.91)	$ (0.34)
Diluted	(0.91)	(0.34)
Number of shares used in per share calculations:		
Basic	773.3	771.9
Diluted	773.3	771.9

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

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

As of	December 4, 2008	August 28, 2008
Assets		
Cash and equivalents	$ 1,025	$ 1,243
Short-term investments	3	119
Receivables	1,031	1,032
Inventories	883	1,291
Other current assets	95	94
Total current assets	3,037	3,779
Intangible assets, net	354	364
Property, plant and equipment, net	8,460	8,811
Equity method investments	432	84
Other assets	393	392
Total assets	$ 12,676	$ 13,430
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	$ 943	$ 1,111
Deferred income	192	114
Equipment purchase contracts	157	98
Current portion of long-term debt	343	275
Total current liabilities	1,635	1,598
Long-term debt	2,523	2,451
Other liabilities	332	338
Total liabilities	4,490	4,387
Commitments and contingencies		
Noncontrolling interests in subsidiaries	2,702	2,865
Common stock, $0.10 par value, authorized 3,000 shares, issued and outstanding 763.8 and 761.1 shares, respectively	76	76
Additional capital	6,574	6,566
Accumulated deficit	(1,162)	(456)
Accumulated other comprehensive (loss)	(4)	(8)
Total shareholders' equity	5,484	6,178
Total liabilities and shareholders' equity	$ 12,676	$ 13,430

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

Quarter ended	December 4, 2008	November 29, 2007
Cash flows from operating activities		
Net loss	$ (706)	$ (262)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	594	504
Provision to write down inventories to estimated market values	369	62
Noncash restructure charges (credits)	(83)	6
(Gain) loss from disposition of equipment, net	14	(10)
Change in operating assets and liabilities:		
(Increase) decrease in receivables	138	(80)
Decrease in inventories	39	27
Decrease in accounts payable and accrued expenses	(67)	(6)
Increase in deferred income	78	2
Other	(17)	33
Net cash provided by operating activities	359	276
Cash flows from investing activities		
Acquisition of equity method investment	(409)	--
Expenditures for property, plant and equipment	(270)	(765)
Purchases of available-for-sale securities	(2)	(123)
Proceeds from maturities of available-for-sale securities	123	365
Proceeds from sales of property, plant and equipment	6	64
Proceeds from sales of available-for-sale securities	--	19
Other	63	34
Net cash used for investing activities	(489)	(406)
Cash flows from financing activities		
Proceeds from debt	285	--
Cash received from noncontrolling interests	--	150
Repayments of debt	(163)	(212)
Distributions to noncontrolling interests	(150)	--
Payments on equipment purchase contracts	(64)	(122)
Other	4	2
Net cash used for financing activities	(88)	(182)
Net decrease in cash and equivalents	(218)	(312)
Cash and equivalents at beginning of period	1,243	2,192
Cash and equivalents at end of period	$ 1,025	$ 1,880
Supplemental disclosures		
Income taxes paid, net	$ (8)	$ (6)
Interest paid, net of amounts capitalized	(29)	(21)
Noncash investing and financing activities:		
Equipment acquisitions on contracts payable and capital leases	153	152

See accompanying notes to consolidated financial statements.

MICRON TECHNOLOGY, INC.

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

Business and Significant Accounting Policies

Basis of presentation: Micron Technology, Inc. and its subsidiaries (hereinafter referred to collectively as the "Company") manufacture and market DRAM, NAND Flash memory, CMOS image sensors and other semiconductor components. The Company has two segments, Memory and Imaging. The Memory segment's primary products are DRAM and NAND Flash and the Imaging segment's primary product is CMOS image sensors. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its consolidated subsidiaries. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company and its consolidated results of operations and cash flows.

The Company's fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. The Company's fiscal 2009 contains 53 weeks and the Company's first quarter of fiscal 2009, which ended on December 4, 2008, contained 14 weeks. The Company's fiscal 2008, which ended on August 28, 2008, contained 52 weeks and the Company's first quarter of fiscal 2008 contained 13 weeks. All period references are to the Company's fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended August 28, 2008.

Risks and uncertainties: The Company's liquidity is highly dependent on average selling prices for its products and the timing of capital expenditures, both of which can vary significantly from period to period. Depending on conditions in the semiconductor memory market, the Company's cash flows from operations and current holdings of cash and investments may not be adequate to meet the Company's needs for capital expenditures and operations. Historically, the Company has used external financing to fund these needs. Due to conditions in the credit markets, many financing instruments used by the Company in the past are currently not available on terms acceptable to the Company. The Company has significantly reduced its capital expenditures for 2009. In addition, the Company is pursuing further financing alternatives, further reducing capital expenditures and implementing further cost-cutting initiatives.

Recently issued accounting standards: In December 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 140-1 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." FSP No. FAS 140-1 and FIN 46(R)-8 requires public entities to provide additional disclosures about transfers of financial assets and their involvement with variable interest entities. The Company is required to adopt FSP No. FAS 140-1 and FIN 46(R)-8 effective in the second quarter of 2009.

In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP No. APB 14-1 requires that issuers of convertible debt instruments that may be settled in cash upon conversion separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate as interest cost is recognized in subsequent periods. The Company is required to adopt FSP No. APB 14-1 at the beginning of 2010. On adoption, the Company will retrospectively account for its $1.3 billion of 1.875% convertible senior notes issued in May of 2007 under the provisions of FSP No. APB 14-1. The Company estimates that debt recognized on issuance of the $1.3 billion convertible senior notes would be approximately $400 million lower under FSP No. APB 14-1. The difference of approximately $400 million would be accreted to interest expense over the approximate seven-year term of the notes. The Company is continuing to evaluate the full impact that the adoption of FSP No. APB 14-1 will have on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"), which establishes the principles and requirements for how an acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose. The Company is required to adopt SFAS No. 141(R) effective at the beginning of 2010. The impact of the adoption of SFAS No. 141(R) will depend on the nature and extent of business combinations occurring on or after the beginning of 2010.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 requires that (1) noncontrolling interests be reported as a separate component of equity, (2) net income attributable to the parent and to the noncontrolling interest be separately identified in the income statement, (3) changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and (4) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. The Company is required to adopt SFAS No. 160 effective at the beginning of 2010. The Company is evaluating the impact that the adoption of SFAS No. 160 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." Under SFAS No. 159, the Company may elect to measure many financial instruments and certain other items at fair value on an instrument by instrument basis, subject to certain restrictions. The Company adopted SFAS No. 159 effective at the beginning of 2009. The Company did not elect to measure any existing items at fair value upon the adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 (as amended by subsequent FSP's) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted SFAS No. 157 effective at the beginning of 2009 for financial assets and financial liabilities. The adoption did not have a significant impact on the Company's financial statements. The Company is required to adopt SFAS No. 157 for all other assets and liabilities at the beginning of 2010 and it is evaluating the impact that the adoption will have on its financial statements.

Supplemental Balance Sheet Information

Receivables	December 4, 2008	August 28, 2008
Trade receivables (net of allowance of $3 and $2, respectively)	$ 643	$ 741
Income and other taxes	31	43
Other	357	248
	$ 1,031	$ 1,032

As of December 4, 2008, other receivables included amounts due from Intel Corporation ("Intel") of $208 million in connection with the termination of a supply agreement for NAND Flash memory produced at the Company's Boise facility and $36 million related to NAND Flash product design and process development activities. (See "Restructure" note.) Other receivables as of December 4, 2008 also included $77 million due from settlement of litigation. As of August 28, 2008, other receivables included $71 million due from Intel for amounts related to NAND Flash product design and process development activities, $75 million due from settlement of litigation and $58 million due from settlements of pricing adjustments with certain suppliers.

Other noncurrent assets as of August 28, 2008 included receivables of $39 million due from settlement of litigation.

Inventories	December 4, 2008	August 28, 2008
Finished goods	$ 328	$ 444
Work in process	395	671
Raw materials and supplies	160	176
	$ 883	$ 1,291

The Company's results of operations for the first quarter of 2009 and fourth, second and first quarters of 2008 included charges of $369 million, $205 million, $15 million and $62 million, respectively, to write down the carrying value of work in process and finished goods inventories of memory products (both DRAM and NAND Flash) to their estimated market values.

Intangible Assets and Goodwill

Intangible Assets:

	December 4, 2008		August 28, 2008	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Product and process technology	$ 580	$ (327)	$ 577	$ (320)
Customer relationships	127	(39)	127	(35)
Other	29	(16)	29	(14)
	$ 736	$ (382)	$ 733	$ (369)

During the first quarters of 2009 and 2008, the Company capitalized $12 million and $11 million, respectively, for product and process technology with weighted-average useful lives of 10 years.

Amortization expense for intangible assets was $22 million and $20 million for the first quarters of 2009 and 2008, respectively. Annual amortization expense for intangible assets is estimated to be $73 million for 2009, $63 million for 2010, $57 million for 2011, $48 million for 2012 and $45 million for 2013.

Goodwill: As of December 4, 2008 and August 28, 2008, the Company had goodwill of $58 million related to its Imaging segment.

Property, Plant and Equipment	December 4, 2008	August 28, 2008
Land	$ 99	$ 99
Buildings	4,370	3,829
Equipment	12,934	13,591
Construction in progress	143	611
Software	282	283
	17,828	18,413
Accumulated depreciation	(9,368)	(9,602)
	$ 8,460	$ 8,811

Depreciation expense was $569 million and $484 million for the first quarters of 2009 and 2008, respectively.

Equity Method Investments

The Company has a partnering arrangement with Nanya Technology Corporation ("Nanya") pursuant to which the Company and Nanya jointly develop process technology and designs to manufacture stack DRAM products. Each party generally bears its own development costs and the Company's development costs are expected to exceed Nanya's development costs by a significant amount. In addition, the Company has transferred and licensed certain intellectual property related to the manufacture of stack DRAM products to Nanya and licensed certain intellectual property from Nanya. The Company is to receive an aggregate of $207 million from Nanya through 2010. Further, the Company will receive royalties from Nanya for stack DRAM products manufactured by or for Nanya.

The Company has partnered with Nanya in investments in two Taiwan DRAM memory manufacturers: Inotera Memories, Inc. ("Inotera") and MeiYa Technology Corporation ("MeiYa"). As of December 4, 2008, the Company owned 35.5% of Inotera and 50% of MeiYa and Nanya owned 35.6% of Inotera and 50% of MeiYa. The Company's investments in Inotera and MeiYa are accounted for under the equity method because of the Company's ability to exercise significant influence over the operating and financial policies of these entities. As of December 4, 2008 and August 28, 2008, the Company's aggregate carrying value of these equity method investments in the accompanying consolidated balance sheet was $432 million and $84 million, respectively.

The Company has concluded that both Inotera and MeiYa are variable interest entities as defined in FIN 46(R), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51,” and that the Company is not the primary beneficiary of either Inotera or MeiYa. The Company’s exposure to losses on its equity investments in these entities is limited to the carrying value of such investments. The creditors of Inotera and MeiYa have recourse only to the assets of these two entities and do not have recourse to any other assets of the Company.

Inotera and MeiYa each have fiscal years that end on December 31. As these fiscal years differ from that of the Company’s fiscal year, the Company recognizes its share of Inotera and MeiYa quarterly earnings or losses for the calendar quarter that ends within the Company’s fiscal quarter. This results in the recognition of the Company’s share of earnings or losses from these entities for a period that lags the Company’s fiscal periods by approximately two months.

Inotera: In the first quarter of 2009, the Company acquired a 35.5% ownership interest (or approximately 1.2 billion shares) in Inotera, a publicly traded entity in Taiwan, from Qimonda AG (“Qimonda”) for approximately $400 million. The interest in Inotera was acquired for cash, a portion of which was funded from loan proceeds of $200 million received by the Company from Nan Ya Plastics Corporation, an affiliate of Nanya, and $85 million received from Inotera. The loans were recorded at their fair values, which reflect an aggregate discount of $31 million from their face amounts. The aggregate discount was recorded as a reduction of the Company’s basis in the investment in Inotera. The Company also capitalized $10 million of costs and other fees incurred in connection with the acquisition. As a result of the above transactions, as of December 4, 2008 the carrying value of the Company’s equity investment in Inotera was $378 million. Because the Company did not acquire its interest in Inotera until October and November of 2008, the Company’s results of operations for the first quarter of 2009 do not include any share of Inotera’s results of operations for the quarterly period ended September 30, 2008. The Company is in the process of determining any difference between the carrying value of its investment in Inotera and its proportionate interest in the underlying equity of Inotera and expects to complete such analysis in the second quarter of 2009. The closing trading price of Inotera on December 4, 2008 was equivalent to approximately $0.20 per share. (See “Debt” note.)

The Company has rights and obligations to purchase 50% of the 120,000 per month 300mm DRAM wafer production of Inotera. Inotera’s actual wafer production will vary from time to time based on market and other conditions. In connection with the acquisition of the shares in Inotera, the Company and Nanya entered into a Supply Agreement with Inotera (the "Supply Agreement") pursuant to which Inotera will sell to the Company and Nanya trench and stack DRAM products manufactured by Inotera. Inotera's current trench production capacity is expected to transition to the Company's stack process technology. Inotera will sell to the Company and Nanya all of the trench DRAM products manufactured by it other than trench DRAM products that are sold by Inotera to Qimonda pursuant to a separate supply agreement between Inotera and Qimonda (the "Qimonda Supply Agreement"). Under the Qimonda Supply Agreement, Qimonda is obligated to purchase trench DRAM products started for it by Inotera for approximately eight months following the Company’s acquisition of the shares in Inotera in accordance with a ramp down schedule specified in the Qimonda Supply Agreement. Initially, (a) with respect to trench DRAM products, the Company will purchase the products resulting from 50% of Inotera's aggregate trench DRAM production less the trench DRAM products contemplated to be purchased by Qimonda pursuant to the Qimonda Supply Agreement and (b) with respect to stack DRAM products, the Company will purchase the products resulting from 50% of the aggregate stack DRAM production. The pricing formula that determines the amounts to be paid by the Company for DRAM products under the Supply Agreement includes manufacturing costs and margins associated with the products purchased.

MeiYa: In the fourth quarter of 2008, the Company and Nanya formed MeiYa to manufacture stack DRAM products and sell such products exclusively to the Company and Nanya. As of December 4, 2008 and August 28, 2008, the carrying value of the Company’s equity investment in MeiYa was $54 million and $84 million, respectively. In the first quarter of 2009, the Company recognized $2 million of losses for its share of MeiYa’s results of operations for the quarterly period ended September 30, 2008. In addition, during the first quarter of 2009, the Company received $50 million from MeiYa which was accounted for as a technology transfer fee and a reduction of the Company’s investment in MeiYa. In connection with the purchase of the ownership interest in Inotera, the Company entered into a series of agreements with Nanya which contemplated the restructuring of MeiYa and pursuant to which both parties will cease future funding of, and resource commitments to, MeiYa.

Accounts Payable and Accrued Expenses	December 4, 2008	August 28, 2008
Accounts payable	$ 513	$ 597
Salaries, wages and benefits	199	244
Customer advances	100	130
Income and other taxes	34	27
Other	97	113
	$ 943	$ 1,111

As of December 4, 2008 and August 28, 2008, customer advances included $99 million and $129 million, respectively, for the Company's obligation to provide certain NAND Flash memory products to Apple Computer, Inc. ("Apple") until December 31, 2010 pursuant to a prepaid NAND Flash supply agreement. As of December 4, 2008 and August 28, 2008, other accounts payable and accrued expenses included $18 million and $16 million, respectively, for amounts due to Intel for NAND Flash product design and process development and licensing fees pursuant to a research and development cost-sharing arrangement.

As of December 4, 2008 and August 28, 2008, other noncurrent liabilities included $83 million pursuant to the supply agreement with Apple.

Debt	December 4, 2008	August 28, 2008
Convertible senior notes payable, interest rate of 1.875%, due June 2014	$ 1,300	$ 1,300
Notes payable in periodic installments through July 2015, weighted-average effective interest rate of 8.3% and 4.5%, respectively, net of unamortized discount of $33 and $3, respectively	852	699
Capital lease obligations payable in monthly installments through February 2023, weighted-average imputed interest rate of 6.5 % and 6.6%, respectively	644	657
Convertible subordinated notes payable, interest rate of 5.6%, due April 2010	70	70
	2,866	2,726
Less current portion	(343)	(275)
	$ 2,523	$ 2,451

In connection with the purchase of its 35.5% interest in Inotera, the Company entered into a two-year variable rate term loan with Nan Ya Plastics and a six-month variable rate term loan with Inotera. On November 26, 2008, the Company received loan proceeds of $200 million from Nan Ya Plastics and $85 million from Inotera, which are payable at the end of each loan term. Under the terms of the loan agreements, interest is payable quarterly at LIBOR plus 2%. The interest rates reset quarterly and were 4.2% per annum as of December 4, 2008. The Company recorded the debt net of aggregate discounts of $31 million, which will be recognized as interest expense over the respective lives of the loans, resulting in an effective interest rate of 12.1% for the Nan Ya Plastics loan and 11.6% for the Inotera loan. The Nan Ya Plastics loan is collateralized by a first priority security interest in the Inotera shares owned by the Company (approximate carrying value of $378 million as of December 4, 2008). (See "Equity Method Investments" note.)

TECH Semiconductor Singapore Pte. Ltd. ("TECH"), the Company's joint venture subsidiary, has a credit facility that is collateralized by substantially all of the assets of TECH, which had an approximate carrying value of $1,744 million as of December 4, 2008.

Contingencies

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

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

The Company is involved in the following patent, antitrust and securities matters.

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 the Company's products or manufacturing processes infringe their intellectual property rights. In this regard, the Company is engaged in litigation with Rambus, Inc. ("Rambus") relating to certain of Rambus' patents and certain of the Company's claims and defenses. Lawsuits between Rambus and the Company are pending in the U.S. District Court for the District of Delaware, U.S. District Court for the Northern District of California, Germany, France, and Italy. In the U.S. District Court for the Northern District of California, trial is scheduled to begin on January 21, 2009 on a patent phase of the case alleging that certain Company memory products infringe Rambus patents. The Company also is engaged in patent litigation with Mosaid Technologies, Inc. ("Mosaid") in the U.S. District Court for the Northern District of California. Among other things, the above lawsuits pertain to certain of the Company's SDRAM, DDR SDRAM, DDR2 SDRAM, DDR3 SDRAM, RLDRAM and image sensor products, which account for a significant portion of net sales.

The Company is unable to predict the outcome of assertions of infringement made against the Company and therefore cannot estimate the range of possible loss. A court determination that the Company's products or manufacturing processes infringe the intellectual property rights of others could result in significant liability and/or require the Company to make material changes to its products and/or manufacturing processes. Any of the foregoing could have a material adverse effect on the Company's business, results of operations or financial condition.

Antitrust Matters: At least sixty-eight purported class action price-fixing lawsuits have been filed against the Company and other DRAM suppliers in various federal and state courts in the United States and in Puerto Rico on behalf of indirect purchasers alleging price-fixing in violation of federal and state antitrust laws, violations of state unfair competition law, and/or unjust enrichment relating to the sale and pricing of DRAM products during the period from April 1999 through at least June 2002. The complaints seek treble damages sustained by purported class members in addition to restitution, costs and attorneys' fees. A number of these cases have been removed to federal court and transferred to the U.S. District Court for the Northern District of California for consolidated proceedings. On January 29, 2008, the Northern District of California court granted in part and denied in part the Company's motion to dismiss plaintiffs' second amended consolidated complaint. Plaintiffs subsequently filed a motion seeking certification for interlocutory appeal of the decision. On February 27, 2008, plaintiffs filed a third amended complaint. On June 26, 2008, the United States Court of Appeals for the Ninth Circuit accepted plaintiffs' interlocutory appeal.

In addition, various states, through their Attorneys General, have filed suit against the Company and other DRAM manufacturers. On July 14, 2006, and on September 8, 2006 in an amended complaint, the following Attorneys General filed suit in the U.S. District Court for the Northern District of California: Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the Commonwealth of the Northern Mariana Islands. Thereafter, three states, Ohio, New Hampshire, and Texas, voluntarily dismissed their claims. The remaining states filed a third amended complaint on October 1, 2007. Alaska, Delaware, Kentucky, and Vermont subsequently voluntarily dismissed their claims. The amended complaint alleges, among other things, violations of the Sherman Act, Cartwright Act, and certain other states' consumer protection and antitrust laws and seeks damages, and injunctive and other relief. Additionally, on July 13, 2006, the State of New York filed a similar suit in the U.S. District Court for the Southern District of New York. That case was subsequently transferred to the U.S. District Court for the Northern District of California for pre-trial purposes. The State of New York filed an amended complaint on October 1, 2007. 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.

Three purported class action DRAM lawsuits also have been filed in Quebec, Ontario, and British Columbia, Canada, on behalf of direct and indirect purchasers, alleging violations of the Canadian Competition Act. The substantive allegations in these cases are similar to those asserted in the cases filed in the United States. In May and June 2008 respectively, plaintiffs' motion for class certification was denied in the British Columbia and Quebec cases. Plaintiffs subsequently filed an appeal of each of those decisions.

In February and March 2007, All American Semiconductor, Inc., Jaco Electronics, Inc., and the DRAM Claims Liquidation Trust each filed suit against the Company and other DRAM suppliers in the U.S. District Court for the Northern District of California after opting-out of a direct purchaser class action suit that was settled. The complaints allege, among other things, violations of federal and state antitrust and competition laws in the DRAM industry, and seek damages, injunctive relief, and other remedies.

On October 11, 2006, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the DOJ into possible antitrust violations in the "Static Random Access Memory" or "SRAM" industry. In December 2008, the Company was informed that the DOJ closed its investigation of the SRAM industry.

Subsequent to the issuance of subpoenas to the SRAM industry, a number of purported class action lawsuits have been filed against the Company and other SRAM suppliers. Six cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that purchased SRAM directly from various SRAM suppliers during the period from November 1, 1996 through December 31, 2005. Additionally, at least seventy-four cases have been filed in various U.S. District Courts asserting claims on behalf of a purported class of individuals and entities that indirectly purchased SRAM and/or products containing SRAM from various SRAM suppliers during the time period from November 1, 1996 through December 31, 2006. In September 2008, a class of direct purchasers was certified, and plaintiffs were granted leave to amend their complaint to cover Pseudo-Static RAM or "PSRAM" products as well. The complaints allege price fixing in violation of federal antitrust laws and state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees.

Three purported class action SRAM lawsuits also have been filed in Canada, on behalf of direct and indirect purchasers, alleging violations of the Canadian Competition Act. The substantive allegations in these cases are similar to those asserted in the SRAM cases filed in the United States.

In addition, three purported class action lawsuits alleging price-fixing of Flash products have been filed in Canada, asserting violations of the Canadian Competition Act. These cases assert claims on behalf of a purported class of individuals and entities that purchased Flash memory directly and indirectly from various Flash memory suppliers.

On May 5, 2004, Rambus filed a complaint in the Superior Court of the State of California (San Francisco County) against the Company and other DRAM suppliers. The complaint alleges various causes of action under California state law including conspiracy to restrict output and fix prices on Rambus DRAM ("RDRAM") and unfair competition. Trial is currently scheduled to begin in March 2009. The complaint seeks treble damages, punitive damages, attorneys' fees, costs, and a permanent injunction enjoining the defendants from the conduct alleged in the complaint.

The Company is unable to predict the outcome of these lawsuits and investigations and therefore cannot estimate the range of possible loss. The final resolution of these alleged violations of antitrust laws could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

Securities Matters: On February 24, 2006, a putative class action complaint was filed against the Company and certain of its officers in the U.S. District Court for the District of Idaho alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Four substantially similar complaints subsequently were filed in the same Court. The cases purport to be brought on behalf of a class of purchasers of the Company's stock during the period February 24, 2001 to February 13, 2003. The five lawsuits have been consolidated and a consolidated amended class action complaint was filed on July 24, 2006. The complaint generally alleges violations of federal securities laws based on, among other things, claimed misstatements or omissions regarding alleged illegal price-fixing conduct. The complaint seeks unspecified damages, interest, attorneys' fees, costs, and expenses. On December 19, 2007, the Court issued an order certifying the class but reducing the class period to purchasers of the Company's stock during the period from February 24, 2001 to September 18, 2002.

In addition, on March 23, 2006, a shareholder derivative action was filed in the Fourth District Court for the State of Idaho (Ada County), allegedly on behalf of and for the benefit of the Company, against certain of the Company's current and former officers and directors. The Company also was named as a nominal defendant. An amended complaint was filed on August 23, 2006 and subsequently dismissed by the Court. Another amended complaint was filed on September 6, 2007. The amended complaint is based on the same allegations of fact as in the securities class actions filed in the U.S. District Court for the District of Idaho and alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and insider trading. The amended complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, costs, and expenses. The amended complaint is derivative in nature and does not seek monetary damages from the Company. However, the Company may be required, throughout the pendency of the action, to advance payment of legal fees and costs incurred by the defendants. On January 25, 2008, the Court granted the Company's motion to dismiss the second amended complaint without leave to amend. On March 10, 2008, plaintiffs filed a notice of appeal to the Idaho Court of Appeals.

The Company is unable to predict the outcome of these cases and therefore cannot estimate the range of possible loss. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

Fair Value Measurements

SFAS No. 157 establishes three levels of inputs that may be used to measure fair value: quoted prices in active markets for identical assets or liabilities (referred to as Level 1), observable inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly (referred to as Level 2) and unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities (referred to as Level 3).

Fair value measurements on a recurring basis: Assets measured at fair value on a recurring basis as of December 4, 2008 were as follows:

	Level 1	Level 2	Total Balance
Money market(1)	$ 513	$ --	$ 513
Commercial paper(1)	--	112	112
U.S. government and agencies(1)	184	--	184
Certificates of deposit(1)	--	133	133
Corporate notes and bonds(2)	3	--	3
Marketable equity investments(3)	6	--	6
	$ 706	$ 245	$ 951

(1)Included in cash and equivalents
(2)Included in short-term investments
(3)Included in other assets

Level 2 assets are valued using observable inputs in active markets for similar assets or alternative pricing sources and models utilizing market observable inputs. During the first quarter of 2009, the Company recognized an other-than-temporary impairment of $7 million for marketable equity instruments.

Fair value measurements on a nonrecurring basis: As of December 4, 2008, non-marketable equity investments of $13 million were valued at fair value using Level 3 inputs. In the first quarter of 2009, the Company identified events and circumstances that indicated the fair value of a non-marketable equity investment sustained an other-than-temporary loss in value. The Company recognized an impairment charge of $2 million to write down the carrying value of this investment to its estimated fair value. The fair value measurement was determined using market multiples derived from industry-comparable companies which were classified as Level 3 inputs, as they were unobservable and require management's judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments.

During the first quarter of 2009, the Company recorded the loans with Nan Ya Plastics and Inotera at fair value because the stated interest rates were substantially lower than the prevailing rates for loans with comparable terms and collateral and for borrowers with similar credit ratings. The fair values of these loans were determined based on discounted cash flows using inputs that are observable in the market or that could be derived from or corroborated with observable market data, as well as significant unobservable inputs (Level 3), including interest rates based on published rates for transactions involving borrowers with similar credit ratings as the Company. (See "Debt" note.)

Equity Plans

As of December 4, 2008, the Company had an aggregate of 189.7 million shares of its common stock reserved for issuance under various equity plans, of which 121.5 million shares were subject to outstanding stock awards and 68.2 million shares were available for future grants. Awards are subject to terms and conditions as determined by the Company's Board of Directors.

Stock options: The Company granted 6.8 million and 0.2 million stock options during the first quarters of 2009 and 2008, respectively, with weighted-average grant-date fair values per share of $2.31 and $4.10, respectively.

The fair values of option awards are estimated as of the date of grant using the Black-Scholes option valuation model. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. The expected volatilities utilized by the Company are based on implied volatilities from traded options on the Company's stock and on historical volatility. The expected life of options granted in 2009 was based, in part, on historical experience and on the terms and conditions of the options. The expected life of options granted prior to 2009 was based on the simplified method provided by the Securities and Exchange Commission. The risk-free rates utilized by the Company are based on the U.S. Treasury yield in effect at the time of the grant. No dividends have been assumed in the Company's estimated option values. Assumptions used in the Black-Scholes model are presented below:

	Quarter ended	
	December 4, 2008	November 29, 2007
Average expected life in years	4.75	4.25
Weighted-average expected volatility	60%	38%
Weighted-average risk-free interest rate	2.6%	4.0%

Restricted stock: The Company awards restricted stock and restricted stock units (collectively, "Restricted Awards") under its equity plans. During the first quarter of 2009, the Company granted 1.7 million shares of service-based Restricted Awards and 1.7 million shares of performance-based Restricted Awards. During the first quarter of 2008, the Company granted 1.3 million shares of service-based Restricted Awards and 1.3 million shares of performance-based Restricted Awards. The weighted-average grant-date fair values per share were $4.48 and $10.76 for Restricted Awards granted during the first quarters of 2009 and 2008, respectively.

Stock-based compensation expense: Total compensation costs for the Company's equity plans were as follows:

	Quarter ended	
	December 4, 2008	November 29, 2007
Stock-based compensation expense by caption:		
Cost of goods sold	$ 4	$ 3
Selling, general and administrative	2	6
Research and development	3	4
	$ 9	$ 13
Stock-based compensation expense by type of award:		
Stock options	$ 7	$ 6
Restricted stock	2	7
	$ 9	$ 13

As of December 4, 2008, $96 million of total unrecognized compensation costs related to non-vested awards was expected to be recognized through the first quarter of 2013, resulting in a weighted-average period of 1.3 years. Stock-based compensation expense in the above presentation does not reflect any significant income taxes, which is consistent with the Company's treatment of income or loss from its U.S. operations. (See "Income Taxes" note.)

Restructure

In the first quarter of 2009, in response to a challenging global environment for technology products, the Company announced a restructuring of its memory operations. As part of the restructure, the Company's IM Flash joint venture between the Company and Intel terminated its agreement with the Company to obtain NAND Flash memory supply from the Company's Boise facility, reducing the Company's NAND Flash production by approximately 35,000 200mm wafers per month. In addition, the Company and Intel agreed to suspend tooling and the ramp of production at IM Flash's Singapore wafer fabrication facility. The Company has also undertaken additional cost savings measures to increase its competitiveness, including reductions in executive and employee salary and bonuses, a continued hiring freeze, and reduction of other discretionary costs such as outside services, travel and overtime. As a result of these actions, the Company recorded a net $66 million credit to restructure in the first quarter of 2009, attributable to the Company's Memory segment. The amount includes a $144 million gain in connection with the termination of the NAND Flash supply agreement. As of December 4, 2008, the Company expected to incur additional restructure costs of approximately $40 million through 2010. The components of the restructure charges and credits were as follows:

Restructure charge (credit):	
Gain from termination of NAND Flash supply agreement	$ (144)
Write-down of equipment	56
Severance and other termination benefits	22
Total restructure credit	$ (66)

As of December 4, 2008, $6 million of the restructure costs remained unpaid and were included in accounts payable and accrued expenses.

In the first quarter of 2008, the Company recorded a restructure charge of $13 million, primarily to the Memory segment, for employee severance and related costs and a write-down of certain facilities.

Other Operating (Income) Expense, Net

Other operating (income) expense for the first quarter of 2009 included losses of $14 million on disposals of semiconductor equipment. Other operating (income) expense for the first quarter of 2008 included $38 million in receipts from the U.S. government in connection with anti-dumping tariffs, losses of $27 million from changes in currency exchange rates, and gains of $10 million on disposals of semiconductor equipment.

Income Taxes

Income taxes for 2009 and 2008 primarily reflect taxes on the Company's non-U.S. operations and U.S. alternative minimum tax. The Company has a valuation allowance for its net deferred tax asset associated with its U.S. operations. The benefit for taxes on U.S. operations in 2009 and 2008 was substantially offset by changes in the valuation allowance.

Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of common shares and stock rights outstanding. Diluted earnings per share is computed based on the weighted-average number of common shares outstanding plus the dilutive effects of stock options, warrants and convertible notes. Potential common shares that would increase earnings per share amounts or decrease loss per share amounts are antidilutive and are therefore excluded from earnings per share calculations. Antidilutive potential common shares that could dilute basic earnings per share in the future were 219.1 million and 251.0 million for the first quarters of 2009 and 2008, respectively.

	Quarter ended	
	December 4, 2008	November 29, 2007
Net loss available to common shareholders	$ (706)	$ (262)
Weighted-average common shares outstanding	773.3	771.9
Loss per share:		
Basic	$ (0.91)	$ (0.34)
Diluted	(0.91)	(0.34)

Comprehensive Income (Loss)

Comprehensive loss for the first quarter of 2009 was ($702) million and included $‒4 million, net of tax, of unrealized gains on investments. Comprehensive loss for the first quarter of 2008 was ($263) million and included de minimis amounts of unrealized gains and losses on investments.

Consolidated Joint Ventures

NAND Flash joint ventures with Intel ("IM Flash"): The Company has formed two joint ventures with Intel (IM Flash Technologies, LLC and IM Flash Singapore LLP) to manufacture NAND Flash memory products for the exclusive benefit of the partners. As of December 4, 2008, the Company owned 51% and Intel owned 49% of IM Flash. The Company has determined that both of the IM Flash joint ventures are variable interest entities as defined in FIN 46(R), and that the Company is the primary beneficiary of both. Accordingly, IM Flash's financial results are included in the consolidated financial statements of the Company and all amounts pertaining to Intel's interests in IM Flash are reported as noncontrolling interests in subsidiaries.

IM Flash manufactures NAND Flash memory products based on NAND Flash designs developed by the Company and Intel and licensed to the Company. Product design and other research and development ("R&D") costs for NAND Flash are generally shared equally between the Company and Intel. As a result of reimbursements received from Intel under this NAND Flash R&D cost-sharing arrangement, the Company's R&D expenses were reduced by $32 million and $53 million in the first quarters of 2009 and 2008, respectively.

IM Flash sells products to the joint venture partners generally in proportion to their ownership at long-term negotiated prices approximating cost. IM Flash sales to Intel were $318 million and $223 million for the first quarters of 2009 and 2008, respectively. As of December 4, 2008 and August 28, 2008, IM Flash had receivables from Intel primarily for sales of NAND Flash products of $161 million and $144 million, respectively. In addition, as of December 4, 2008, the Company had receivables from Intel of $208 million in connection with the termination of a supply agreement for NAND Flash memory produced at the Company's Boise facility and $36 million related to NAND Flash product design and process development activities. As of December 4, 2008 and August 28, 2008, IM Flash had payables to Intel of $1 million and $4 million, respectively, for various services.

Under the terms of a wafer supply agreement, the Company manufactured wafers for IM Flash in its Boise, Idaho facility. In the first quarter of 2009, the Company discontinued production of NAND flash memory for IM Flash at its Boise facility. Also in the first quarter of 2009, IM Flash substantially completed construction of a new 300mm wafer fabrication facility structure in Singapore and the Company and Intel agreed to suspend tooling and the ramp of production at this facility.

In the first quarter of 2009, IM Flash distributed $145 million to Intel. In the first quarter of 2008, Intel contributed $150 million to IM Flash. The Company's ability to access IM Flash's cash and marketable investment securities ($249 million as of December 4, 2008) to finance the Company's other operations is subject to agreement by the joint venture partners. The creditors of IM Flash have recourse only to the assets of IM Flash and do not have recourse to any other assets of the Company.

TECH Semiconductor Singapore Pte. Ltd. ("TECH"): Since 1998, the Company has participated in TECH, a semiconductor memory manufacturing joint venture in Singapore among the Company, Canon Inc. and Hewlett-Packard Company ("HP"). As of December 4, 2008, the Company owned an approximate 73% interest in TECH.

TECH's cash and marketable investment securities ($91 million as of December 4, 2008) are not anticipated to be available to finance the Company's other operations. In March, 2008, TECH entered into a credit facility, which is guaranteed, in part, by the Company.

MP Mask Technology Center, LLC ("MP Mask"): In 2006, the Company formed a joint venture, MP Mask, with Photronics, Inc. ("Photronics") to produce photomasks for leading-edge and advanced next generation semiconductors. As of December 4, 2008, the Company owned 50.01% and Photronics owned 49.99% of MP Mask.

In 2008, the Company completed the construction of a facility to produce photomasks and leased the facility to Photronics under a build to suit lease agreement. Under the terms of the lease agreement, the Company will receive quarterly lease payments through January 2013. As of December 4, 2008, other receivables included $12 million and other noncurrent assets included $43 million for this lease.

Segment Information

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

	Quarter ended	
	December 4,	November 29,

	2008	2007
Net sales:		
Memory	$ 1,222	$ 1,366
Imaging	180	169
Total consolidated net sales	$ 1,402	$ 1,535
Operating income (loss):		
Memory	$ (675)	$ (251)
Imaging	3	(9)
Total consolidated operating loss	$ (672)	$ (260)

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

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements such as those made in "Overview" regarding the costs of restructure plans, the Company's DRAM development costs relative to Nanya, Inotera's transition to the Company's stack process technology, the supply of DRAM wafers from Inotera Memories, Inc. and manufacturing plans for CMOS image sensors; in "Net Sales" regarding production levels for the second quarter of 2009, future increases in NAND production and demand for Imaging products in the second quarter of 2009; in "Gross Margin" regarding the effects of temporary production slowdowns for the second quarter of 2009 and future charges for inventory write-downs; in "Restructure" regarding the remaining costs of restructure plans; in "Stock-based Compensation" regarding future stock-based compensation costs; in "Liquidity and Capital Resources" regarding capital spending in 2009, future distributions from IM Flash to Intel and capital contributions to TECH; and in "Recently Issued Accounting Standards" regarding the impact from the adoption of new accounting standards. The Company's actual results could differ materially from the Company's historical results and those discussed in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those identified in "PART II. OTHER INFORMATION – Item 1A. Risk Factors." This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes and with the Company's Annual Report on Form 10-K for the year ended August 28, 2008. All period references are to the Company's fiscal periods unless otherwise indicated. The Company's fiscal year is the 52 or 53-week period ending on the Thursday closest to August 31. The Company's fiscal 2009, which ends on September 3, 2009, contains 53 weeks. All production data reflects production of the Company and its consolidated joint ventures.

Overview

The Company is a global manufacturer of semiconductor devices, principally semiconductor memory products (including DRAM and NAND Flash) and CMOS image sensors. The Company operates in two segments: Memory and Imaging. Its products are used in a broad range of electronic applications including personal computers, workstations, network servers, mobile phones and other consumer applications including Flash memory cards, USB storage devices, digital still cameras, MP3/4 players and in automotive applications. The Company markets its products through its internal sales force, independent sales representatives and distributors primarily to original equipment manufacturers and retailers located around the world. The Company's success is largely dependent on the market acceptance of a diversified portfolio of semiconductor memory products, efficient utilization of the Company's manufacturing infrastructure, successful ongoing development of advanced process technologies and generation of sufficient return on research and development investments.

The Company has made significant investments to develop proprietary product and process technology that is implemented in its worldwide manufacturing facilities and through its joint ventures to enable the production of semiconductor products with increasing functionality and performance at lower costs. The Company generally reduces the manufacturing cost of each generation of product through advancements in product and process technology such as its leading-edge line-width process technology and innovative array architecture. The Company continues to introduce new generations of products that offer improved performance characteristics, such as higher data transfer rates, reduced package size, lower power consumption and increased memory density and megapixel count. To leverage its significant investments in research and development, the Company has formed strategic joint ventures under which the costs of developing memory product and process technologies are shared with its joint venture partners. In addition, from time to time, the Company has also sold and/or licensed technology to other parties. The Company is pursuing additional opportunities to recover its investment in intellectual property through partnering and other arrangements.

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The semiconductor memory industry is experiencing a severe downturn due to a significant oversupply of products. The downturn has been exacerbated by global economic conditions which have adversely affected demand for semiconductor memory products. Average selling prices per gigabit for the Company's DRAM and NAND Flash products for the first quarter of 2009 decreased 34% and 24%, respectively, compared to the fourth quarter of 2008. Average selling prices per gigabit for the Company's DRAM and NAND Flash products in 2008 were down 51% and 67%, respectively, compared to 2007 and down 63% and 85%, respectively, compared to 2006. These declines significantly outpaced the long-term historical trend. As a result of these market conditions, the Company and other semiconductor memory manufacturers have reported negative gross margins and substantial losses in recent periods. In the first quarter of 2009, the Company reported a net loss $706 million after reporting a net loss of $1.6 billion for 2008. In response to these market conditions, on October 9, 2008 the Company announced a plan to restructure its Memory operations. In the first quarter of 2009, the Company discontinued production of NAND flash memory for IM Flash at its Boise facility reducing the Company's NAND flash production by approximately 35,000 200mm wafers per month. In addition, the Company and Intel agreed to suspend tooling and the ramp of NAND Flash production at IM Flash's Singapore wafer fabrication plant. The Company has also undertaken additional cost savings measures to increase its competitiveness, including reductions in executive and employee salary and bonuses, a continued hiring freeze, and reduction of other discretionary costs such as outside services, travel and overtime. As of December 4, 2008, the Company expected to incur additional restructure costs of approximately $40 million through 2010.

The effects of the worsening global economy and the tightening credit market are also making it increasingly difficult for semiconductor memory manufacturers to obtain external sources of financing to fund their operations. Although the Company believes that it is better positioned than some of its peers, it faces challenges in the current and near term that require it to continue to make significant improvements in its competitiveness. Additionally, the Company is pursuing financing alternatives, delaying capital expenditures and implementing further cost-cutting initiatives.

DRAM joint ventures with Nanya Technology Corporation ("Nanya"): The Company has a partnering arrangement with Nanya Technology Corporation ("Nanya") pursuant to which the Company and Nanya jointly develop process technology and designs to manufacture stack DRAM products. Each party generally bears its own development costs and the Company's development costs are expected to exceed Nanya's development costs by a significant amount. In addition, the Company has transferred and licensed certain intellectual property related to the manufacture of stack DRAM products to Nanya and licensed certain intellectual property from Nanya. The Company is to receive an aggregate of $207 million from Nanya through 2010. Further, the Company will receive royalties from Nanya for stack DRAM products manufactured by or for Nanya.

The Company has partnered with Nanya in investments in two Taiwan DRAM memory manufacturers: Inotera Memories, Inc. ("Inotera") and MeiYa Technology Corporation ("MeiYa"). As of December 4, 2008, the Company owned 35.5% of Inotera and 50% of MeiYa and Nanya owned 35.6% of Inotera and 50% of MeiYa. The Company's investments in Inotera and MeiYa are accounted for under the equity method because of the Company's ability to exercise significant influence over the operating and financial policies of these entities. As of December 4, 2008 and August 28, 2008, the Company's aggregate carrying value of these equity method investments in the accompanying consolidated balance sheet was $432 million and $84 million, respectively. Inotera and MeiYa each have fiscal years that end on December 31. As these fiscal years differ from that of the Company's fiscal year, the Company recognizes its share of Inotera and MeiYa quarterly earnings or losses for the calendar quarter that ends within the Company's fiscal quarter. This results in the recognition of the Company's share of earnings or losses from these entities for a period that lags the Company's fiscal periods by approximately two months.

Inotera: In the first quarter of 2009, the Company acquired a 35.5% ownership interest (or approximately 1.2 billion shares) in Inotera, a publicly traded entity in Taiwan, from Qimonda AG ("Qimonda") for approximately $400 million. The interest in Inotera was acquired for cash, a portion of which was funded from loan proceeds of $200 million received by the Company from Nan Ya Plastics Corporation, an affiliate of Nanya, and $85 million received from Inotera. The loans were recorded at their fair values, which reflect an aggregate discount of $31 million from their face amounts. The aggregate discount was recorded as a reduction of the Company's basis in the investment in Inotera. The Company also capitalized $10 million of costs and other fees incurred in connection with the acquisition. As a result of the above transactions, as of December 4, 2008 the carrying value of the Company's equity investment in Inotera was $378 million. Because the Company did not acquire its interest in Inotera until October and November of 2008, the Company's results of operations for the first quarter of 2009 do not include any share of Inotera's results of operations for the quarterly period ended September 30, 2008.

The Company has rights and obligations to purchase 50% of the 120,000 per month 300mm DRAM wafer production of Inotera. Inotera's actual wafer production will vary from time to time based on market and other conditions. In connection with the acquisition of the shares in Inotera, the Company and Nanya entered into a Supply Agreement with Inotera (the "Supply Agreement") pursuant to which Inotera will sell to the Company and Nanya trench and stack DRAM products manufactured by Inotera. Inotera's current trench production capacity is expected to transition to the Company's stack process technology. Inotera will sell to the Company and Nanya all of the trench DRAM products manufactured by it other than trench DRAM products that are sold by Inotera to Qimonda pursuant to a separate supply agreement between Inotera and Qimonda (the "Qimonda Supply Agreement"). Under the Qimonda Supply Agreement, Qimonda is obligated to purchase trench DRAM products started for it by Inotera for approximately eight months following the Company's acquisition of the shares in Inotera in accordance with a ramp down schedule specified in the Qimonda Supply Agreement. Initially, (a) with respect to trench DRAM products, the Company will purchase the products resulting from 50% of Inotera's aggregate trench DRAM production less the trench DRAM products contemplated to be purchased by Qimonda pursuant to the Qimonda Supply Agreement and (b) with respect to stack DRAM products, the Company will purchase the products resulting from 50% of the aggregate stack DRAM production. The pricing formula that determines the amounts to be paid by the Company for DRAM products under the Supply Agreement includes manufacturing costs and margins associated with the products purchased.

MeiYa: In the fourth quarter of 2008, the Company and Nanya formed MeiYa to manufacture stack DRAM products and sell such products exclusively to the Company and Nanya. In connection with the purchase of the ownership interest in Inotera, the Company entered into a series of agreements with Nanya which contemplate the restructuring of MeiYa and pursuant to which both parties will cease future funding of, and resource commitments to, MeiYa.

(See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Supplemental Balance Sheet Information – Equity Method Investments")

Aptina Imaging Business: The Company is exploring partnering arrangements with outside parties regarding the sale of Aptina in which the Company could retain a minority ownership interest. To that end, the Company began operating Aptina as a separate wholly-owned subsidiary in October 2008. Under the arrangements being considered, the Company expects that it will continue to manufacture CMOS image sensors for some period of time.

Inventory Write-Downs: The Company's results of operations for the first quarter of 2009 and the first, second and fourth quarters of 2008 included charges of $369 million, $62 million, $15 million and $205 million, respectively, to write down the carrying value of work in process and finished goods inventories of Memory products (both DRAM and NAND Flash) to their estimated market values.

Results of Operations

	First Quarter				Fourth Quarter	
	2009	% of net sales	2008	% of net sales	2008	% of net sales
Net sales:						
Memory	$ 1,222	87 %	$ 1,366	89 %	$ 1,271	88 %
Imaging	180	13 %	169	11 %	178	12 %
	$ 1,402	100 %	$ 1,535	100 %	$ 1,449	100 %
Gross margin:						
Memory	$ (502)	(41) %	$ (39)	(3) %	$ (115)	(9) %
Imaging	53	29 %	44	26 %	50	28 %
	$ (449)	(32) %	$ 5	0 %	$ (65)	(4) %

Selling, general and administrative	$ 102	7 %	$ 112	7 %	$ 107	7 %
Research and development	178	13 %	163	11 %	167	12 %
Restructure	(66)	(5) %	13	1 %	4	--
Other operating (income) expense, net	9	1 %	(23)	(1) %	(5)	--
Net loss	(706)	(50) %	(262)	(17) %	(344)	(24) %

The Company's first quarter of 2009, which ended December 4, 2008, contained 14 weeks as compared to 13 weeks for the fourth and first quarters of 2008.

Net Sales

Total net sales for the first quarter of 2009 decreased 3% as compared to the fourth quarter of 2008 primarily due to a 4% decrease in Memory sales. Memory sales for the first quarter of 2009 reflect significant declines in per gigabit average selling prices as compared to the fourth quarter of 2008 partially offset by increases in gigabits sold. Memory sales were 87% of total net sales for the first quarter of 2009 as compared to 88% and 89% for the fourth and first quarters of 2008. Imaging sales for the first quarter of 2009 were stable as compared to the fourth quarter of 2008. Total net sales for the first quarter of 2009 decreased 9% as compared to the first quarter of 2008 primarily due to an 11% decrease in Memory sales partially offset by a 7% increase in Imaging sales.

In response to market conditions, the Company implemented temporary production slowdowns at some of its manufacturing facilities during the second quarter of 2009. The slowdowns and the shutdown of NAND production for IM Flash at the Company's Boise fabrication facility are expected to reduce production output for Memory and Imaging products in the second quarter of 2009.

The Company has formed partnering arrangements under which it has sold and/or licensed technology to other parties. The Company recognized royalty revenue of $36 million in the first quarter of 2009, $38 million in the fourth quarter of 2008 and $5 million in the first quarter of 2008.

Memory: Memory sales for the first quarter of 2009 decreased 4% from the fourth quarter of 2008 as sales of DRAM products decreased by 10% partially offset by a 6% increase in sales of NAND Flash products.

Sales of DRAM products for the first quarter of 2009 decreased from the fourth quarter of 2008 primarily due to a 34% decline in average selling prices mitigated by a 35% increase in gigabit sales as a result of production increases and inventory reductions. Gigabit production of DRAM products increased approximately 23% for the first quarter of 2009 as compared to the fourth quarter of 2008, primarily due to production efficiencies from improvements in product and process technologies as well as the additional week in the quarter. Sales of DDR2 and DDR3 DRAM products were 25% of the Company's total net sales in the first quarter of 2009 as compared to 28% for the fourth quarter of 2008 and 32% for the first quarter of 2008.

Sales of NAND Flash products for the first quarter of 2009 increased from the fourth quarter of 2008 primarily due to a 40% increase in gigabits sold as a result of production increases and inventory reductions partially offset by a 24% decline in average selling prices per gigabit. Gigabit production of NAND Flash products increased 17% for the first quarter of 2009 as compared to the fourth quarter of 2008, primarily due to transitions to higher density, advanced geometry devices as well as the additional week in the quarter. The Company expects that its gigabit production of NAND Flash products will increase at a slower rate in 2009 than in 2008 primarily due to the completion of production ramps at new 300mm manufacturing facilities in 2008 and the shutdown of 200mm wafer NAND Flash production at the Company's Boise fabrication facility in the first quarter of 2009. Sales of NAND Flash products represented 38% of the Company's total net sales for the first quarter of 2009 as compared to 35% for the fourth quarter of 2008 and 33% for the first quarter of 2008.

Memory sales for the first quarter of 2009 decreased 11% from the first quarter of 2008 primarily due to a 20% decrease in sales of DRAM products partially offset by a 6% increase in sales of NAND Flash products. The decrease in sales of DRAM products for the first quarter of 2009 from the first quarter of 2008 was primarily the result of a 47% decline in average selling prices mitigated by a 43% increase in gigabits sold. Gigabit production of DRAM products increased 56% for the first quarter of 2009 as compared to the first quarter of 2008, primarily due to production efficiencies from improvements in product and process technologies as well as the additional week in the quarter. Sales of NAND Flash products for the first quarter of 2009 increased 6% from the first quarter of 2008 primarily due to a 206% increase in gigabits sold partially offset by a 65% decline in average selling prices. The significant increase in gigabit sales of NAND Flash products was primarily due to a 152% increase in production primarily as a result of the continued ramp of NAND Flash products at the Company’s 300mm fabrication facilities and transitions to higher density, advanced geometry devices.

Imaging: Imaging sales for the first quarter of 2009 were stable as compared to the fourth quarter of 2008 reflecting relatively stable average selling prices and unit sales. Imaging sales for the first quarter of 2009 increased by 7% from the first quarter of 2008 primarily due to increased units sales of products with 3-megapixel or higher resolution partially offset by declines in average selling prices. Imaging sales were approximately 13% of the Company's total net sales for the first quarter of 2009 as compared to 12% for the fourth quarter of 2008 and 11% for the first quarter of 2008. The Company expects that unit sales for Imaging will decrease in the second quarter of 2009 due to lower sales of cell phones and other devices incorporating the Company's Imaging products.

Gross Margin

The Company's overall gross margin percentage declined from negative 4% for the fourth quarter of 2008 to negative 32% for the first quarter of 2009 due to a decline in the gross margin percentages for Memory primarily as a result of significant decreases in average selling prices and inventory write-downs for Memory products. The Company's overall gross margin percentage declined from 0% for the first quarter of 2008 due to a decline in the gross margin percentages for Memory primarily as a result of significant decreases in average selling prices and inventory write-downs for Memory products. Temporary production slowdowns that the Company implemented at some of its manufacturing facilities during the second quarter of 2009 are expected to adversely affect per megabit and per unit costs of Memory and Imaging products.

Memory: The Company's gross margin percentage for Memory products declined from negative 9% for the fourth quarter of 2008 to negative 41% for the first quarter of 2009 primarily due to declines in the gross margin for both DRAM and NAND Flash products. Gross margins for DRAM and NAND Flash products for the first quarter of 2009 were adversely affected by declines in average selling prices and inventory write-downs, mitigated by reductions in manufacturing costs.

The Company's gross margins for Memory in 2009 and 2008 were impacted by charges to write down inventories to their estimated market values as a result of the significant decreases in average selling prices for both DRAM and NAND Flash products. The impact of inventory write-downs on gross margins for all periods reflects the period-end inventory write-down less the estimated net effect of prior period write-downs. The effects of inventory write-downs on gross margin for the first quarter of 2009 and fourth and first quarters of 2008 were as follows:

	First Quarter 2009	First Quarter 2008	Fourth Quarter 2008
Period-end inventory write-downs	$ (369)	$ (62)	$ (205)
Estimated net effect of previous write-downs	157	14	13
Net effect of inventory write-downs	$ (212)	$ (48)	$ (192)

As charges to write down inventories are recorded in advance of when inventories are sold, gross margins in subsequent periods are higher than they would be absent the effect of the previous write-downs. In future periods, the Company will be required to record additional inventory write-downs if estimated average selling prices of products held in finished goods and work in process inventories at a quarter-end date are below the manufacturing cost of those products.

The Company's gross margin for DRAM products for the first quarter of 2009 declined from the fourth quarter of 2008, primarily due to the 34% decrease in average selling prices per gigabit and inventory write-downs mitigated by a reduction in production costs per gigabit. The Company achieved manufacturing cost reductions for DRAM products through transitions to higher-density, advanced-geometry devices. DRAM production cost reductions for the first quarter of 2009 were offset by the inventory write-downs. The Company reduced its DRAM manufacturing costs (which exclude inventory write-downs) per gigabit by 12% for the first quarter of 2009 as compared to the fourth quarter of 2008.

The Company's gross margin for NAND Flash products for the first quarter of 2009 declined from the fourth quarter of 2008 primarily due to the 24% decrease in average selling prices per gigabit and inventory write-downs. In addition, results for the fourth quarter of 2008 reflected reduced costs from the recovery of $70 million for pricing adjustments for NAND Flash products purchased from other suppliers in prior periods. The decline in gross margin was mitigated by a reduction in manufacturing costs per gigabit for NAND Flash products primarily achieved through increased production of higher-density, advanced-geometry devices. Costs of NAND Flash products were also reduced as a result of lower prices for products purchased for sale under the Company's Lexar brand. Excluding the inventory write-downs and the effect of pricing adjustments from other suppliers in the fourth quarter of 2008, the Company reduced its NAND Flash costs per gigabit by 14%. Sales of NAND Flash products include sales from IM Flash to Intel at long-term negotiated prices approximating cost. IM Flash sales to Intel were $318 million for the first quarter of 2009, $293 million for the fourth quarter of 2008 and $223 million for the first quarter of 2008.

The Company's gross margin percentage for Memory products declined to negative 41% for the first quarter of 2009 from negative 3% for the first quarter of 2008 primarily due to lower gross margins on sales of DRAM and NAND Flash products. Declines in gross margins on sales of DRAM products for the first quarter of 2009 as compared to the first quarter of 2008 were primarily due to the 47% decline in average selling prices and inventory write-offs mitigated by per gigabit cost reductions. The Company reduced its DRAM production costs (which exclude inventory write-downs) per gigabit by 35% for the first quarter of 2009 as compared to the first quarter of 2008. Gross margins on NAND Flash products for the first quarter of 2009 declined from the first quarter of 2008 primarily due to the 65% decline in average selling prices and inventory write-offs mitigated by per gigabit cost reductions of 55% (excluding inventory write-offs).

In the first quarter of 2009, the Company's TECH Semiconductor Singapore Pte. Ltd. ("TECH") joint venture accounted for approximately 13% of the Company's total wafer production. TECH primarily produced DDR and DDR2 products in 2009 and 2008. Since TECH utilizes the Company's product designs and process technology and has a similar manufacturing cost structure, the gross margin on sales of TECH products approximates gross margins on sales of similar products manufactured by the Company's wholly-owned operations. (See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Consolidated Joint Ventures – TECH Semiconductor Singapore Pte. Ltd.")

Imaging: The Company's gross margin percentage for Imaging for the first quarter of 2009 improved to 29% from 28% for the fourth quarter of 2008 primarily due to cost reductions. The Company's gross margin for Imaging products for the first quarter of 2009 improved to 29% from 26% for first quarter of 2008, primarily due to cost reductions partially offset by declines in average selling prices.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the first quarter of 2009 decreased 5% from the fourth quarter of 2008 despite increased costs associated with the additional week in the quarter, primarily due to lower legal expenses and lower payroll expenses and other costs as a result of the Company's restructure initiatives. SG&A expenses for the first quarter of 2009 decreased 9% from the first quarter of 2008 despite increased costs associated with the additional week in the quarter, primarily due to lower payroll expenses and other costs as a result of the Company's restructure initiatives. Future SG&A expense is expected to vary, potentially significantly, depending on, among other things, the number of legal matters that are resolved relatively early in their life-cycle and the number of matters that progress to trial.

For the Company's Memory segment, SG&A expenses as a percentage of sales were 7% for the first quarter of 2009 and the fourth and first quarters of 2008. For the Imaging segment, SG&A expenses as a percentage of sales were 8% for the first quarter of 2009, 11% for the fourth quarter of 2008 and 8% for the first quarter of 2008.

Research and Development

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

R&D expenses for the first quarter of 2009 increased 7% from the fourth quarter of 2008 and 9% from the first quarter of 2008 primarily due to increased costs associated with the additional week in the first quarter of 2009. As a result of reimbursements received from Intel Corporation under a NAND Flash R&D cost-sharing arrangement, R&D expenses were reduced by $32 million for both the first quarter of 2009 and for the fourth quarter of 2008 and $53 million for the first quarter of 2008.

For the Company's Memory segment, R&D expenses as a percentage of sales were 11% for the first quarter of 2009, 10% for the fourth quarter of 2008 and 9% for the first quarter of 2008. For the Imaging segment, R&D expenses as a percentage of sales were 22% for the first quarter of 2009, 19% for the fourth quarter of 2008, 22% for the first quarter of 2008.

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

Restructure

In the first quarter of 2009, in response to a challenging global environment for technology products, the Company announced a restructuring of its memory operations. As part of the restructure, the Company's IM Flash joint venture between the Company and Intel terminated its agreement with the Company to obtain NAND Flash memory supply from the Company's Boise facility, reducing the Company's NAND Flash production by approximately 35,000 200mm wafers per month. In addition, the Company and Intel agreed to suspend tooling and the ramp of production at IM Flash's Singapore wafer fabrication facility. The Company has also undertaken additional cost savings measures to increase its competitiveness, including reductions in executive and employee salary and bonuses, a continued hiring freeze, and reduction of other discretionary costs such as outside services, travel and overtime. As a result of these actions, the Company recorded a net $66 million credit to restructure in the first quarter of 2009, attributable to the Company's Memory segment. The amount includes a $144 million gain in connection with the termination of the NAND Flash supply agreement. As of December 4, 2008, the Company expected to incur additional restructure costs of approximately $40 million through 2010. The components of the restructure charges and credits were as follows:

Restructure charge (credit):		
Gain from termination of NAND Flash supply agreement	$	(144)
Write-down of equipment		56
Severance and other termination benefits		22
Total restructure credit	$	(66)

As of December 4, 2008, $6 million of the restructure costs remained unpaid and were included in accounts payable and accrued expenses.

In the first quarter of 2008, the Company recorded a restructure charge of $13 million, primarily to the Memory segment, for employee severance and related costs and a write-down of certain facilities.

Other Operating (Income) Expense, Net

Other operating (income) expense for the first quarter of 2009 included losses of $14 million on disposals of semiconductor equipment. Other operating (income) expense for the first quarter of 2008 included $38 million in receipts from the U.S. government in connection with anti-dumping tariffs, losses of $27 million from changes in currency exchange rates, and gains of $10 million on disposals of semiconductor equipment.

Income Taxes

Income taxes for 2009 and 2008 primarily reflect taxes on the Company's non-U.S. operations and U.S. alternative minimum tax. The Company has a valuation allowance for its net deferred tax asset associated with its U.S. operations. The benefit for taxes on U.S. operations in 2009 and 2008 was substantially offset by changes in the valuation allowance.

Noncontrolling Interests in Net (Income) Loss

Noncontrolling interests for 2009 and 2008 primarily reflects the share of income or losses of the Company's TECH joint venture attributable to the noncontrolling interests in TECH. (See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Consolidated Joint Ventures – TECH Semiconductor Singapore Pte. Ltd.")

Losses and Earnings from Equity Method Investments

In connection with its DRAM partnering arrangements with Nanya, the Company has two equity method investments: MeiYa and Inotera. Because MeiYa and Inotera each have fiscal years that end on December 31 which differs from the Company's fiscal year, the Company recognizes its share of MeiYa and Inotera quarterly earnings or losses for the calendar quarter that ends within the Company's fiscal quarter. This results in the recognition of results from these entities for a period that lags the Company's fiscal periods by approximately two months. In the first quarter of 2009, the Company recognized $2 million of losses from MeiYa for the quarterly period ended September 30, 2008. The Company will recognize its share of Inotera's losses or earnings from the acquisition date through December 31, 2008 (Inotera's year end) in the Company's second quarter of 2009. (See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Supplemental Balance Sheet Information – Equity Method Investments.")

Stock-Based Compensation

Total compensation cost for the Company's equity plans for the first quarter of 2009, the fourth quarter of 2008 and first quarter of 2008 was $9 million, $8 million and $13 million, respectively. Stock compensation expenses fluctuate based on assessments of whether performance conditions will be achieved for the Company's performance-based stock grants. As of December 4, 2008, $96 million of total unrecognized compensation cost related to non-vested awards was expected to be recognized through the first quarter of 2013.

Liquidity and Capital Resources

As of December 4, 2008, the Company had cash and equivalents and short-term investments totaling $1.0 billion compared to $1.4 billion as of August 28, 2008. The balance as of December 4, 2008, included $249 million held at the Company's IM Flash joint venture and $91 million held at the Company's TECH joint venture. The Company's ability to access funds held by joint ventures to finance the Company's other operations is subject to agreement by the joint venture partners. Amounts held by TECH are not anticipated to be available to finance the Company's other operations.

The Company's liquidity is highly dependent on average selling prices for its products and the timing of capital expenditures, both of which can vary significantly from period to period. Depending on conditions in the semiconductor memory market, the Company's cash flows from operations and current holdings of cash and investments may not be adequate to meet the Company's needs for capital expenditures and operations. Historically, the Company has used external financing to fund these needs. Due to conditions in the credit markets, many financing instruments used by the Company in the past are currently not available on terms acceptable to the Company. The Company has significantly reduced its capital expenditures for 2009. In addition, the Company is pursuing further financing alternatives, further reducing capital expenditures and implementing further cost-cutting initiatives.

Operating activities: The Company generated $359 million of cash from operating activities in the first quarter of 2009, which primarily reflects the Company's $706 million of net loss adjusted by $594 million for noncash depreciation and amortization expense, a $369 million noncash charge to write-down inventories to estimated market value and a $138 million decrease in receivables.

Investing activities: Net cash used by investing activities was $489 million in the first quarter of 2009, which included cash expenditures of $409 million for the Company's 35.5% interest in Inotera and cash expenditures of $270 million for property, plant and equipment partially offset by the net effect of maturities and purchases of marketable investment securities of $121 million. A significant portion of the capital expenditures relate to the ramp of IM Flash facilities and 300mm conversion of manufacturing operations at TECH. The Company believes that to develop new product and process technologies, support future growth, achieve operating efficiencies and maintain product quality, it must continue to invest in manufacturing technologies, facilities and capital equipment and research and development. The Company expects 2009 capital spending to approximate $650 million to $750 million. As of December 4, 2008, the Company had commitments of approximately $125 million for the acquisition of property, plant and equipment, nearly all of which are expected to be paid within one year.

In the first quarter of 2009, the Company acquired a 35.5% ownership interest in Inotera, a Taiwanese DRAM memory manufacturer, from Qimonda AG for approximately $400 million in cash and incurred $10 million of costs and other fees in connection with the acquisition. (See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Supplemental Balance Sheet Information – Equity Method Investments.")

Financing activities: Net cash used by financing activities was $88 million in the first quarter of 2009, which primarily reflects $163 million in debt payments, $150 million of distributions paid to joint venture partners and $64 million in payments on equipment purchase contracts partially offset by $285 million in proceeds from borrowings.

During the first quarter of 2009, in connection with the purchase of its 35.5% interest in Inotera, the Company entered into a two-year variable rate term loan with Nan Ya Plastics and a six-month variable rate term loan with Inotera. On November 26, 2008, the Company received loan proceeds of $200 million from Nan Ya Plastics and $85 million from Inotera, which are payable at the end of each loan term. Under the terms of the loan agreements, interest is payable quarterly at LIBOR plus 2%. The interest rates reset quarterly and were 4.2% per annum as of December 4, 2008. The Company recorded the debt net of aggregate discounts of $31 million, which will be recognized as interest expense over the respective lives of the loans, resulting in an effective interest rate of 12.1% for the Nan Ya Plastics loan and 11.6% for the Inotera loan. The Nan Ya Plastics loan is collateralized by a first priority security interest in the Inotera shares owned by the Company (approximate carrying value of $378 million as of December 4, 2008). (See "Item 1. Financial Statements – Notes to Consolidated Financial Statements – Supplemental Balance Sheet Information – Debt.")

Joint ventures: In the first quarter of 2009, IM Flash distributed $145 million to Intel and the Company estimates that it will make additional distributions to Intel of approximately $360 million through the remainder of 2009. Timing of these distributions and any future contributions, however, is subject to market conditions and approval of the partners.

The Company expects to make additional capital contributions to TECH in 2009. The timing and amount of these contributions is subject to market conditions and partner participation.

Contractual obligations: As of December 4, 2008, contractual obligations for notes payable, capital lease obligations and operating leases were as follows:

	Total	Remainder of 2009	2010	2011	2012	2013	2014 and thereafter
	(amounts in millions)						
Notes payable1	$ 2,489	$ 183	$ 335	$ 443	$ 179	$ 24	$ 1,325
Capital lease obligations1	755	159	152	265	50	19	110
Operating leases	85	12	15	13	11	10	24

1 Includes interest

Recently Issued Accounting Standards

In December 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 140-1 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." FSP No. FAS 140-1 and FIN 46(R)-8 requires public entities to provide additional disclosures about transfers of financial assets and their involvement with variable interest entities. The Company is required to adopt FSP No. FAS 140-1 and FIN 46(R)-8 effective in the second quarter of 2009.

In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP No. APB 14-1 requires that issuers of convertible debt instruments that may be settled in cash upon conversion separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate as interest cost is recognized in subsequent periods. The Company is required to adopt FSP No. APB 14-1 at the beginning of 2010. On adoption, the Company will retrospectively account for its $1.3 billion of 1.875% convertible senior notes issued in May of 2007 under the provisions of FSP No. APB 14-1. The Company estimates that debt recognized on issuance of the $1.3 billion convertible senior notes would be approximately $400 million lower under FSP No. APB 14-1. The difference of approximately $400 million would be accreted to interest expense over the approximate seven-year term of the notes. The Company is continuing to evaluate the full impact that the adoption of FSP No. APB 14-1 will have on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"), which establishes the principles and requirements for how an acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose. The Company is required to adopt SFAS No. 141(R) effective at the beginning of 2010. The impact of the adoption of SFAS No. 141(R) will depend on the nature and extent of business combinations occurring on or after the beginning of 2010.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 requires that (1) noncontrolling interests be reported as a separate component of equity, (2) net income attributable to the parent and to the noncontrolling interest be separately identified in the income statement, (3) changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and (4) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. The Company is required to adopt SFAS No. 160 effective at the beginning of 2010. The Company is evaluating the impact that the adoption of SFAS No. 160 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." Under SFAS No. 159, the Company may elect to measure many financial instruments and certain other items at fair value on an instrument by instrument basis, subject to certain restrictions. The Company adopted SFAS No. 159 effective at the beginning of 2009. The Company did not elect to measure any existing items at fair value upon the adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 (as amended by subsequent FSP's) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted SFAS No. 157 effective at the beginning of 2009 for financial assets and financial liabilities. The adoption did not have a significant impact on the Company's financial statements. The Company is required to adopt SFAS No. 157 for all other assets and liabilities in 2010 and it is evaluating the impact that the adoption will have on its financial statements.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates and judgments are based on historical experience, forecasted future events and various other assumptions that the Company believes to be reasonable under the circumstances. Estimates and judgments may vary under different assumptions or conditions. The Company evaluates its estimates and judgments on an ongoing basis. Management believes the accounting policies below are critical in the portrayal of the Company's financial condition and results of operations and requires management's most difficult, subjective or complex judgments.

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

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

Goodwill and intangible assets: The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate (including declines in selling prices for products) or a decision to sell or dispose of a reporting unit. Goodwill is tested for impairment using a two-step process. In the first step, the fair value of each reporting unit is compared to the carrying value of the net assets assigned to the unit. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not impaired. If the carrying value of the reporting unit exceeds its fair value, then the second step of the impairment test must be performed in order to determine the implied fair value of the reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of all of the Company's tangible and intangible asset and liabilities. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

Determining when to test for impairment, the Company's reporting units, the fair value of a reporting unit and the fair value of assets and liabilities within a reporting unit, requires judgment and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. The Company bases fair value estimates on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, judgments and assumptions are required to allocate assets and liabilities to reporting units.

The Company tests other identified intangible assets with definite useful lives and subject to amortization when events and circumstances indicate the carrying value may not be recoverable by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. The Company tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows. Estimating fair values involves significant assumptions, especially regarding future sales prices, sales volumes, costs and discount rates.

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

Inventories: Inventories are stated at the lower of average cost or market value and the Company recorded a charge to write down the carrying value of inventories of memory products to their estimated market values of $369 million for the first quarter of 2009 and $282 million in aggregate for 2008. Cost includes labor, material and overhead costs, including product and process technology costs. Determining market value of inventories involves numerous judgments, including projecting average selling prices and sales volumes for future periods and costs to complete products in work in process inventories. To project average selling prices and sales volumes, the Company reviews recent sales volumes, existing customer orders, current contract prices, industry analysis of supply and demand, seasonal factors, general economic trends and other information. When these analyses reflect estimated market values below the Company's manufacturing costs, the Company records a charge to cost of goods sold in advance of when the inventory is actually sold. Differences in forecasted average selling prices used in calculating lower of cost or market adjustments can result in significant changes in the estimated net realizable value of product inventories and accordingly the amount of write-down recorded. For example, a 5% variance in the estimated selling prices would have changed the estimated market value of the Company's semiconductor memory inventory by approximately $50 million at December 4, 2008. Due to the volatile nature of the semiconductor memory industry, actual selling prices and volumes often vary significantly from projected prices and volumes and, as a result, the timing of when product costs are charged to operations can vary significantly.

U.S. GAAP provides for products to be grouped into categories in order to compare costs to market values. The amount of any inventory write-down can vary significantly depending on the determination of inventory categories. The Company's inventories have been categorized as Memory products or Imaging products. The major characteristics the Company considers in determining inventory categories are product type and markets.

Product and process technology: Costs incurred to acquire product and process technology or to patent technology developed by the Company are capitalized and amortized on a straight-line basis over periods currently ranging up to 10 years. The Company capitalizes a portion of costs incurred based on its analysis of historical and projected patents issued as a percent of patents filed. Capitalized product and process technology costs are amortized over the shorter of (i) the estimated useful life of the technology, (ii) the patent term or (iii) the term of the technology agreement.

Property, plant and equipment: The Company reviews the carrying value of property, plant and equipment for impairment when events and circumstances indicate that the carrying value of an asset or group of assets may not be recoverable from the estimated future cash flows expected to result from its use and/or disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the amount by which the carrying value exceeds the estimated fair value of the assets. The estimation of future cash flows involves numerous assumptions which require judgment by the Company, including, but not limited to, future use of the assets for Company operations versus sale or disposal of the assets, future selling prices for the Company's products and future production and sales volumes. In addition, judgment is required by the Company in determining the groups of assets for which impairment tests are separately performed.

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

Stock-based compensation: Under the provisions of SFAS No. 123(R), stock-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as expense ratably over the requisite service period of the award. For stock-based compensation awards with graded vesting that were granted after 2005, the Company recognizes compensation expense using the straight-line amortization method. For performance-based stock awards, the expense recognized is dependent on the probability of the performance measure being achieved. The Company utilizes forecasts of future performance to assess these probabilities and this assessment requires considerable judgment.

Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. The Company develops its estimates based on historical data and market information which can change significantly over time. A small change in the estimates used can result in a relatively large change in the estimated valuation. The Company uses the Black-Scholes option valuation model to value employee stock awards. The Company estimates stock price volatility based on an average of its historical volatility and the implied volatility derived from traded options on the Company's stock.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of December 4, 2008, $2,002 million of the Company's $2,866 million of debt was at fixed interest rates. As a result, the fair value of the debt fluctuates based on changes in market interest rates. The estimated fair value of the Company's debt was $1,876 million as of December 4, 2008 and was $2,167 million as of August 28, 2008. The Company estimates that as of December 4, 2008, a 1% decrease in market interest rates would change the fair value of the fixed-rate debt by approximately $29 million. As of December 4, 2008, $864 million of the Company's debt was at variable interest rates and an increase of 1% would increase annual interest expense by approximately $9 million.

Foreign Currency Exchange Rate Risk

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

The functional currency for substantially all of the Company's operations is the U.S. dollar. The Company held aggregate cash and other assets in foreign currencies valued at U.S. $252 million as of December 4, 2008 and U.S. $425 million as of August 28, 2008. The Company also had aggregate foreign currency liabilities valued at U.S. $542 million as of December 4, 2008 and U.S. $580 million as of August 28, 2008. Significant components of the Company's assets and liabilities denominated in foreign currencies were as follows (in U.S. dollar equivalents):

	December 4, 2008			August 28, 2008		
	Singapore Dollars	Yen	Euro	Singapore Dollars	Yen	Euro
Cash and equivalents	$ 30	$ 16	$ 20	$ 84	$ 130	$ 25
Net deferred tax assets	--	100	1	--	85	2
Accounts payable and accrued expenses	(88)	(198)	(46)	(105)	(127)	(61)
Debt	(78)	(7)	(4)	(49)	(108)	(4)
Other liabilities	(8)	(54)	(36)	(8)	(45)	(43)

The Company estimates that, based on its assets and liabilities denominated in currencies other than the U.S. dollar as of December 4, 2008, a 1% change in the exchange rate versus the U.S. dollar would result in foreign currency gains or losses of approximately U.S. $1 million for the yen, the Singapore dollar and the euro.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Patent Matters

On August 28, 2000, the Company filed a complaint against Rambus, Inc. (“Rambus”) in the U.S. District Court for the District of Delaware seeking monetary damages and declaratory and injunctive relief. Among other things, the Company’s complaint (as amended) alleges violation of federal antitrust laws, breach of contract, fraud, deceptive trade practices, and negligent misrepresentation. The complaint also seeks a declaratory judgment (a) that certain Rambus patents are not infringed by the Company, are invalid, and/or are unenforceable, (b) that the Company has an implied license to those patents, and (c) that Rambus is estopped from enforcing those patents against the Company. On February 15, 2001, Rambus filed an answer and counterclaim in Delaware denying that the Company is entitled to relief, alleging infringement of the eight Rambus patents (later amended to add four additional patents) named in the Company’s declaratory judgment claim, and seeking monetary damages and injunctive relief. In the Delaware action, the Company subsequently added claims and defenses based on Rambus’s alleged spoliation of evidence and litigation misconduct. The spoliation and litigation misconduct claims and defenses were heard in a bench trial before Judge Robinson in October 2007. On January 9, 2009, Judge Robinson entered an opinion in favor of the Company holding that Rambus had engaged in spoliation and that the twelve Rambus patents in the suit were unenforceable against the Company.

A number of other suits involving Rambus are currently pending in Europe alleging that certain of the Company’s SDRAM and DDR SDRAM products infringe various of Rambus’ country counterparts to its European patent 525 068, including: on September 1, 2000, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany; on September 22, 2000, Rambus filed a complaint against the Company and Reptronic (a distributor of the Company’s products) in the Court of First Instance of Paris, France; on September 29, 2000, the Company filed suit against Rambus in the Civil Court of Milan, Italy, alleging invalidity and non-infringement. In addition, on December 29, 2000, the Company filed suit against Rambus in the Civil Court of Avezzano, Italy, alleging invalidity and non-infringement of the Italian counterpart to European patent 1 004 956. Additionally, on August 14, 2001, Rambus filed suit against Micron Semiconductor (Deutschland) GmbH in the District Court of Mannheim, Germany alleging that certain of the Company’s DDR SDRAM products infringe Rambus’ country counterparts to its European patent 1 022 642. In the European suits against the Company, Rambus is seeking monetary damages and injunctive relief. Subsequent to the filing of the various European suits, the European Patent Office (the “EPO”) declared Rambus’ 525 068 and 1 004 956 European patents invalid and revoked the patents. The declaration of invalidity with respect to the '068 patent was upheld on appeal. The original claims of the '956 patent also were declared invalid on appeal, but the EPO ultimately granted a Rambus request to amend the claims by adding a number of limitations.

On January 13, 2006, Rambus filed a lawsuit against the Company in the U.S. District Court for the Northern District of California. The complaint alleges that certain of the Company’s DDR2, DDR3, RLDRAM, and RLDRAM II products infringe as many as fourteen Rambus patents and seeks monetary damages, treble damages, and injunctive relief. On June 2, 2006, the Company filed an answer and counterclaim against Rambus alleging among other things, antitrust and fraud claims. The Northern District of California Court subsequently consolidated the antitrust and fraud claims and certain equitable defenses of the Company and other parties against Rambus in a jury trial that began on January 29, 2008. On March 26, 2008, a jury returned a verdict in favor of Rambus on the Company’s antitrust and fraud claims. On November 24, 2008, the Court granted partial summary judgment of infringement in favor of Rambus on one of the patent claims at issue in the case. Trial on the patent phase of that case relating to twelve claims in ten Rambus patents is currently scheduled to begin January 26, 2009.

On July 24, 2006, the Company filed a declaratory judgment action against Mosaid Technologies, Inc. ("Mosaid") in the U.S. District Court for the Northern District of California seeking, among other things, a court determination that fourteen Mosaid patents are invalid, not enforceable, and/or not infringed. On July 25, 2006, Mosaid filed a lawsuit against the Company and others in the U.S. District Court for the Eastern District of Texas alleging infringement of nine Mosaid patents. On August 31, 2006, Mosaid filed an amended complaint adding three additional Mosaid patents. On October 23, 2006, the California Court dismissed the Company's declaratory judgment suit based on lack of jurisdiction. The Company appealed that decision to the U.S. Court of Appeals for the Federal Circuit. On February 29, 2008, the U.S. Court of Appeals for the Federal Circuit issued an order reversing the dismissal of the Company's declaratory judgment action filed in the U.S. District Court for the Northern District of California and remanding the suit to that Court. The Texas action was subsequently transferred to the Northern District of California. Mosaid alleges that certain of the Company's DRAM and CMOS image sensor products infringe up to twelve Mosaid patents and seeks monetary damages, treble damages, and injunctive relief. The accused products account for a significant portion of our net sales. Trial is currently scheduled for June 5, 2009.

The Company is unable to predict the outcome of these suits. A court determination that the Company's products or manufacturing processes infringe the product or process intellectual property rights of others could result in significant liability and/or require the Company to make material changes to its products and/or manufacturing processes. Any of the foregoing results could have a material adverse effect on the Company's business, results of operations or financial condition.

Antitrust Matters

A number of purported class action price-fixing lawsuits have been filed against the Company and other DRAM suppliers. Four cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that indirectly purchased DRAM and/or products containing DRAM from various DRAM suppliers during the time period from April 1, 1999 through at least June 30, 2002. The complaints allege price fixing in violation of federal antitrust laws and various state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees. In addition, at least sixty-four cases have been filed in various state courts asserting claims on behalf of a purported class of indirect purchasers of DRAM. Cases have been filed in the following states: Arkansas, Arizona, California, Florida, Hawaii, Iowa, Kansas, Massachusetts, Maine, Michigan, Minnesota, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Hampshire, New Jersey, New Mexico, Nevada, New York, Ohio, Pennsylvania, South Dakota, Tennessee, Utah, Vermont, Virginia, Wisconsin, and West Virginia, and also in the District of Columbia and Puerto Rico. The complaints purport to be on behalf of a class of individuals and entities that indirectly purchased DRAM and/or products containing DRAM in the respective jurisdictions during various time periods ranging from April 1999 through at least June 2002. The complaints allege violations of the various jurisdictions' antitrust, consumer protection and/or unfair competition laws relating to the sale and pricing of DRAM products and seek treble monetary damages, restitution, costs, interest and attorneys' fees. A number of these cases have been removed to federal court and transferred to the U.S. District Court for the Northern District of California (San Francisco) for consolidated proceedings. On January 29, 2008, the Northern District of California Court granted in part and denied in part the Company's motion to dismiss plaintiff's second amended consolidated complaint. Plaintiffs subsequently filed a motion seeking certification for interlocutory appeal of the decision. On February 27, 2008, plaintiffs filed a third amended complaint. On June 26, 2008, the United States Court of Appeals for the Ninth Circuit accepted plaintiffs' interlocutory appeal.

Additionally, three cases have been filed in the following Canadian courts: Superior Court, District of Montreal, Province of Quebec; Ontario Superior Court of Justice, Ontario; and Supreme Court of British Columbia, Vancouver Registry, British Columbia. The substantive allegations in these cases are similar to those asserted in the cases filed in the United States. In May and June 2008 respectively, plaintiffs' motion for class certification was denied in the British Columbia and Quebec cases. Plaintiffs have filed an appeal of each of those decisions.

In addition, various states, through their Attorneys General, have filed suit against the Company and other DRAM manufacturers. On July 14, 2006, and on September 8, 2006 in an amended complaint, the following Attorneys General filed suit in the U.S. District Court for the Northern District of California: Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the Commonwealth of the Northern Mariana Islands. Thereafter, three states, Ohio, New Hampshire, and Texas, voluntarily dismissed their claims. The remaining states filed a third amended complaint on October 1, 2007. Alaska, Delaware, Kentucky, and Vermont subsequently voluntarily dismissed their claims. The amended complaint alleges, among other things, violations of the Sherman Act, Cartwright Act, and certain other states' consumer protection and antitrust laws and seeks damages, and injunctive and other relief. Additionally, on July 13, 2006, the State of New York filed a similar suit in the U.S. District Court for the Southern District of New York. That case was subsequently transferred to the U.S. District Court for the Northern District of California for pre-trial purposes. The State of New York filed an amended complaint on October 1, 2007. 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 February 28, 2007, February 28, 2007 and March 8, 2007, cases were filed against the Company and other manufacturers of DRAM in the U.S. District Court for the Northern District of California by All American Semiconductor, Inc., Jaco Electronics, Inc. and DRAM Claims Liquidation Trust, respectively, that opted-out of a direct purchaser class action suit that was settled. The complaints allege, among other things, violations of federal and state antitrust and competition laws in the DRAM industry, and seek damages, injunctive relief, and other remedies.

On October 11, 2006, the Company received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the DOJ into possible antitrust violations in the "Static Random Access Memory" or "SRAM" industry. . In December 2008, the Company was informed that the DOJ closed its investigation of the SRAM industry.

Subsequent to the issuance of subpoenas to the SRAM industry, a number of purported class action lawsuits have been filed against the Company and other SRAM suppliers. Six cases have been filed in the U.S. District Court for the Northern District of California asserting claims on behalf of a purported class of individuals and entities that purchased SRAM directly from various SRAM suppliers during the period from November 1, 1996 through December 31, 2005. Additionally, at least seventy-four cases have been filed in various U.S. District Courts asserting claims on behalf of a purported class of individuals and entities that indirectly purchased SRAM and/or products containing SRAM from various SRAM suppliers during the time period from November 1, 1996 through December 31, 2006. In September 2008, a class of direct purchasers was certified, and plaintiffs were granted leave to amend their complaint to cover Pseudo-Static RAM or "PSRAM" products as well. The complaints allege price fixing in violation of federal antitrust laws and state antitrust and unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees.

Three purported class action SRAM lawsuits also have been filed in Canada, on behalf of direct and indirect purchasers, alleging violations of the Canadian Competition Act. The substantive allegations in these cases are similar to those asserted in the SRAM cases filed in the United States.

In addition, three purported class action lawsuits alleging price-fixing of Flash products have been filed in Canada, asserting violations of the Canadian Competition Act. These cases assert claims on behalf of a purported class of individuals and entities that purchased Flash memory directly and indirectly from various Flash memory suppliers.

On May 5, 2004, Rambus filed a complaint in the Superior Court of the State of California (San Francisco County) against the Company and other DRAM suppliers. The complaint alleges various causes of action under California state law including a conspiracy to restrict output and fix prices on Rambus DRAM ("RDRAM") and unfair competition. Trial is currently scheduled to begin in March 2009. The complaint seeks treble damages, punitive damages, attorneys' fees, costs, and a permanent injunction enjoining the defendants from the conduct alleged in the complaints.

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

Securities Matters

On February 24, 2006, a putative class action complaint was filed against the Company and certain of its officers in the U.S. District Court for the District of Idaho alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Four substantially similar complaints subsequently were filed in the same Court. The cases purport to be brought on behalf of a class of purchasers of the Company's stock during the period February 24, 2001 to February 13, 2003. The five lawsuits have been consolidated and a consolidated amended class action complaint was filed on July 24, 2006. The complaint generally alleges violations of federal securities laws based on, among other things, claimed misstatements or omissions regarding alleged illegal price-fixing conduct or the Company's operations and financial results. The complaint seeks unspecified damages, interest, attorneys' fees, costs, and expenses. On December 19, 2007, the Court issued an order certifying the class but reducing the class period to purchasers of the Company's stock during the period from February 24, 2001 to September 18, 2002.

In addition, on March 23, 2006 a shareholder derivative action was filed in the Fourth District Court for the State of Idaho (Ada County), allegedly on behalf of and for the benefit of the Company, against certain of the Company's current and former officers and directors. The Company also was named as a nominal defendant. An amended complaint was filed on August 23, 2006 and was subsequently dismissed by the Court. Another amended complaint was filed on September 6, 2007. The amended complaint is based on the same allegations of fact as in the securities class actions filed in the U.S. District Court for the District of Idaho and alleges breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and insider trading. The amended complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, costs, and expenses. The amended complaint is derivative in nature and does not seek monetary damages from the Company. However, the Company may be required, throughout the pendency of the action, to advance payment of legal fees and costs incurred by the defendants. On January 25, 2008, the Court granted the Company's motion to dismiss the second amended complaint without leave to amend. On March 10, 2008, plaintiffs filed a notice of appeal to the Idaho Court of Appeals.

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

(See "Item 1A. Risk Factors.")

Item 1A.