

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Form 10-Q, the following are important factors which could cause actual results or events to differ materially from those contained in any forward-looking statements made by us. The order of these factors is not necessarily indicative of the level of risk that each poses to us. Our operations could also be affected by other factors that are presently unknown to us or not considered significant. The factors below could materially adversely affect our business, financial condition, results of operations, and stock price.

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

If average selling prices for our memory products decrease faster than we can decrease per gigabit costs, our business, results of operations, or financial condition could be materially adversely affected. We have experienced significant decreases in our average selling prices per gigabit in previous years as noted in the table below and may continue to experience such decreases in the future. In some prior periods, average selling prices for our memory products have been below our manufacturing costs and we may experience such circumstances in the future.

	<u>DRAM</u>	<u>Trade Non-Volatile</u>
	(percentage change in average selling prices)	
2016 from 2015	(35)%	(20)%
2015 from 2014	(11)%	(17)%
2014 from 2013	6 %	(23)%
2013 from 2012	(11)%	(18)%
2012 from 2011	(45)%	(55)%

We may be unable to maintain or improve gross margins.

Our gross margins are dependent upon continuing decreases in per gigabit manufacturing costs achieved through improvements in our manufacturing processes and product designs, including, but not limited to, process line-width, additional 3D memory layers, additional bits per cell (i.e., cell levels), architecture, number of mask layers, number of fabrication steps, and yield. In future periods, we may be unable to reduce our per gigabit manufacturing costs at sufficient levels to maintain or improve gross margins. Factors that may limit our ability to reduce costs include, but are not limited to, strategic product diversification decisions affecting product mix, the increasing complexity of manufacturing processes, difficulties in transitioning to smaller line-width process technologies, technological barriers, changes in process technologies, and new products that may require relatively larger die sizes. Per gigabit manufacturing costs may also be affected by the relatively smaller production quantities and shorter product lifecycles of certain specialty memory products.

The semiconductor memory industry is highly competitive.

We face intense competition in the semiconductor memory market from a number of companies, including Intel; Samsung Electronics Co., Ltd.; SK Hynix Inc.; Toshiba Corporation; and Western Digital Corporation. Some of our competitors are large corporations or conglomerates that may have greater resources to invest in technology, capitalize on growth opportunities, and withstand downturns in the semiconductor markets in which we compete. Consolidation of industry competitors could put us at a competitive disadvantage. In addition, some governments, such as China, have provided, and may continue to provide, significant financial assistance to some of our competitors or to new entrants. Our competitors seek to increase silicon capacity, improve yields, reduce die size, and minimize mask levels in their product designs resulting in significant increases in the worldwide supply of semiconductor memory and downward pressure on prices. Increases in worldwide supply of semiconductor memory also result from semiconductor memory fab capacity expansions, either by way of new facilities, increased capacity utilization, or reallocation of other semiconductor production to semiconductor memory production. Our competitors may increase capital expenditures resulting in future increases in worldwide supply. We and some of our competitors have plans to or are constructing or ramping production at new fabrication facilities. Increases in worldwide supply of semiconductor memory, if not accompanied by commensurate increases in demand, would lead to further declines in average selling prices for our products and would materially adversely affect our business, results of operations, or financial condition. If competitors are more successful at developing or implementing new product or process technology, their products could have cost or performance advantages.

Debt obligations could adversely affect our financial condition.

In recent periods, our debt levels have increased due to the capital intensive nature of our business, business acquisitions, and restructuring of our capital structure. As of December 1, 2016, we had debt with a carrying value of \$9.65 billion. In addition, in connection with the Inotera Acquisition, on December 6, 2016, we drew 80 billion New Taiwan dollars (equivalent to \$2.5 billion) under the 2021 Term Loan. As of December 1, 2016, we also had an available five-year variable-rate facility agreement to obtain up to \$800 million of financing, collateralized by certain production equipment, of which we drew \$450 million on December 2, 2016, and the remainder may be utilized in multiple draws until June 10, 2017. As of December 1, 2016, we also had a revolving credit facility available for up to \$675 million of additional financing. The availability of this revolving facility is subject to certain conditions, including outstanding balances of eligible receivables. Events and circumstances may occur which would cause us to not be able to satisfy these applicable draw-down conditions and utilize this facility. We have incurred in the past, and expect to incur in the future, debt to finance our capital investments, business acquisitions, and restructuring of our capital structure.

Our debt obligations could adversely impact us. For example, these obligations could:

- require us to use a large portion of our cash flow to pay principal and interest on debt, which will reduce the amount of cash flow available to fund working capital, capital expenditures, acquisitions, R&D expenditures, and other business activities;
- result in all obligations owing under the 2021 Term Loan being accelerated to be immediately due and payable if our MSTW subsidiary fails to comply with financial covenants;
- increase the interest rate under the 2021 Term Loan if we or MSTW fails to maintain certain financial covenants;
- adversely impact our credit rating, which could increase future borrowing costs;
- limit our future ability to raise funds for capital expenditures, strategic acquisitions or business opportunities, R&D, and other general corporate requirements;
- restrict our ability to incur indebtedness, create or incur certain liens, and enter into sale-leaseback financing transactions;
- increase our vulnerability to adverse economic and semiconductor memory industry conditions;
- continue to dilute our earnings per share as a result of the conversion provisions in our convertible notes; and
- require us to continue to pay cash amounts substantially in excess of the principal amounts upon settlement of our convertible notes to minimize dilution of our earnings per share.

Our ability to meet our payment obligations under our debt instruments depends on our ability to generate significant cash flows in the future. This, to some extent, is subject to market, economic, financial, competitive, legislative, and regulatory factors as well as other factors that are beyond our control. There can be no assurance that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we were unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations, which could have a material adverse effect on our business, results of operations, or financial condition.

We may be unable to generate sufficient cash flows or obtain access to external financing necessary to fund our operations, make scheduled debt payments, and make adequate capital investments.

Our cash flows from operations depend primarily on the volume of semiconductor memory sold, average selling prices, and manufacturing costs. To develop new product and process technologies, support future growth, achieve operating efficiencies, and maintain product quality, we must make significant capital investments in manufacturing technology, capital equipment, facilities, R&D, and product and process technology. We estimate that net cash expenditures in 2017 for property, plant, and equipment will be approximately \$4.8 billion to \$5.2 billion, which reflects the offset of amounts we expect to be funded by our partners. Investments in capital expenditures for the first quarter of 2017, offset by amounts funded by our partners, were \$1.18 billion. As of December 1, 2016, we had cash and marketable investments of \$4.32 billion. As of December 1, 2016, \$723 million of cash and equivalents and short-term investments, including substantially all of the \$684 million held by the MMJ Group, were held by foreign subsidiaries whose earnings were considered to be indefinitely reinvested and repatriation of these funds to the U.S. would subject these funds to U.S. federal income taxes. In addition, cash held by IMFT of \$77 million was generally not available to finance our other operations.

As a result of the Japan Proceedings, for so long as such proceedings are continuing, the MMJ Companies are prohibited from paying dividends, including any cash dividends, to us and require that excess earnings be used in their businesses or to fund the MMJ Companies' installment payments. In addition, pursuant to an order of the Japan Court, the MMJ Companies cannot make loans or advances, other than certain ordinary course advances, to us without the consent of the Japan Court and

may, under certain circumstances, be subject to approval of the legal trustees and Japan Court. As a result, the assets of the MMJ Companies are not available for use by us in our other operations. Furthermore, certain uses of the assets of the MMJ Group, including investments in certain capital expenditures and in MMT, may require consent of MMJ's trustees and/or the Japan Court.

In the past we have utilized external sources of financing when needed. As a result of our debt levels, expected debt amortization, and general economic conditions, it may be difficult for us to obtain financing on terms acceptable to us. There can be no assurance that we will be able to generate sufficient cash flows, use cash held by MMJ to fund its capital expenditures, access capital markets or find other sources of financing to fund our operations, make debt payments, and make adequate capital investments to remain competitive in terms of technology development and cost efficiency. Our inability to do the foregoing could have a material adverse effect on our business, results of operations, or financial conditions.

Our acquisition of the remaining shares of Inotera involves numerous risks.

On December 6, 2016, subsequent to the end of our first quarter of 2017, we acquired the 67% interest in Inotera not owned by us for an aggregate of \$4.1 billion in cash (the "Inotera Acquisition"), funded with 80 billion New Taiwan dollars (equivalent to \$2.5 billion) of proceeds from the 2021 Term Loan, \$981 million of proceeds from the sale of shares of our common stock to Nanya, and cash on hand. Prior to December 6, 2016, we held a 33% ownership interest in Inotera, Nanya and certain of its affiliates held a 32% ownership interest, and the remaining ownership interest was publicly held.

In addition to the acquisition risks described elsewhere, the acquisition is expected to involve the following significant risks:

- we may be unable to realize the anticipated financial benefits of the acquisition;
- increased exposure to the DRAM market, which experienced significant declines in pricing during 2015 and 2016;
- increased leverage resulting from the transaction;
- higher capital expenditures in future periods;
- increased exposure to operating costs denominated in New Taiwan dollars;
- changed relationship with Nanya and its affiliated companies;
- effectiveness of internal controls and disclosure controls and procedures;
- effectiveness of environmental, health and safety, anti-corruption, human resource, or other policies or practices;
- integration issues with Inotera's manufacturing operations in Taiwan; and
- integration of business systems and processes.

Our acquisition of the remaining shares of Inotera is inherently risky and may materially adversely affect our business, results of operations, or financial condition. (See "Part I Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Acquisition of Inotera.")

Our future success depends on our ability to develop and produce competitive new memory technologies.

Our key semiconductor memory technologies of DRAM and NAND Flash face technological barriers to continue to meet long-term customer needs. These barriers include potential limitations on the ability to shrink products in order to reduce costs, meet higher density requirements, and improve power consumption and reliability. To meet these requirements, we expect that new memory technologies will be developed by the semiconductor memory industry. Our competitors are working to develop new memory technologies that may offer performance and cost advantages to our existing memory technologies and render existing technologies obsolete. Accordingly, our future success may depend on our ability to develop and produce viable and competitive new memory technologies. There can be no assurance of the following:

- that we will be successful in developing competitive new semiconductor memory technologies;
- that we will be able to cost-effectively manufacture new products;
- that we will be able to successfully market these technologies; and
- that margins generated from sales of these products will allow us to recover costs of development efforts.

In 2015, we announced the development of new 3D XPoint technology, which is an entirely new class of non-volatile memory. There is no assurance that our efforts to develop and market this new product technology will be successful. If our

efforts to develop new semiconductor memory technologies are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

New product development may be unsuccessful.

We are developing new products, including system-level memory products, which complement our traditional memory products or leverage their underlying design or process technology. We have made significant investments in product and process technologies and anticipate expending significant resources for new semiconductor product development over the next several years. The process to develop DRAM, NAND Flash, and certain specialty memory products, requires us to demonstrate advanced functionality and performance, many times well in advance of a planned ramp of production, in order to secure design wins with our customers. There can be no assurance of the following:

- that our product development efforts will be successful;
- that we will be able to cost-effectively manufacture new products;
- that we will be able to successfully market these products;
- that we will be able to qualify new products with our customers on a timely basis; or
- that margins generated from sales of these products will allow us to recover costs of development efforts.

If our efforts to develop new products are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

Products that fail to meet specifications, are defective, or that are otherwise incompatible with end uses could impose significant costs on us.

Products that do not meet specifications or that contain, or are perceived by our customers to contain, defects or that are otherwise incompatible with end uses could impose significant costs on us or otherwise materially adversely affect our business, results of operations, or financial condition. From time to time we experience problems with nonconforming, defective or incompatible products after we have shipped such products. In recent periods we have further diversified and expanded our product offerings, which could potentially increase the chance that one or more of our products could fail to meet specifications in a particular application. As a result of these problems, we could be adversely affected in several ways, including the following:

- we may be required to compensate customers for costs incurred or damages caused by defective or incompatible product and to replace products;
- we could incur a decrease in revenue or adjustment to pricing commensurate with the reimbursement of such costs or alleged damages; and
- we may encounter adverse publicity, which could cause a decrease in sales of our products.

A determination that our products or manufacturing processes infringe the intellectual property rights of others or entering into a license agreement covering such intellectual property could materially adversely affect our business, results of operations, or financial condition.

As is typical in the semiconductor and other high technology industries, from time to time others have asserted, and may in the future assert, that our products or manufacturing processes infringe their intellectual property rights. We are unable to predict the outcome of assertions of infringement made against us. A determination that our products or manufacturing processes infringe the intellectual property rights of others, or entering a license agreement covering such intellectual property, could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. Any of the foregoing results could have a material adverse effect on our business, results of operations, or financial condition. (See "Part I. Financial Information – Item 1. Financial Statements – Notes to Consolidated Financial Statements – Contingencies.")

We have a number of intellectual property license agreements. Some of these license agreements require us to make one-time or periodic payments. We may need to obtain additional patent licenses or renew existing license agreements in the future. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms.

The acquisition of our ownership interest in Inotera from Qimonda has been challenged by the administrator of the insolvency proceedings for Qimonda.

On January 20, 2011, Dr. Michael Jaffé, administrator for Qimonda insolvency proceedings, filed suit against Micron and Micron Semiconductor B.V., our Netherlands subsidiary ("Micron B.V."), in the District Court of Munich, Civil Chamber. The complaint seeks to void under Section 133 of the German Insolvency Act a share purchase agreement between Micron B.V. and Qimonda signed in fall 2008 pursuant to which Micron B.V. purchased substantially all of Qimonda's shares of Inotera Memories, Inc. (the "Inotera Shares"), representing approximately 18% of Inotera's outstanding shares as of December 1, 2016, and seeks an order requiring us to re-transfer those shares to the Qimonda estate. The complaint also seeks, among other things, to recover damages for the alleged value of the joint venture relationship with Inotera and to terminate under Sections 103 or 133 of the German Insolvency Code a patent cross-license between us and Qimonda entered into at the same time as the share purchase agreement.

Following a series of hearings with pleadings, arguments, and witnesses on behalf of the Qimonda estate, on March 13, 2014, the Court issued judgments: (1) ordering Micron B.V. to pay approximately \$1 million in respect of certain Inotera shares sold in connection with the original share purchase; (2) ordering Micron B.V. to disclose certain information with respect to any Inotera Shares sold by it to third parties; (3) ordering Micron B.V. to disclose the benefits derived by it from ownership of the Inotera Shares, including in particular, any profits distributed on such shares and all other benefits; (4) denying Qimonda's claims against Micron for any damages relating to the joint venture relationship with Inotera; and (5) determining that Qimonda's obligations under the patent cross-license agreement are canceled. In addition, the Court issued interlocutory judgments ordering, among other things: (1) that Micron B.V. transfer to the Qimonda estate the Inotera Shares still owned by it and pay to the Qimonda estate compensation in an amount to be specified for any Inotera Shares sold to third parties; and (2) that Micron B.V. pay the Qimonda estate as compensation an amount to be specified for benefits derived by it from ownership of the Inotera Shares. The interlocutory judgments have no immediate, enforceable effect on us, and, accordingly, we expect to be able to continue to operate with full control of the Inotera Shares subject to further developments in the case. We have filed a notice of appeal, and the parties have submitted briefs to the appeals court.

We are unable to predict the outcome of the matter and therefore cannot estimate the range of possible loss. The final resolution of this lawsuit could result in the loss of the Inotera Shares or monetary damages, unspecified damages based on the benefits derived by Micron B.V. from the ownership of the Inotera Shares, and/or the termination of the patent cross-license, which could have a material adverse effect on our business, results of operation, or financial condition.

Our joint ventures and strategic relationships involve numerous risks.

We have entered into strategic relationships, including our IMFT joint venture with Intel, to manufacture products and develop new manufacturing process technologies and products. These joint ventures and strategic relationships are subject to various risks that could adversely affect the value of our investments and our results of operations. These risks include the following:

- our interests could diverge from our partners or we may not be able to agree with partners on ongoing manufacturing and operational activities, or on the amount, timing, or nature of further investments in our joint venture;
- our joint venture partners' products may compete with our products;
- we may experience difficulties in transferring technology to joint ventures;
- we may experience difficulties and delays in ramping production at joint ventures;
- our control over the operations of our joint ventures is limited;
- we may recognize losses from our equity method investments;
- due to financial constraints, our joint venture partners may be unable to meet their commitments to us or our joint ventures and may pose credit risks for our transactions with them;
- due to differing business models or long-term business goals, we and our partners may not participate to the same extent on funding capital investments in our joint ventures;
- cash flows may be inadequate to fund increased capital requirements;
- we may experience difficulties or delays in collecting amounts due to us from our joint ventures and partners;
- the terms of our partnering arrangements may turn out to be unfavorable; and
- changes in tax, legal, or regulatory requirements may necessitate changes in the agreements with our partners.

If our joint ventures and strategic relationships are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

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

We manufacture products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process or the effects from a shift in product mix can reduce yields or disrupt production and may increase our per gigabit manufacturing costs. We maintain operations and continuously implement new product and process technology at our manufacturing operations which are widely dispersed in multiple locations in several countries including the U.S., Singapore, Taiwan, Japan, Malaysia, and China. Additionally, our control over operations at IMFT and Tera Probe is limited by our agreements with our partners. From time to time, we have experienced disruptions in our manufacturing process as a result of power outages, improperly functioning equipment, equipment failures, earthquakes, or other environmental events. If production at a fabrication facility is disrupted for any reason, manufacturing yields may be adversely affected or we may be unable to meet our customers' requirements and they may purchase products from other suppliers. This could result in a significant increase in manufacturing costs, loss of revenues, or damage to customer relationships, any of which could materially adversely affect our business, results of operations, or financial condition.

We may incur additional restructure charges in future periods.

In the fourth quarter of 2016, we initiated a restructure plan in response to business conditions and the need to accelerate focus on our key priorities (the "2016 Restructuring Plan"). The 2016 Restructuring Plan includes the elimination of certain projects and programs, the permanent closure of a number of open headcount requisitions, workforce reductions in certain areas of the business, and other non-headcount related spending reductions. In connection with the plan, we incurred charges of \$29 million in the first quarter of 2017 and \$58 million in the fourth quarter of 2016 and do not expect to incur additional material charges. As of December 1, 2016 and September 1, 2016, we had accrued liabilities of \$17 million and \$24 million, respectively, related to the 2016 Restructuring Plan.

We may not realize the expected savings or other benefits from our restructure plans and may also incur additional restructure charges or other losses associated with other initiatives in future periods. In connection with those initiatives, we could incur restructure charges, loss of production output, loss of key personnel, disruptions in our operations, and difficulties in the timely delivery of products, which could materially adversely affect our business, results of operations, or financial condition.

The operations of the MMJ Companies are subject to continued oversight by the Japan Court during the pendency of the corporate reorganization proceedings.

Because the plans of reorganization of the MMJ Companies provide for ongoing payments to creditors following the closing of our acquisition of MMJ, the Japan Proceedings are continuing, and the MMJ Companies remain subject to the oversight of the Japan Court and of the trustees (including a trustee designated by us, who we refer to as the business trustee, and a trustee designated by the Japan Court, who we refer to as the legal trustee), pending completion of the Japan Proceedings. The Japan Proceedings and oversight of the Japan Court are expected to continue until the final creditor payment is made under the MMJ Companies' plans of reorganization, which is scheduled to occur in December 2019, but may occur on a later date to the extent any claims of creditors remain unfixed on the final scheduled installment payment date. Although we may be able to petition the court to terminate the Japan Proceedings once two-thirds of all payments under the plans of reorganization are made, there can be no assurance that the Japan Court will grant any such petition.

During the pendency of the Japan Proceedings, the MMJ Companies are obligated to provide periodic financial reports to the Japan Court and may be required to obtain the consent of the Japan Court prior to taking a number of significant actions relating to their businesses, including transferring or disposing of, or acquiring, certain material assets, incurring or guaranteeing material indebtedness, settling disputes, or entering into certain material agreements. The consent of the legal trustee may also be required for matters that would likely have a material impact on the operations or assets of the MMJ Companies and their subsidiaries or for transfers of material assets, to the extent the matters or transfers would reasonably be expected to materially and adversely affect execution of the plans of reorganization of the MMJ Companies. Accordingly, during the pendency of the Japan Proceedings, our ability to effectively operate the MMJ Companies as part of our global operations or to cause the MMJ Companies to take certain actions that we deem advisable for their businesses could be adversely affected if the Japan Court or the legal trustee is unwilling to consent to various actions that we may wish to take with respect to the MMJ Companies.

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

Across our global operations, significant transactions and balances are denominated in currencies other than the U.S. dollar (our reporting currency), primarily the euro, Singapore dollar, New Taiwan dollar, and yen. We recorded net losses from changes in currency exchange rates of \$12 million for the first quarter of 2017, \$24 million for 2016, and \$27 million for 2015. Based on our foreign currency balances of monetary assets and liabilities as of December 1, 2016 and after giving effect to the 80 billion New Taiwan dollars we drew on the 2021 Term Loan on December 6, 2016 and the use of cash to fund the Inotera Acquisition, we estimate that a 10% adverse change in exchange rates versus the U.S. dollar would result in losses of approximately \$462 million. Although we hedge our exposure to changes in currency exchange rates from our monetary assets and liabilities by hedging our primary currency exposures with currency forward contracts, the effectiveness of these hedges is dependent upon our ability to accurately forecast our monetary assets and liabilities. In addition, a significant portion of our manufacturing costs are denominated in foreign currencies. Exchange rates for some of these currencies against the U.S. dollar, particularly the yen, have been volatile in recent periods. If these currencies strengthen against the U.S. dollar, our manufacturing costs could significantly increase. In the event that exchange rates for the U.S. dollar adversely change against our foreign currency exposures, our results of operations or financial condition may be adversely affected. In addition, in connection with Inotera Acquisition, our exposure to changes in foreign currency exchange rates could increase if not offset by corresponding hedges.

We may make future acquisitions and/or alliances, which involve numerous risks.

Acquisitions and the formation or operation of alliances, such as joint ventures and other partnering arrangements, involve numerous risks including the following:

- integrating the operations, technologies, and products of acquired or newly formed entities into our operations;
- increasing capital expenditures to upgrade and maintain facilities;
- increased debt levels;
- the assumption of unknown or underestimated liabilities;
- the use of cash to finance a transaction, which may reduce the availability of cash to fund working capital, capital expenditures, R&D expenditures, and other business activities;
- diverting management's attention from daily operations;
- managing larger or more complex operations and facilities and employees in separate and diverse geographic areas;
- hiring and retaining key employees;
- requirements imposed by governmental authorities in connection with the regulatory review of a transaction, which may include, among other things, divestitures or restrictions on the conduct of our business or the acquired business;
- inability to realize synergies or other expected benefits;
- failure to maintain customer, vendor, and other relationships;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices; and
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements, or worse-than-expected performance of the acquired business.

In previous years, supply of memory products has significantly exceeded customer demand, resulting in significant declines in average selling prices for DRAM, NAND Flash, and NOR Flash products. Resulting operating losses have led to the deterioration in the financial condition of a number of industry participants, including the liquidation of Qimonda and the 2012 bankruptcy filing by Elpida (now known as MMJ). These types of proceedings often lead to court-directed processes involving the sale of related businesses or assets. We believe the global memory industry is experiencing a period of consolidation as a result of these market conditions and other factors, and we may engage in discussions regarding potential acquisitions and similar opportunities arising out of these industry conditions. To the extent we are successful in completing any such transactions, we could be subject to some or all of the risks described above, including the risks pertaining to funding, assumption of liabilities, integration challenges, and increases in debt that may accompany such transactions. Acquisitions of, or alliances with, high-technology companies are inherently risky and may not be successful and may materially adversely affect our business, results of operations, or financial condition.

Breaches of our security systems could expose us to losses.

We maintain a system of controls over the physical security of our facilities. We also manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, we process, store, and transmit large amounts of data relating to our customers and employees, including sensitive personal information. Unauthorized persons or

employees may gain access to our facilities or network systems to steal trade secrets or other proprietary information, compromise confidential information, create system disruptions, or cause shutdowns. These parties may also be able to develop and deploy viruses, worms, and other malicious software programs that disrupt our operations and create security vulnerabilities. Breaches of our physical security and attacks on our network systems could result in significant losses and damage our reputation with customers and suppliers and could expose us to litigation if the confidential information of our customers, suppliers, or employees is compromised.

Compliance with regulations regarding the use of conflict minerals could limit the supply and increase the cost of certain metals used in manufacturing our products.

Increased focus on environmental protection and social responsibility initiatives led to the passage of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and its implementing Securities and Exchange Commission regulations. The Dodd-Frank Act imposes supply chain diligence and disclosure requirements for certain manufacturers of products containing specific minerals that may originate in or near the Democratic Republic of the Congo (the "DRC") and finance or benefit local armed groups. These "conflict minerals" are commonly found in materials used in the manufacture of semiconductors. The implementation of these new regulations may limit the sourcing and availability of some of these materials. This in turn may affect our ability to obtain materials necessary for the manufacture of our products in sufficient quantities and may affect related material pricing. Some of our customers may elect to disqualify us as a supplier or reduce purchases from us if we are unable to verify that our products are DRC conflict free.

We are subject to a variety of laws and regulations that may result in additional costs and liabilities.

The manufacturing of our products requires the use of facilities, equipment, and materials that are subject to a broad array of laws and regulations in numerous jurisdictions in which we operate. Additionally, we are subject to a variety of other laws and regulations relative to the construction, maintenance, and operations of our facilities. Any of these laws or regulations could cause us to incur additional direct costs, as well as increased indirect costs related to our relationships with our customers and suppliers, and otherwise harm our operations and financial condition. Any failure to comply with these laws or regulations could adversely impact our reputation and our financial results. Additionally, we partner with other companies in our joint ventures, which are also subject to a broad array of laws and regulations. Our ownership in these joint ventures may also expose us to risks associated with their respective compliance with these laws and regulations. Our failure, or the failure of our joint ventures, to comply with these laws and regulations could result in:

- suspension of production;
- remediation costs;
- alteration of our manufacturing processes;
- regulatory penalties, fines, and legal liabilities; and
- reputational challenges.

We may incur additional tax expense or become subject to additional tax exposure.

We operate in a number of locations outside the U.S., including Singapore, where we have tax incentive arrangements that are conditional, in part, upon meeting certain business operations and employment thresholds. Our domestic and international taxes are dependent upon the distribution of our earnings among these different jurisdictions. Our provision for income taxes and cash tax liabilities in the future could be adversely affected by numerous factors, including challenges by tax authorities to our tax structure and intercompany transfer pricing agreements, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, failure to meet performance obligations with respect to tax incentive agreements, and changes in tax laws and regulations. We file income tax returns with the U.S. federal government, various U.S. states, and various other jurisdictions throughout the world. Our U.S. federal and state tax returns remain open to examination for 2012 through 2016. In addition, tax returns remain open to examination in Singapore, Japan, and Taiwan range from the years 2011 to 2016. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and cash tax liability.

We may not utilize all of our net deferred tax assets.

We have substantial deferred tax assets, which include, among others, net operating loss and credit carryforwards. As of September 1, 2016, our U.S. federal and state net operating loss carryforwards, including uncertain tax benefits, were \$3.90 billion and \$1.94 billion, respectively, which, if not utilized, will expire at various dates from 2017 through 2036. As of September 1, 2016, our foreign net operating loss carryforwards were \$6.04 billion, including \$4.28 billion pertaining to

Japan, which will, if not utilized, substantially all expire at various dates from 2019 through 2025. As of September 1, 2016, we had valuation allowances of \$1.16 billion and \$765 million against our net deferred tax assets in the U.S. and Japan, respectively.

A change in ownership may limit our ability to utilize our net operating loss carryforwards.

If we experience a 50% or greater change in ownership involving shareholders owning 5% or more of our stock, it could adversely impact our ability to utilize our existing net operating loss and credit carryforwards. The inability to utilize existing net operating loss and credit carryforwards would significantly increase the amount of our annual cash taxes reducing the overall amount of cash available to be used in other areas of the business.

On July 20, 2016, our board of directors adopted a Section 382 Rights Agreement (the "Rights Agreement"), under which our shareholders of record as of the close of business on August 1, 2016 received one right for each share of common stock outstanding. The Rights Agreement is intended to avoid an ownership change, as defined by Section 382 of the Internal Revenue Code of 1986, as amended, and thereby preserve our current ability to utilize certain net operating loss and credit carryforwards. In general, an ownership change will occur when the percentage of our ownership by one or more 5% shareholders has increased by more than 50% at any time during the prior three years. Pursuant to the Rights Agreement, if a shareholder (or group) acquires beneficial ownership of 4.99% or more of the outstanding shares of our common stock without prior approval of our Board of Directors or without meeting certain customary exceptions, the rights would become exercisable and entitle shareholders (other than the acquiring shareholder or group) to purchase additional shares of our common stock at a significant discount and result in significant dilution in the economic interest and voting power of acquiring shareholder or group. Although the Rights Agreement is intended to reduce the likelihood of an ownership change that could adversely affect us, there is no assurance that the Rights Agreement will prevent all transfers that could result in such an ownership change. The Rights Agreement is subject to shareholder approval at the Company's Fiscal 2016 Annual Meeting of Shareholders to be held on January 18, 2017. If not approved by the shareholders, the Rights Agreement will terminate on July 19, 2017.

The limited availability of raw materials, supplies, or capital equipment could materially adversely affect our business, results of operations, or financial condition.

Our operations require raw materials and in certain cases, third party services, that meet exacting standards. We generally have multiple sources of supply for our raw materials and services. However, only a limited number of suppliers are capable of delivering certain raw materials and services that meet our standards. In some cases, materials, components, or services are provided by a single supplier. Various factors could reduce the availability of raw materials or components such as silicon wafers, controllers, photomasks, chemicals, gases, photoresist, lead frames, and molding compound. Shortages may occur from time to time in the future. We and/or our suppliers could be affected by laws and regulations enacted in response to concerns regarding climate change, which could increase the cost and limit the supply of our raw materials. In addition, disruptions in transportation lines could delay our receipt of raw materials. Lead times for the supply of raw materials have been extended in the past. If our supply of raw materials or services is disrupted or our lead times extended, our business, results of operations, or financial condition could be materially adversely affected.

Our operations are dependent on our ability to procure advanced semiconductor manufacturing equipment that enables the transition to lower cost manufacturing processes. For certain key types of equipment, including photolithography tools, we are sometimes dependent on a single supplier. From time to time we have experienced difficulties in obtaining some equipment on a timely basis due to the supplier's limited capacity. Our inability to obtain this equipment timely could adversely affect our ability to transition to next generation manufacturing processes and reduce costs. Delays in obtaining equipment could also impede our ability to ramp production at new facilities and increase our overall costs of the ramp. If we are unable to obtain advanced semiconductor manufacturing equipment in a timely manner, our business, results of operations, or financial condition could be materially adversely affected.

A downturn in the worldwide economy may harm our business.

Downturns in the worldwide economy have harmed our business in the past and future downturns could also adversely affect our business. Adverse economic conditions affect demand for devices that incorporate our products, such as personal computers, mobile devices, SSDs, and servers. Reduced demand for these products could result in significant decreases in our average selling prices and product sales. A deterioration of current conditions in worldwide credit markets could limit our ability to obtain external financing to fund our operations and capital expenditures. In addition, we may experience losses on our holdings of cash and investments due to failures of financial institutions and other parties. Difficult economic conditions may also result in a higher rate of loss on our accounts receivables due to credit defaults. As a result, our business, results of operations, or financial condition could be materially adversely affected.

Our results of operations could be affected by natural disasters and other events in the locations in which we or our customers or suppliers operate.

We have manufacturing and other operations in locations subject to natural occurrences such as severe weather and geological events including earthquakes or tsunamis that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. A natural disaster, fire, explosion, or other event that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may materially adversely affect our business, results of operations, or financial condition.

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

Sales to customers outside the United States approximated 84% of our consolidated net sales for 2016. In addition, a substantial portion of our manufacturing operations are located outside the United States. In particular, a significant portion of our manufacturing operations are concentrated in Singapore, Taiwan, and Japan. Our international sales and operations are subject to a variety of risks, including:

- export and import duties, changes to import and export regulations, customs regulations and processes, and restrictions on the transfer of funds;
- compliance with U.S. and international laws involving international operations, including the Foreign Corrupt Practices Act, export and import laws, and similar rules and regulations;
- theft of intellectual property;
- political and economic instability;
- problems with the transportation or delivery of our products;
- issues arising from cultural or language differences and labor unrest;
- longer payment cycles and greater difficulty in collecting accounts receivable;
- compliance with trade, technical standards, and other laws in a variety of jurisdictions;
- contractual and regulatory limitations on our ability to maintain flexibility with our staffing levels;
- disruptions to our manufacturing operations as a result of actions imposed by foreign governments;
- changes in economic policies of foreign governments; and
- difficulties in staffing and managing international operations.

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

We are subject to counterparty default risks.

We have numerous arrangements with financial institutions that subject us to counterparty default risks, including cash deposits, investments, capped-call contracts on our stock, and derivative instruments. As a result, we are subject to the risk that the counterparty to one or more of these arrangements will default on its performance obligations. A counterparty may not comply with their contractual commitments which could then lead to their defaulting on their obligations with little or no notice to us, which could limit our ability to take action to mitigate our exposure. Additionally, our ability to mitigate our exposures may be constrained by the terms of our contractual arrangements or because market conditions prevent us from taking effective action. If one of our counterparties becomes insolvent or files for bankruptcy, our ability to recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable laws governing the bankruptcy proceeding. In the event of such default, we could incur significant losses, which could adversely impact our business, results of operations, or financial condition.