

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended June 1, 1995

OR

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

For the transition period from _____ to _____

Commission file number 0-17932

Micron Electronics, Inc.

(Exact name as specified in charter)

Minnesota

(State or other jurisdiction of
incorporation or organization)

41-1404301

(I.R.S. Employer
Identification No.)

900 E. Karcher Road, Nampa, Idaho 83687

(Address of principal executive offices) Zip Code

Registrant's telephone number, including area code (208) 465-3434

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

Yes No
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The number of outstanding shares of the registrant's Common Stock as of June 16, 1995 was 91,421,615.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

MICRON ELECTRONICS, INC.

Balance Sheets
(Dollars in thousands)
(Unaudited)

As of	June 1, 1995	September 1, 1994

Assets		
Cash and equivalents	\$ 37,179	\$ 35,048
Liquid investments	-	2,181
Receivables	97,364	50,797
Inventories	97,778	31,110
Deferred income taxes	13,572	1,156
Other current assets	1,911	588
	-----	-----
Total current assets	247,804	120,880
Property, plant and equipment, net	51,515	30,746
Goodwill, net	13,904	-
Other assets	6,142	138
	-----	-----
Total assets	\$319,365	\$151,764
	=====	=====
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$145,484	\$ 72,290
Accrued licenses and royalties	13,613	1,661
Current portion of long-term debt	1,021	1,023
	-----	-----
Total current liabilities	160,118	74,974
Long-term debt	6,056	6,822
Deferred income taxes	-	1,081
Other liabilities	852	718
	-----	-----
Total liabilities	167,026	83,595
Commitments and contingencies		
Common stock	914	550
Additional paid-in capital	58,239	14,662
Retained earnings	93,186	52,957
	-----	-----
Total shareholders' equity	152,339	68,169
	-----	-----
Total liabilities and shareholders' equity	\$319,365	\$151,764
	=====	=====

The accompanying notes are an integral part of the financial statements.

MICRON ELECTRONICS, INC.

Statements of Operations
(Amounts in thousands, except for per share amounts)
(Unaudited)

	For the quarter ended		For the nine months ended	
	June 1, 1995	June 2, 1994	June 1, 1995	June 2, 1994
	-----	-----	-----	-----

Net sales	\$271,477	\$106,249	\$596,031	\$278,634
Cost of goods sold	221,695	83,494	476,732	220,475
	-----	-----	-----	-----
Gross margin	49,782	22,755	119,299	58,159
Selling, general and administrative	23,225	7,051	46,468	16,943
Research and development	585	155	1,090	398
	-----	-----	-----	-----
Operating income	25,972	15,549	71,741	40,818
Interest income, net	620	168	1,199	365
	-----	-----	-----	-----
Income before income taxes	26,592	15,717	72,940	41,183
Income tax provision	10,987	6,220	28,811	16,056
	-----	-----	-----	-----
Net income	\$ 15,605	\$ 9,497	\$ 44,129	\$ 25,127
	=====	=====	=====	=====
Earnings per share	\$ 0.17	\$ 0.11	\$ 0.51	\$ 0.37
Number of shares used in per share calculations	89,669	83,587	86,581	68,419

The accompanying notes are an integral part of the financial statements.

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MICRON ELECTRONICS, INC.

Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	For the nine months ended	
	June 1, 1995	June 2, 1994
	-----	-----
Cash flows from operating activities		
Net income	\$ 44,129	\$ 25,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,317	3,116
Amortization	679	25

Change in assets and liabilities, net of effects of merger transaction:		
Increase in receivables	(24,669)	(17,060)
Increase in inventories	(39,121)	(12,872)
Increase in accounts payable and accrued expenses	34,786	16,238
Increase (decrease) in deferred income taxes	(3,965)	569
Other	(1,453)	148
	-----	-----
Net cash provided by operating activities	17,703	15,291
Cash flows from investing activities		
Property, plant and equipment expenditures	(29,075)	(12,268)
Proceeds from sale of equipment	221	468
Purchase of investments and securities	(3,165)	-
Proceeds from sale and maturity of investments	5,400	-
Cash acquired in merger transaction	14,060	-
Other	(427)	(36)
	-----	-----
Net cash used for investing activities	(12,986)	(11,836)
	=====	=====
Cash flows from financing activities		
Repayments of debt	(767)	(1,413)
Proceeds from issuance of common stock	344	4,217
Stock repurchases	(882)	(1)
Other	(1,281)	-
	-----	-----
Net cash (used for) provided by financing activities	(2,586)	2,803
	-----	-----
Net increase in cash and equivalents	2,131	6,258
Cash and equivalents at beginning of period	35,048	21,684
	-----	-----
Cash and equivalents at end of period	\$ 37,179	\$ 27,942
	=====	=====
Supplemental disclosures		
Noncash investing and financing activities:		
Assets acquired, net of cash and liabilities assumed in merger transaction	\$ 25,998	\$ -
Treasury stock retired	882	-
Assets acquired in exchange for debt	-	186

The accompanying notes are an integral part of the financial statements.

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MICRON ELECTRONICS, INC.

Notes to Financial Statements

(Tabular dollar amounts in thousands, except for per share amounts)

1. Unaudited interim financial statements

In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position of Micron Electronics, Inc. and subsidiaries (the "Company") and their results of operations and cash flows.

The accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the ZEOS International, Ltd. Registration Statement on Form S-4 and Joint Proxy Statement dated March 13, 1995 and the ZEOS International, Ltd. Annual Report on Form 10-K for the year ended December 31, 1994.

2. The merger

A. On April 7, 1995, Micron Computer, Inc. ("MCI") and Micron Custom

Manufacturing Services, Inc. ("MCMS"), Subsidiaries of Micron Technology, Inc. ("MTI"), merged with and into ZEOS International, Ltd. ("ZEOS"). Pursuant to the terms of the merger, ZEOS issued approximately 82.5 million shares of its common stock in exchange for all of the outstanding shares of MCI and MCMS and the name of the surviving corporation was changed to Micron Electronics, Inc. ("MEI"). The merger resulted in a change of control of approximately 89% of ZEOS wherein, assuming exercise of all outstanding options, (a) MTI owns an approximate 79% interest in ZEOS, and (b) the other shareholders of MCI and MCMS own an approximate 10% interest in ZEOS. The merger has been accounted for as a purchase of ZEOS by MCI and MCMS. A new basis of accounting was established for the assets and liabilities of ZEOS to the extent of the change of control. The new basis reflects the allocation of the approximate \$39.1 million purchase price to the ZEOS assets and liabilities on the basis of their fair values. Goodwill of approximately \$14.6 million was recorded to the extent the purchase price exceeded the fair value of the identifiable net assets for which a change of control occurred. Goodwill is amortized on a straight line basis over three years.

MEI's fiscal year is a 52 or 53 week period ending on the Thursday closest to August 31, which is the fiscal year of the Micron entities. Subsequent to the merger, the financial statements of MEI reflect the combined financial position and results of operations of ZEOS, MCI and MCMS based on the new basis of accounting for ZEOS and the historical cost basis of MCI and MCMS. Prior to April 7, 1995, the financial position and results of operations of MEI include only the combined financial position and results of operations of MCI and MCMS.

The following pro forma financial information presents the results of operations of MEI for the quarter and nine month periods ended June 1, 1995 and June 2, 1994, as if the merger had occurred at the beginning of the periods, after giving effect to pro forma adjustments, including amortization of goodwill, certain product and process technology costs and related income tax effects.

	Quarter ended		Nine Months ended	
	June 1, 1995	June 2, 1994	June 1, 1995	June 2, 1994
Net sales	\$307,909	\$170,886	\$785,050	\$440,891
Gross margin	55,325	23,658	145,347	69,365
Net income	16,690	4,099	45,001	14,525
Earnings per share	0.18	0.04	0.48	0.19

The pro forma financial information is provided for illustrative purposes and is not necessarily indicative of the combined results of operations that would have actually occurred for such periods nor does it represent a forecast of results of operations for any future periods.

3. Receivables	June 1, 1995	September 1, 1994
Trade receivables	\$102,614	\$ 51,715
Other	1,381	1,507
Allowance for doubtful accounts	(4,151)	(1,760)
Allowance for returns and discounts	(2,480)	(665)
	-----	-----
	\$ 97,364	\$ 50,797
	=====	=====

4. Inventories	June 1, 1995	September 1, 1994

Finished goods	\$ 12,547	\$ 3,464
Work in process	10,909	4,333
Raw materials and supplies	74,322	23,313
	-----	-----
	\$ 97,778	\$ 31,110
	=====	=====

5. Property, plant and equipment, net	June 1, 1995	September 1, 1994

Land	\$ 987	\$ 987
Buildings	15,460	9,202
Equipment	65,155	33,024
Construction in progress	3,401	3,161
	-----	-----
	85,003	46,374
Less accumulated depreciation	(33,488)	(15,628)
	-----	-----
	\$ 51,515	\$ 30,746
	=====	=====

6. Accounts payable and accrued expense	June 1, 1995	September 1, 1994

Accounts payable	\$105,265	\$ 59,800
Salaries, wages and benefits	20,080	4,335
Other	20,139	8,155
	-----	-----
	\$145,484	\$ 72,290
	=====	=====

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7. Shareholders' equity	June 1, 1995	September 1, 1994

Common stock:		
MEI common stock, \$.01 par value, 150,000,000 shares authorized, 91,421,615 shares issued and outstanding	\$ 914	\$ -
MCI common stock, no par value: Class A - 7,900,000 shares authorized, 987,500 shares issued and outstanding	-	79
Class B - 2,100,000 shares authorized, 469,940 shares issued and outstanding	-	286
MCMS common stock, \$.10 par value, 10,000,000 shares authorized, 1,849,481 shares issued and outstanding	-	185
	-----	-----
	\$ 914	\$ 550
	=====	=====

Additional paid-in-capital:

MEI	\$ 58,239	\$ -
MCI	-	6
MCMS	-	14,656
	-----	-----
	\$ 58,239	\$ 14,662
	=====	=====

Retained earnings:

MEI	\$ 93,186	\$ -
MCI	-	20,959
MCMS	-	31,998
	-----	-----
	\$ 93,186	\$ 52,957
	=====	=====

8. Income taxes

During the third quarter of fiscal 1995, the Company changed its estimate of the effective tax rate for fiscal 1995 to 39.5%. The effective income tax rate for the nine months ended June 1, 1995 and June 2, 1994 reflects primarily the statutory federal income tax rate and the net effect of state income taxes.

9. Earnings per share

Earnings per share is computed using the weighted average number of common and common equivalent shares outstanding, adjusted to give effect to the merger. Common equivalent shares result from the assumed exercise of outstanding stock options and affect earnings per share when they have a dilutive effect.

10. Commitments

As of June 1, 1995, the Company had commitments of approximately \$6.3 million for equipment purchases and \$3.6 million for the construction of a building.

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11. Contingencies

Periodically, MEI is made aware that technology used by MEI may infringe on product or process technology rights held by others. MEI has accrued a liability and charged operations for the estimated costs of settlement or adjudication of asserted and unasserted claims for infringement prior to the balance sheet date. Management can give no assurance that the amounts accrued are adequate and cannot estimate the range of additional possible loss, if any, from resolution of these uncertainties. Resolution of whether MEI has infringed on valid rights held by others may have a material adverse effect on MEI's financial position or results of operations, and may require material changes in production processes and products.

MEI is currently a party to various legal actions arising out of the normal course of business, none of which is expected to have a material effect on MEI's financial position or results of operations.

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

Micron Electronics, Inc. ("MEI" or the "Company") completed its third fiscal quarter on June 1, 1995. On April 7, 1995, the Company was formed through the merger of Micron Computer, Inc. ("MCI") and Micron Custom Manufacturing Services, Inc. ("MCMS") with ZEOS International, Ltd. ("ZEOS"). The Company's 1995 fiscal year, which corresponds with the fiscal year of the Micron entities, is the 52 week period ending August 31, 1995. Accordingly, the Company's results of operations are for the quarter and nine month period ended June 1, 1995, as compared to the results for the same periods ended June 2, 1994, and reflect the merged operations of the Company subsequent to April 7, 1995, and the combined results of operations of only MCI and MCMS prior thereto. All dollar amounts presented are in thousands. The following is a summary of the results of operations.

	Quarter ended				Nine months ended			
	June 1, 1995		June 2, 1994		June 1, 1995		June 2, 1994	
	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales
Net sales	\$271,477	100.0%	\$106,249	100.0%	\$596,031	100.0%	\$278,634	100.0%
Cost of goods sold	221,695	81.7%	83,494	78.6%	476,732	80.0%	220,475	79.1%
Gross margin	49,782	18.3%	22,755	21.4%	119,299	20.0%	58,159	20.9%
Selling, general, and administrative expenses	23,225	8.6%	7,051	6.6%	46,468	7.8%	16,943	6.1%
Net income	15,605	5.7%	9,497	8.9%	44,129	7.4%	25,127	9.0%

Overview

MEI is involved in developing, marketing and supporting a broad range of electronic computing products including: (i) developing, marketing, manufacturing and supporting personal computers, (ii) contract manufacturing of custom, complex printed circuit board assemblies, (iii) recovering, testing and marketing random access memory ("RAM") components which do not meet full industry specifications ("nonstandard RAM components"), and (iv) assembling and marketing peripheral add-on memory products.

MEI develops, markets, manufactures and supports a broad line of memory intensive, high performance desktop, tower and notebook PCs and related hardware and software products, under both the Micron and ZEOS brand names. MEI markets its line of PCs directly to businesses, educational institutions, government agencies and the general public principally through advertisements in personal computer and trade publications. MEI's lines of PCs are based primarily on the Intel 80486SX, 80486DX, 80486DX2, DX4 and Pentium microprocessors. MEI supports its products through telephone based technical support and factory service.

MEI manufactures custom, complex printed circuit board assemblies. MEI provides a full range of turnkey contract manufacturing services, including the assembly and test of complex printed circuit boards and memory modules, design layout and product engineering, material procurement, inventory management, quality assurance and just-in-time delivery.

MEI's component recovery operation involves testing and grading nonstandard RAM components obtained from MTI or purchased from other semiconductor manufacturers to their highest functional level and identifying cost effective applications for such components. MEI markets nonstandard RAM components for a wide variety of applications such as PCs and peripherals, telephone answering machines, electronic games, laser printers, facsimile machines and cellular telephones. MEI has also been able to utilize nonstandard RAM components in the manufacture of complex circuit board assemblies for selected original equipment manufacturers ("OEM") customers in the manufacture of selected peripheral add-on memory products for third party resellers and OEMs.

MEI also develops and markets a line of peripheral add-on memory products. Currently, the line includes a range of peripheral add-on modules. Certain memory modules are manufactured utilizing only full specification RAM components while other memory modules are primarily comprised of nonstandard RAM components. All MEI memory modules are designed to meet full industry functionality standards. MEI memory modules are used in a variety of applications, including PCs, answering machines, laser printers, electronic games and other digital electronic systems.

Pro Forma Results of Operations

The following discussion and analysis presents the results of operations of MEI for the quarters and nine month periods ended June 1, 1995, and June 2, 1994, on a pro forma basis as if the merger had occurred at the beginning of the periods, after giving effect to pro forma adjustments, including amortization of goodwill, certain product and process technology costs, and related income tax effects. Due to the significance of the merger, the Company believes that discussion and analysis of pro forma basis results of operations provides a more meaningful comparison than discussion and analysis on an actual basis which, prior to the merger, includes only the operations of MCI and MCMS.

The pro forma information presented is not necessarily indicative of results that would have occurred had the merger actually taken place at the beginning of the periods.

The following is a summary of the pro forma results of operations.

	Quarter ended				Nine months ended			
	June 1, 1995		June 2, 1994		June 1, 1995		June 2, 1994	
	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales
Pro forma net sales	\$307,909	100.0%	\$170,886	100.0%	\$785,050	100.0%	\$440,891	100.0%
Pro forma cost of goods sold	252,584	82.0%	147,228	86.2%	639,703	81.5%	371,526	84.3%
Pro forma gross margin	55,325	18.0%	23,658	13.8%	145,347	18.5%	69,365	15.7%
Pro forma selling, general and administrative expenses	27,598	9.0%	16,607	9.7%	70,899	9.0%	44,496	10.1%
Pro forma net income	16,690	5.4%	4,099	2.4%	45,001	5.7%	14,525	3.3%

Pro forma net sales for the Company's separate product lines are as follows:

	Quarter ended				Nine months ended			
	June 1, 1995		June 2, 1994		June 1, 1995		June 2, 1994	
	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales	Amount	Percent of Sales
PC systems	\$191,034	62.0%	\$ 92,675	54.2%	\$503,718	64.2%	\$233,234	52.9%
Peripheral add-on memory products	47,895	15.6%	38,484	22.5%	117,328	14.9%	107,799	24.4%
Contract manufacturing	50,425	16.4%	32,573	19.1%	114,843	14.6%	82,863	18.8%
Component recovery	18,555	6.0%	7,154	4.2%	49,161	6.3%	16,995	3.9%
Total pro forma net sales	\$307,909	100.0%	\$170,886	100.0%	\$785,050	100.0%	\$440,891	100.0%

	Quarter ended			Nine months ended		
	June 1, 1995	% Change	June 2, 1994	June 1, 1995	% Change	June 2, 1994
Pro forma net sales	\$307,909	80.2%	\$170,886	\$785,050	78.1%	\$440,891

Pro forma net sales for the quarter and nine month period ended June 1, 1995 were higher than pro forma net sales for the comparable periods in 1994, primarily as a result of an increase in the number of desktop PC systems sold, higher overall selling prices for PC systems, higher contract manufacturing sales, higher component recovery sales and higher sales of peripheral add-on memory products.

Unit sales of PC systems for the quarter and nine month period ended June 1, 1995 increased approximately 120% and 119%, respectively, in comparison to the quarter and nine month period ending June 2, 1994, as a result of an approximate 126% and 138% increase, respectively, in unit sales of desktop PC systems, offset in part by approximately 28% and 24% decreases, respectively, in unit sales of notebook PC systems. The increase in unit sales of desktop PC systems was due primarily to a significant increase in unit sales of Micron brand PC systems and to a lesser extent an increase in unit sales of ZEOS brand PC systems. The Company believes that unit sales of the Company's Micron brand PC systems increased as a result of an increase in

name recognition and market acceptance and competitive pricing. Sales of Micron and ZEOS brand PC systems benefited generally from continued strong demand in the market for PC products.

The Company continues to evaluate a range of PC product strategies to take advantage of both the Micron and ZEOS brand names. Until the Company's various product line strategies are fully defined, including the coordination of marketing strategies, the sharing of research and development efforts and the coordination and potential integration of overall product lines, the Company may face confusion in the marketplace regarding its PC products. Subsequent to the merger date, sales of ZEOS brand PC systems have trended downward. The Company believes this decline is due, in part, to a recent decline in the number of trade magazine awards received by ZEOS brand PC systems, substantial overlap with and competition from the Company's Micron brand product line and seasonal factors. Confusion in the marketplace regarding the Company's PC product lines could result in a substantial decrease in the Company's unit sales which would have a material adverse effect on the Company's results of operations.

Higher overall average selling prices of PC systems resulted principally from a shift within the desktop PC product lines from 486 microprocessor based systems to relatively higher priced Pentium microprocessor based systems, and to a lesser extent, from a shift in the notebook product line from an older, lower priced subnotebook line to the line of Meridian notebook PC systems.

Fluctuations in the Company's net sales from quarter to quarter can be expected and may be attributable to a number of factors, including without limitation the timing of new product introductions, seasonal cycles commonly seen in the computer industry, the impact of product reviews and industry awards, changes in product mix and product pricing, fluctuating component costs and industry competition. As a result, the operating results for any particular period are not necessarily indicative of the results of any future period.

Contract manufacturing sales were higher primarily due to increased manufacturing capacity obtained through the addition of a new surface mount technology ("SMT") line at the Company's Boise facility and the upgrading of the Company's existing production lines in response to an increase in demand for its services from OEM customers as well as a significant increase in demand for module products manufactured for Micron Technology, Inc. ("MTI"). Additionally, two SMT lines were installed at the Company's new Durham, North Carolina facility which

began operations in April, 1995, bringing the Company's total number of SMT lines to eight. Production from the North Carolina facility accounted for only approximately 5% of the Company's contract manufacturing sales for the quarter ended June 1, 1995. Modules manufactured for MTI have increased as a percentage of contract manufacturing sales to approximately 14% in both the quarter and nine month period ended, June 1, 1995 compared to 10% and 11%, respectively, for the same periods in 1994. The Company's contract manufacturing operations rely on sales to a relatively limited number of customers. In the quarter and nine month period ended June 1, 1995, six customers, including MTI, accounted for 76% and 68%, respectively, of the Company's contract manufacturing sales. The Company expects sales to MTI to increase which could result in a higher percentage of total net sales attributable to MTI.

Component recovery sales were higher as a result of increases in both unit sales and overall average selling prices. Unit sales increased approximately 98% and 87%, respectively, in the quarter and nine month period ended June 1, 1995 compared to the same periods in 1994, primarily due to increased availability of nonstandard RAM components and an increase in production capacity resulting primarily from the addition of new test and burn-in equipment. Overall average selling prices were higher primarily due to a shift in the product mix to higher priced nonstandard RAM components and continued strong industry-wide demand for semiconductor memory products. Significant competition in the area of component recovery is beginning to develop both from semiconductor memory manufacturers who conduct such operations in-house and from independent component recovery operations. Increased competition could result in both price reductions and a decline in the supply of nonstandard RAM components available for recovery by the Company.

Unit sales of peripheral add-on memory products declined approximately 19% and 38% in the quarter and nine month period ended June 1, 1995, respectively, compared to the same periods in 1994, but the average memory density per module increased approximately 25% and 15% for the quarter and nine month period ended June 1, 1995, respectively, compared to the same periods in 1994. Overall average selling prices of peripheral add-on memory products increased approximately 70% and 86% for the quarter and nine month period ended June 1, 1995, respectively, compared to the same periods in 1994, due principally to the increase in the average memory density per module

A substantial portion of the nonstandard RAM components used in the Company's component recovery and peripheral add-on memory module operations was obtained from MTI. Unless the Company is able to obtain significant quantities of nonstandard RAM components from alternative sources, the Company's component recovery and peripheral add-on memory module operations will be limited by the volume of nonstandard RAM components supplied by MTI. MTI's operating results are favorably affected by improvements in device yields throughout its semiconductor manufacturing processes and, accordingly, MTI seeks continuous improvements of such yields. Significant yield improvements as a consequence of product design advances,

enhancements of manufacturing processes or other factors could result in a significant reduction in the availability of nonstandard RAM components from MTI. Significant reduction in the availability of nonstandard RAM components from MTI would have a material adverse effect on the Company's operating results.

	Quarter ended			Nine months ended		
	June 1, 1995	% Change	June 2, 1994	June 1, 1995	% Change	June 2, 1994
Pro forma cost of goods sold	\$252,584	71.6%	\$147,228	\$639,703	72.2%	\$371,526
Gross margin percentage	18.0%		13.8%	18.5%		15.7%

Pro forma gross margins were \$55,325 and \$145,347, respectively, for the quarter and nine month period ended June 1, 1995, compared to \$23,658 and \$69,365, respectively, for the same periods in 1994. The Company's overall gross margin percentage was higher for the third quarter of 1995 as compared to the third quarter of 1994, primarily due to an adjustment of \$5.7 million relating to the reduction of certain ZEOS brand PC related inventories to their net realizable values in March 1994. The Company's gross margin percentages continued to be favorably impacted by the relatively high gross margin percentage realized on component recovery sales and the relatively high gross margin realized on peripheral add-on memory product sales. Increased acceptance of nonstandard RAM components in the market could result in an increase in the sale of these components by semiconductor manufacturers. In such event, pricing for such components may decline. The Company continues to experience significant pressure on its gross margin percentage from extensive competition in the PC industry and consumer expectations of more powerful PC systems at lower prices. Many of the Company's competitors have substantially greater resources and purchasing power than the Company. Although the Company has begun to realize some material cost reductions following the merger, the Company's inability to purchase components at prices comparable to those of the leading PC manufacturers limits the Company's ability to compete on the basis of price in its PC business without adversely affecting its gross margin percentage. The Company believes that its gross margin percentage realized from its PC operations is less than that realized by the leading PC manufacturers. In the event sales of PC systems increase as a percentage of total net sales, the Company's overall gross margin percentage will be adversely affected.

Quarter ended			Nine months ended		
June 1, 1995	% Change	June 2, 1994	June 1, 1995	% Change	June 2, 1994

Pro forma selling, general and administrative expenses	\$ 27,598	66.2%	\$ 16,607	\$ 70,899	59.3%	\$ 44,496
Percent of net sales	9.0%		9.7%	9.0%		10.1%

Pro forma selling, general and administrative expenses increased in absolute dollars but decreased as a percentage of net sales in the quarter and nine month period ended June 1, 1995, compared to the corresponding periods in 1994. The increase in absolute dollars was primarily due to higher levels of personnel costs, advertising costs and credit card processing fees associated with the increase in net sales of the Company's PC systems as a percentage of total net sales. Goodwill of approximately \$14.6 million was recorded in connection with the merger and is amortized on a straight line basis over three years (approximately \$1.2 million per quarter).

Quarter ended			Nine months ended		
June 1, 1995	% Change	June 2, 1994	June 1, 1995	% Change	June 2, 1994

Pro forma income tax provision	\$ 10,897	307.2%	\$ 2,676	\$ 29,381	209.8%	\$ 9,483
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The Company's pro forma effective tax rate of 39.5% for all periods presented reflects primarily the federal statutory income tax rate and the net effect of state taxes.

Liquidity and Capital Resources

The Company has satisfied its liquidity and capital resource requirements through a combination of operating profits, short-term bank borrowings, extended credit terms with suppliers and advance deposits from customers, and equity and convertible debt financing by ZEOS. As of June 1, 1995, the Company had cash and equivalents of \$37.2 million,

representing an increase of \$2.1 million compared to September 1, 1994. The increase resulted primarily from cash flows from operations and \$14.1 million of cash acquired in the merger, offset by property, plant and equipment purchases of \$29.1 million. The significant increase in receivables, inventories, accounts payable and accrued expenses since September 1, 1994 was primarily a result of increased sales and the merger.

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As of June 1, 1995, the Company had \$7.1 million in indebtedness remaining on a ten-year loan from MTI and had no outstanding bank borrowings. The Company's principal sources of liquidity at June 1, 1995 consisted of cash and equivalents, supplier credit lines and a revolving line of credit agreement with a commercial lender, providing for cash advances and letters of credit up to a maximum of \$10 million at any one time. The line of credit agreement will expire on September 30, 1995, if not extended or renegotiated.

The Company is required to make guaranteed royalty payments under certain agreements and periodically enters into minimum purchase commitments with certain of its suppliers.

The Company expects that its working capital requirements will continue to increase through 1995 and beyond. The Company believes that currently available cash and equivalents, funds generated from operations and further expansion of terms with trade creditors will be sufficient to fund its operations through the end of 1995. However, maintaining an adequate level of working capital through the end of 1995 and thereafter will depend in part on the success of the Company's products in the marketplace, the relative profitability of those products, continued availability of RAM components at favorable pricing and the Company's ability to control operating expenses. It is anticipated that the Company will enter into a replacement revolving credit facility to provide for the working capital requirements of the Company. The Company may seek or require additional financing for growth opportunities, including any expansion that the Company may undertake internally, through strategic acquisitions or partnerships or through expansion to alternative manufacturing sites. There can be no assurance that any such financings will be available on terms acceptable to the Company.

Certain Factors

The success of the Company will depend to a large extent on its continuing relationship with MTI, including the continuation of various favorable business arrangements between MTI and the Company. MTI owns approximately 80% of the outstanding Common Stock of the Company. In addition, four of the eight directors of the Company are directors of MTI, including Steven R. Appleton, Chairman and Chief Executive Officer of MTI. MTI has the power to control the outcome of substantially all matters requiring shareholder approval, including the election of directors, and has the ability to control the management and affairs of the Company. MTI's equity ownership has the effect of making certain corporate actions impossible without its support. Because of MTI's significant share ownership, only a limited percentage of the Company's outstanding Common Stock is expected to be traded in the public market unless MTI sells shares into the public market. In addition, in the event that MTI is unwilling to allow the reduction of its percentage of ownership, the combined Company may be unable to complete an equity financing and could be forced to forego certain other corporate opportunities.

A substantial majority of the Company's nonstandard components are obtained from MTI. These components are acquired from MTI pursuant to a revenue sharing agreement which terminates in September 1997. Under this agreement, MTI is required to deliver to the Company all of the nonstandard RAM components produced at MTI's operations; however, there can be no assurance that MTI will continue to produce sufficient quantities of nonstandard RAM components to maintain the Company's component recovery operation at its existing level. The revenue sharing agreement may be amended or modified by written consent of the Company and MTI. By virtue of MTI's control position, MTI may be able to dictate

future modification of the terms of agreement. Under a voting agreement entered into as part of the merger, MTI has agreed that it will not, in any event, amend or modify the terms of the revenue sharing agreement prior to April 7, 1996. Termination or renegotiation of the key terms of the revenue sharing agreement could have a material adverse effect on the Company's operating results.

The Company purchases a substantial portion of its full specification RAM components used in its operations from MTI on a purchase order basis with market terms and conditions. It is anticipated that the Company will continue to purchase full specification RAM components from MTI. A number of factors could affect MTI's ability or willingness to make full specification RAM components available to the Company, including a disruption of MTI's wafer processing, significant yield losses and strategic and general business considerations. There can be no assurance that MTI will provide the Company with a sufficient volume of full specification RAM components to meet customer demand for PC systems, contract assembly services, peripheral add-on memory products or other products to be added to the Company's product offering.

High volumes of quality components are required for the manufacture of PC systems. Any industry shortage or other supply constraint, of any key component could affect the Company's ability to ship products on schedule or at expected gross margins. Additionally, the Company is unable to purchase components at costs comparable to those of the leading PC manufacturers. From time to time, the Company may also experience obsolescence of components maintained in inventory. Inventory obsolescence results from, among other things, the fast pace of technological developments in components used in personal computers as well as

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the short product life cycles of personal computer products. There can be no assurance that the Company will be able to effectively manage inventory levels so as to avoid the adverse effects of inventory obsolescence.

Competition in the PC industry is based primarily upon performance, price, quality, service and support. The PC industry is highly competitive and has been characterized by intense pricing pressure, rapid technological advances in hardware and software, frequent introduction of new products and low gross margin percentages and declining product prices. The Company must therefore introduce many new products each year and continue to price its products competitively. Failure by the Company to make specific product transitions or to accurately forecast its market demand for product mix may adversely affect the Company's results of operations.

The Company's contract manufacturing customers generally require short delivery cycles and quick turnaround for contract manufacturing services. As the Company's OEM customers react to variations in demand for their product and adjust their purchase orders to the Company, the Company is exposed to the risk of being subject to noncancelable purchase orders with its suppliers and to inventory risk for raw materials, work in process and finished goods. OEM order fluctuations and deferrals have had an adverse effect on the Company's contract manufacturing operations in the past and there can be no assurance that the Company will not experience such adverse effects in the future. The Company's contract manufacturing operations rely on sales to a relatively limited number of customers. The Company has no long term agreements with any of its contract manufacturing customers, including MTI, which require such customers to purchase contract manufacturing services from the Company. Should any of the Company's key contract manufacturing customers reduce in any material respect their purchases of the Company's contract manufacturing services, there can be no assurance that the Company could obtain alternative business on a timely basis, which could have a material adverse effect on the Company's business and operating results. In this regard, in the first quarter of 1995, the Company's contract manufacturing sales were adversely affected by a significant decline in orders from Radius.

Periodically, MEI is made aware that the technology used by MEI may infringe on product or process technology rights held by others. MEI has accrued a liability and charged operations for the estimated costs of

settlement or adjudication of asserted and unasserted claims for infringement prior to the balance sheet date. Management can give no assurance that the amounts accrued are adequate and cannot estimate the range of additional possible loss, if any, from resolution of these uncertainties. Resolution of whether MEI has infringed on valid rights held by others may have a material adverse effect on MEI's financial position or results of operations, and may require material changes in production processes and products. Additionally, the inability of the Company to license technology, when required, from third parties, at rates comparable to those obtained by its competitors could have an adverse impact on the Company's ability to remain competitive and to maintain its gross margin.

Several states have enacted legislation which would require out-of-state direct marketers to collect and remit sales and use taxes based on certain limited contacts with the state. Taxation authorities in certain states have solicited information from time to time from the Company to determine whether the Company has sufficient contacts with such states as would require payment and collection and remittance of sales and use taxes in those states. In the event that the Company is required to pay or collect and remit sales and use taxes in states where the Company is not currently paying or collecting and remitting such taxes, the future operating results and financial condition of the Company could be materially and adversely affected.

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Part II. OTHER INFORMATION

Item 2. Changes in Securities

Effective upon the closing of the Merger, the Company's Articles of Incorporation were amended in order to change the name of the Company to "Micron Electronics, Inc." and to increase the number of authorized shares of capital stock from a total of 15,000,000 shares to a total of 150,000,000 shares. In addition, effective immediately prior to the closing of the Merger, all outstanding shares of ZEOS' \$3.00 Convertible Cumulative Preferred Stock, Series A were redeemed by ZEOS.

Item 4. Submission of Matters to a Vote of Security Holders

On April 6, 1995, at separate special meetings of shareholders of ZEOS, MCI and MCMS, the shareholders of ZEOS, MCI and MCMS approved the Merger Agreement dated October 30, 1994, as amended, among ZEOS, MCI and MCMS (the "Merger Agreement") and the merger of MCI and MCMS with and into ZEOS.

The shareholders of ZEOS voted as follows with respect to the approval of the Merger Agreement and the Merger:

For:	4,578,561	shares
Against:	49,905	shares
Abstentions:	54,865	shares

The shareholders of MCI Class A common stock voting separately as a class voted as follows with respect to the approval of the Merger Agreement and the Merger:

For:	987,500	shares
Against:	-	shares
Abstentions:	-	shares

The shareholders of MCI Class B common stock voting separately as a class voted as follows with respect to the approval of the Merger Agreement and the Merger:

For:	443,000	shares
Against:	50	shares
Abstentions:	-	shares

The shareholders of MCI class A and MCI class B common stock voting together voted as follows with respect to the approval of the Merger Agreement and the Merger:

For: 1,430,500 shares
Against: 50 shares
Abstentions: - shares

The shareholders of MCMS voted as follows with respect to the approval of the Merger Agreement and the Merger:

For: 1,827,779 shares
Against: 350 shares
Abstentions: - shares

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Item 6. Exhibits and Reports on Form 8-K

(a) The following are filed as a part of this report:

Exhibit Number	Description of Exhibit
10.35	1995 Stock Option Plan
10.36	1995 Employee Stock Purchase Plan
10.37	Executive Bonus Plan
11	Statement regarding computation of per share earnings
27	Financial Data Schedule

(b) Reports on Form 8-K

- (i) On April 13, 1995, the Company filed a report on Form 8-K which included information regarding a change in control of the Company (Item 1), information regarding a change in the Company's certifying accountant (Item 4), certain financial statements and pro forma financial information (Item 7) and information regarding a change in the Company's fiscal year (Item 8).
- (ii) On April 21, 1995, the Company filed a report on Form 8-K which announced the resignation of Steven R. Appleton as the Company's Chairman, Chief Executive Officer and President and the appointment of Joseph M. Daltoso as the Company's Chairman, Chief Executive Officer and President (Item 5).

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Micron Electronics, Inc.

(Registrant)

Dated: June 29, 1995

/s/ T. Erik Oaas

T. Erik Oaas, Vice President, Finance, and
Chief Financial Officer (Principal
Financial and Accounting Officer)

Exhibit 10.35

MICRON ELECTRONICS, INC.
1995 STOCK OPTION PLAN

1. Purposes of the Plan. The purposes of this Stock Option Plan are:

- * to attract, motivate and retain experienced and qualified personnel for positions of substantial responsibility,
- * to provide additional incentive to Employees and Consultants, and
- * to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of stock option plans under Minnesota corporate and securities laws and the Code.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means (i) the acquisition by any person or entity of securities of Micron Electronics, Inc. such that such person or entity, directly, indirectly or beneficially, acting alone or in concert, (A) owns or controls more of the combined voting power of all classes of voting securities of Micron Electronics, Inc. than does Micron Technology, Inc. and (B) owns or controls more than twenty percent (20%) of the combined voting power of all classes of voting securities of Micron Electronics, Inc.; or (ii) the acquisition by any person or entity, directly, indirectly or beneficially, acting alone or in concert, of more than thirty-five percent (35%) of the common stock of Micron Technology, Inc. outstanding at any time.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Committee" means a Committee appointed by the Board in accordance with Section 4 of the Plan.

(g) "Common Stock" means the Common Stock of the Company.

(h) "Company" means Micron Electronics, Inc., a Minnesota corporation.

(i) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services. The term "Consultant" shall not include Directors who are paid only a director's fee by the Company or who are not compensated by the Company for their services as Directors.

(j) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship with the Company, any Parent, or Subsidiary, is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. A leave of absence approved by the

Company shall include sick leave, military

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leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(k) "Director" means a member of the Board.

(l) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(m) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(o) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, the Fair Market Value of a Share of Common Stock shall be the average closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system (or the exchange with the greatest volume of trading in the Common Stock) for the five (5) business days preceding the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the over-the-counter market or is regularly quoted by a recognized securities dealer, but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(p) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(q) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(r) "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is subject to the terms and conditions of the Option Agreement.

(s) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "Option" means a stock option granted pursuant to

the Plan.

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(u) "Option Agreement" means a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(v) "Option Exchange Program" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.

(w) "Optioned Stock" means the Common Stock subject to an Option.

(x) "Optionee" means an Employee or Consultant who holds an outstanding Option.

(y) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Plan" means this 1995 Stock Option Plan.

(aa) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(bb) "Share" means a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(cc) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code. In the case of an Option that is not intended to qualify as an Incentive Stock Option, the term "Subsidiary" shall also include any other entity in which the Company, or any Parent or Subsidiary of the Company, has a significant ownership interest.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 5,000,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to (i) Directors, (ii) Officers who are not Directors, and (iii) Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Employees Subject to Section 16(b). With respect to Option grants made to Employees who are also Officers or Directors subject to Section 16(b) of the Exchange Act, the Plan shall be administered by (A) the Board, if the Board may administer the Plan in compliance with the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3, or (B) a committee designated by the Board to administer the Plan, which committee shall be constituted to comply with the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3.

Once appointed, such committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the

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Committee and thereafter directly administer the Plan, all to the extent permitted by the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3.

(iii) Administration With Respect to Other Persons. With respect to Option grants made to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted to satisfy Applicable Laws. Once appointed, such Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(o) of the Plan;

(ii) to select the Consultants and Employees to whom Options may be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each Option granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(ix) to prescribe, amend, and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option (subject to Section 14(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options

longer than is otherwise provided for in the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option previously granted by the Administrator;

(xii) to institute an Option Exchange Program; and

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(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations, and interpretations shall be final and binding on all Optionees and any other holders of Options.

5. Eligibility. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee or Consultant who has been granted an Option may be granted additional Options.

6. Limitations.

(a) Each Option shall be designated in the Notice of Grant as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares subject to an Optionee's Incentive Stock Options granted by the Company or any Parent or Subsidiary, which become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

(b) Neither the Plan nor any Option shall confer upon an Optionee any right with respect to continuing the Optionee's employment or consulting relationship with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such employment or consulting relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 250,000 Shares; provided, however, that in the fiscal year in which an employee commences employment with the Company, options granted to such employee shall be limited to 500,000 Shares in such fiscal year. The purchase price per Share payable by an Optionee upon exercise of each Option intended to qualify under Section 162(m) of the Code shall be equal to the fair market value of the Company's Common Stock on the date of grant.

(ii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 11.

(iii) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 11), the canceled Option will be counted against the limit set forth in Section 6(c)(i). For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

7. Term of Option. The term of each Option shall be stated in the Notice of Grant; provided, however, that in the

case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Notice of Grant.

8. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. The per Share exercise price of Nonstatutory Stock Options intended to qualify under Section 162(m) of the Code shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In doing so, the Administrator may specify that an Option may not be exercised until the completion of a service period.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

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9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate, either in book entry form or in certificate form, promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 11 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. Upon termination of an Optionee's Continuous Status as an Employee or Consultant, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option, but only within such period of time as is specified in the Notice of Grant, and only to the extent that the Optionee was entitled to exercise it as the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). In the absence of a specified time in the Notice of Grant, the Option shall remain exercisable for 30 days following the Optionee's termination of Continuous Status as an Employee or Consultant. If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. In the event that an Optionee's Continuous Status as an Employee or Consultant terminates as a result of the Optionee's Disability, the Optionee

may exercise his or her Option at any time within twelve (12) months from the date of such termination, but only to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). If, at the date of termination, the Optionee does not exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option with respect to the shares covered by the exercisable portion of the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option at the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after death, the Optionee's estate or a person who acquired the right to exercise the Option

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by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Rule 16b-3. Options granted to individuals subject to Section 16 of the Exchange Act must comply with the applicable provisions of Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) Suspension. Any Optionee who is also a participant in the Retirement at Micron or Micron Electronics Retirement at Micron Section 401(k) Plan (each a "RAM Plan" and together the "RAM Plans") and who requests and receives a hardship distribution from any RAM Plan, is prohibited from making, and must suspend, for a period of twelve (12) months thereafter, his or her elective contributions and employee contributions including, without limitation to the foregoing, the exercise of any Option granted from the date of receipt by that employee of the hardship distribution from any RAM Plan.

10. Non-Transferability of Options. An Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Adjustments Upon Changes in Capitalization, Dissolution, Merger, or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of issued shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock or any other increase or decrease in the number of shares of Common Stock

effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it will terminate immediately prior to the consummation of such proposed action. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned stock, including Shares as to which the Option would not otherwise be exercisable.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, other than in either such case, a Change in Control, each outstanding Option may be assumed or an equivalent option or right may be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In lieu of such assumption or substitution, or in the event the successor corporation does not assume the Option or substitute an equivalent option or right, the Administrator may provide for the Optionee to have the right to exercise the Option as to all or a portion of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If the Administrator makes an Option exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the Option will terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the

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option or right confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

(d) Change in Control. In the event of a Change in Control, the unexercised portion of the Option shall become immediately exercisable, to the extent such acceleration does not disqualify the Plan, or cause an Incentive Stock Option to be treated as a Nonstatutory Stock Option without the consent of the Optionee.

12. Date of Grant. The date of grant of an Option shall be, for all purposes, the date on which the Administrator makes the determination granting such Option, or such other later date

as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

13. Term of Plan. Subject to Section 18 of the Plan, the Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years from the effective date unless terminated earlier under Section 14 of the Plan.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend, or terminate the Plan.

(b) Shareholder Approval. The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any successor rule or statute or other applicable law, rule, or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such shareholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule, or regulation.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension, or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, Applicable Laws, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the

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Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16. Liability of Company.

(a) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

(b) Grants Exceeding Allotted Shares. If the Optioned Stock covered by an Option exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional shareholder approval, such Option shall be void with respect to such excess Optioned Stock, unless shareholder approval of an amendment sufficiently increasing the number of shares subject to the Plan is timely obtained in accordance with

Section 14(b) of the Plan.

17. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under applicable federal and Minnesota law.

Rev 5/22/95

MICRON ELECTRONICS, INC.
1995 EMPLOYEE STOCK PURCHASE PLAN

The following constitutes the provisions of the 1995 Employee Stock Purchase Plan of Micron Electronics, Inc.:

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Micron Electronics, Inc., a Minnesota corporation, and subject to Section 21 below, its successors and assigns and any of its Designated Subsidiaries.

(e) "Compensation" with respect to any Employee means such Employee's wages, salaries, fees for professional services and other amounts received for personal services actually rendered in the course of employment with the Company or its Designated Subsidiaries to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid to salesmen, compensation for services on the basis of a percentage of profits, tips, and bonuses).

Compensation shall exclude (a) (1) contributions made by the employer to a plan of deferred compensation to the extent that, the contributions are not includible in the gross income of the Employee for the taxable year in which contributed, (2) employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) to the extent such contributions are excludable from the Employee's gross income, (3) any distributions from a plan of deferred compensation; (b) amounts realized from the exercise of a non-statutory stock option, or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to substantial risk of forfeiture; (c) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; (d) other amounts which receive special tax benefits, such as premiums for group-term life insurance (but only to the extent that the premiums are not includible in the gross income of the employee), or contributions made by the employer (whether or not under a salary reduction agreement) towards the purchase of any annuity contract described in Code Section 403(b) (whether or not the contributions are actually excludable from the Employee's gross income); (e) reimbursements or other expense allowances; (f) fringe benefits (cash and noncash); (g) moving expenses; and (h) welfare benefits.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a

period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

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(g) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) "Employee" shall mean any person, including an officer, whose customary employment on a continuous basis is more than twenty (20) hours per week and more than five (5) months in a calendar year by the Company.

(i) "Enrollment Date" shall mean the first day of each Offering Period.

(j) "Exercise Date" shall mean the last day of each Offering Period.

(k) "Offering Period" shall mean a period of six (6) months.

(l) "Plan" shall mean this Employee Stock Purchase Plan.

(m) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Any Employee as defined in Section 2 who has been continuously employed by the Company for at least one (1) consecutive month and who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 425(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) which permits his rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its subsidiaries to accrue at a rate which exceeds twenty-five thousand dollars (\$25,000) of fair market value of such stock (determined at the time such option is granted) for a calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive Offering Periods with the first Offering Period commencing on or about July 1, 1995, and ending on December 31, 1995. Thereafter, Offering Periods shall commence on January 1 and July 1 of each year, and continue thereafter until terminated in accordance with Section 20 hereof. Subject to the shareholder approval requirements of Section 20, the Board of Directors of the Company shall have the power to change the duration of offering periods with respect to future offerings if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first offering period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's Stock Administration office at least

ten (10) business days prior to the applicable Enrollment Date, unless a different time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 11.

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6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each payday during the Offering Period at a rate that is not less than one percent (1%) and not greater than twenty percent (20%) of the Compensation, and the aggregate of such payroll deductions during the Offering Period shall not exceed twenty percent (20%) of his or her aggregate Compensation during said Offering Period.

(b) All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 11, or may decrease, but not increase, the rate of payroll deductions during the Offering Period (within the limits of Section 6(a)) by completing or filing with the Company's a new subscription agreement authorizing a change in payroll deduction rate. The change in rate shall be effective with the first full payroll period following ten (10) business days after the Company's receipt of the new subscription agreement. A participant's subscription agreement shall remain in effect for successive Offering Periods unless revised as provided herein or terminated as provided in Section 11.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a participant's payroll deductions may be decreased to 0% at such time during any Offering Period which is scheduled to end during the current calendar year that the aggregate of all payroll deductions accumulated with respect to such Offering Period and any other Offering Period ending within the same calendar year equal \$21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 11.

(e) A participant in this Plan, who is also a participant in the Retirement at Micron or Micron Electronics Retirement at Micron Section 401(k) Plan (each a "RAM Plan" and together the "RAM Plans") and who requests and receives a hardship distribution from any RAM Plan, is prohibited from making, and must suspend, for a period of twelve (12) months thereafter, his or her elective contributions and employee contributions including, without limitation to the foregoing, any payroll deduction made pursuant to the terms of this Plan from the date of receipt by that employee of the hardship distribution from any RAM Plan.

7. Grant of Option.

(a) On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and

retained in the participant's account as of the Exercise Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Enrollment Date or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Exercise Date; provided that such purchase shall be subject to the limitations set forth in Sections 3(b) and 13 hereof. Exercise of the option shall occur as provided in Section 8, unless the participant has withdrawn pursuant to Section 11, and shall expire on the last day of the Offering Period. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b) herein. Notwithstanding anything to the contrary set forth herein, the maximum number of shares which any Employee may purchase on any Exercise Date shall not exceed 5,000 shares.

(b) The option price per share of the shares offered in a given Offering Period shall be the lower of: (i) 85% of the fair market value of a share of the Common Stock of the Company on the Enrollment Date; or (ii) 85% of the fair market value of a share of the Common Stock of the Company on the Exercise Date. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its

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discretion; provided, however, that where there is a public market for the Common Stock the fair market value per share shall be the average closing sales price on the Nasdaq National Market five (5) business days preceding such date, as reported in The Wall Street Journal.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 11, his or her option for the purchase of shares will be exercised automatically on the Exercise Date of the Offering Period, and the maximum number of full shares subject to option will be purchased for him or her at the applicable option price with the accumulated payroll deductions in his account. The shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Exercise Date. During his or her lifetime, a participant's option to purchase shares hereunder is exercisable only by such participant.

9. Restrictions on Transfer of Shares. Shares purchased upon exercise of a participant's option may not be transferred by the participant for a period of one (1) year from the Exercise Date. This transfer restriction shall be earlier terminated in the event of a participant's permanent disability or death, or upon the involuntary transfer of the shares due to divorce, judicial declaration of insolvency or bankruptcy or other form of involuntary transfer.

10. Delivery. Immediately following the Exercise Date of each Offering Period, unless a participant requests the issuance of a certificate representing the participant's shares, the Company shall promptly record the participant's full shares in book entry form. Upon request from a participant, or upon the involuntary transfer of a participant's shares, the Company shall arrange for the delivery to the participant of a certificate representing the full shares purchased. Certificates issued which are subject to the transfer restriction shall bear a legend in a conspicuous place referencing the restriction. Any cash remaining to the credit of a participant's account under the Purchase Plan after a purchase by the participant of shares at the termination of each Offering Period, which is insufficient to purchase a full share of Common Stock, shall be returned to said participant or retained in the participant's account for the subsequent Offering Period, as determined by the Company as to all participants for a given Offering Period.

11. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to such participant's account

under the Plan at any time prior to the Exercise Date of the Offering Period by giving written notice to the Company's in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account will be paid to him or her promptly after receipt of the notice of withdrawal and the participant's option for the current Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement as described in Section 5(a).

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Exercise Date of the Offering Period for any reason, including retirement or death, the payroll deductions credited to such participant's account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such participant's option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the Offering Period in which the Employee is a participant, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his or her account will be returned to him or her and the option terminated.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

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13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 2,500,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 19. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) hereof on the Enrollment Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each participant affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or, if requested by the participant, in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The administration, interpretation or application of the Plan by the Board or its committee shall be final, conclusive and binding upon all participants. Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a Committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the Committee.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the Offering Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Exercise Date of the Offering Period.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability of Rights. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 11.

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17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual statements of accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees; on no less than an annual basis, promptly following the Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock

effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

20. Amendment or Termination. The Board of Directors of the Company may at any time terminate or amend the Plan. Except as provided in Section 19, no such termination can affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant, nor may an amendment be made without prior approval of the shareholders of the Company (obtained in the manner described in Section 23) if such amendment would:

(a) Increase the number of shares that may be issued under the Plan;

(b) Change the designation of the employees (or class of employees) eligible for participation in the Plan; or

(c) Materially increase the benefits which may accrue to participants under the Plan.

21. Dissolution, Merger or Asset Sale. In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the Merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Periods then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Board shortens the Offering Periods then in progress in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for his option has been changed to the New Exercise Date and that his option will be exercised automatically on the New Exercise Date, unless prior

to such date he has withdrawn from the Offering Period as provided in Section 11 hereof. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets or merger, the option confers the right to purchase, for each share of Common Stock subject to the option immediately prior to the sale of assets or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets or merger by holders of Common Stock for each share of Common Stock held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if

such consideration received in the sale of assets or merger was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock and the sale of assets or merger.

22. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof. Unless changed by the Company, all such Notices or other communications shall be directed to the Company's Stock Administration Department.

23. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the shares of the Company present or represented and entitled to vote thereon, which approval shall be (i) solicited substantially in accordance with Section 14(a) of the Securities Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder, or (ii) solicited after the Company has furnished in writing to the holders entitled to vote substantially the same information concerning the Plan as that which would be required by the rules and regulations in effect under Section 14(a) of the Act at the time such information is furnished.

In the case of shareholder approval by written consent, it must be obtained by the unanimous written consent of all shareholders of the Company, or by written consent of a smaller percentage of shareholders but only if the Board determines, on the basis of advice of the Company's legal counsel, that the written consent of such a smaller percentage of shareholders will comply with all applicable laws and will not adversely affect the qualifications of the Plan under Section 423 of the Code.

24. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, and the Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or national market system upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

25. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 23. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20.

MICRON ELECTRONICS, INC.
EXECUTIVE BONUS PLAN

1. PURPOSE

The Micron Electronics, Inc. Executive Bonus Plan (the "Bonus Plan") is designed to attract, retain, and reward highly qualified executives who are important to the Company's success and to provide incentives relating directly to the financial performance and long-term growth of the Company.

2. DEFINITIONS

(a) Bonus - The cash incentive awarded to an Executive Officer or Key Employee pursuant to the terms and conditions of the Bonus Plan.

(b) Board - The Board of Directors of Micron Electronics, Inc.

(c) Change in Control - (i) The acquisition by any person or entity of securities of Micron Electronics, Inc. such that such person or entity, directly, indirectly or beneficially, acting alone or in concert, (A) owns or controls more of the combined voting power of all classes of voting securities of Micron Electronics, Inc. than does Micron Technology, Inc. and (B) owns or controls more than twenty percent (20%) of the combined voting power of all classes of voting securities of Micron Electronics, Inc.; or (ii) the acquisition by any person or entity, directly, indirectly or beneficially, acting alone or in concert, of more than thirty-five percent (35%) of the common stock of Micron Technology, Inc. outstanding at any time.

(d) Code - The Internal Revenue Code of 1986, as amended.

(e) Committee - The Compensation Committee of the Board, or such other committee of the Board that is designated by the Board to administer the Bonus Plan, in compliance with requirements of Section 162(m) of the Code.

(f) Company - Micron Electronics, Inc. and any other corporation in which Micron Electronics, Inc., controls, directly or indirectly, fifty percent (50%) or more of the combined voting power of all classes of voting securities.

(g) Executive - An Executive Officer or Key Employee of the Company.

(h) Executive Officer - Any officer of the Company subject to the reporting requirements of Section 16 of the Securities and Exchange Act of 1934 (the "Exchange Act").

(i) Key Employee - Any employee of the Company as may be designated by the Committee for this Bonus Plan.

3. ELIGIBILITY

Only Executives are eligible for participation in the Bonus Plan.

4. ADMINISTRATION

Awards of bonuses under the Bonus Plan shall be based on one or more of the following performance goals: (i) net income, (ii) earnings per share, (iii) return on equity, (iv) gross margin, (v) return on assets, (vi) net sales, (vii) new products, (viii) expansion of facilities, (ix) customer satisfaction (x) asset management or (xi) debt management. The Committee shall administer the Bonus Plan and shall have full power and authority to construe, interpret, and administer the Bonus Plan necessary to comply with the requirements of Section 162(m)

of the Code. The Committee's decisions shall be final, conclusive, and binding upon all persons. The Committee shall certify in writing prior to commencement of payment of the bonus that the performance goal or goals under which the bonus is to be paid has or have been achieved. The Committee in its sole discretion has the authority to reduce the amount of a bonus otherwise payable to an Executive upon attainment of the performance goal established for a fiscal year provided that a reduction in the amount of one Executive's bonus does not result in an increase in the amount of any other Executive's bonus. Promptly after the beginning of a fiscal year, the Committee shall: (i) determine the performance criteria; (ii) determine the Executives eligible to participate in the Bonus Plan for the fiscal year; and (iii) determine the method for computing the amount of bonus payable to each Executive if the performance goal is achieved.

The maximum bonus amount that can be paid to any Executive with respect to any one fiscal year cannot exceed the greater of \$2,000,000 or two percent (2%) of the Company's consolidated after-tax net profits. Bonus amounts shall be paid within 90 days after the close of the Company's fiscal year unless the Committee elects to defer the payout of the bonus amount over a period of time not to exceed five (5) years. Payout of a bonus over an extended period may, at the discretion of the Committee, be subject to and conditioned upon the continuation of an Executive's employment with the Company and the profitability of the Company in the year paid. Unpaid bonuses can be canceled at the discretion of the Committee.

In the event of a Change in Control, any bonuses awarded but not yet paid under the Bonus Plan shall be immediately payable. If the Executive ceases to be employed by the Company or by any of its subsidiaries, any unpaid bonuses shall be paid in accordance with the Executive's termination agreement, and as otherwise determined by the Committee.

The Committee may amend, modify, suspend, or terminate the Bonus Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law. The Committee will seek shareholder approval of any amendment determined to require shareholder approval or advisable under the regulations of the Internal Revenue Service or other applicable law or regulation.

5. NONASSIGNABILITY

No Bonus or any other benefit under the Bonus Plan shall be assignable or transferable by the participant during the participant's lifetime except as otherwise approved by the Committee.

6. NO RIGHT TO CONTINUED EMPLOYMENT

Nothing in the Bonus Plan shall confer upon any employee any right to continue in the employ of the Company or shall interfere with or restrict in any way the right of the Company to discharge an employee at any time for any reason whatsoever, with or without good cause.

7. EFFECTIVE DATE

The Bonus Plan shall be deemed effective as of April 7, 1995.

Exhibit 11

MICRON ELECTRONICS, INC.

Computation of Per Share Earnings
(Amounts in thousands, except for per share amounts)

	Quarter ended		Nine Months ended	
	June 1, 1995	June 2, 1994	June 1, 1995	June 2, 1994
PRIMARY				
Weighted average shares outstanding	88,521	83,587	85,469	68,419
Stock options using average market price	1,148	-	1,112	-
Total shares	89,669	83,587	86,581	68,419
Net income	\$ 15,605	\$ 9,497	\$ 44,129	\$ 25,127
Per share amount	\$ 0.17	\$ 0.11	\$ 0.51	\$ 0.37
FULLY DILUTED				
Weighted average shares outstanding	88,521	83,587	85,469	68,419
Stock options using greater of average or ending market price	1,157	-	1,120	-
Total shares	89,678	83,587	86,589	68,419
Net income	\$ 15,605	\$ 9,497	\$ 44,129	\$ 25,127
Per share amount	\$ 0.17	\$ 0.11	\$ 0.51	\$ 0.37

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This schedule contains summary financial information extracted from the accompanying financial statements and is qualified in its entirety by reference to such financial statements.

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