

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 April 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  
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Micron Electronics, Inc.  
-----  
(Exact name as specified in charter)

Minnesota 41-1404301  
-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  
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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 April 28, 1995 was 91,401,711.

ZEOS INTERNATIONAL, LTD.  
  
Consolidated Balance Sheets  
(Tabular dollars in thousands)

April 1, December 31,  
1995 1994  
-----  
(unaudited)

ASSETS

Cash	\$ 21,808	\$ 25,314
Receivables	22,237	23,954
Inventories	25,492	24,649
Other current assets	856	949
	-----	-----
Total current assets	70,393	74,866
Property and equipment, net	1,864	2,132
Other assets	754	575
	-----	-----
Total assets	\$ 73,011	\$ 77,573
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 41,646	\$ 48,197
Accrued licenses and royalties	5,144	5,889
	-----	-----
Total current liabilities	46,790	54,086
	-----	-----

Commitments and contingencies

Shareholders' equity - 15,000,000 shares authorized:

Preferred stock, \$3.00 cumulative convertible preferred, \$0.01 par value per share, 100,000 shares issued, redemption amount \$5,461,000, liquidation preference amount \$5,211,000	4,831	4,756
Common stock, \$0.01 par value per share, issued and outstanding 8,810,173 and 8,803,571 shares, respectively	88	88
Additional paid-in capital	49,116	49,086
Accumulated deficit	(27,814)	(30,443)
	-----	-----
Total shareholders' equity	26,221	23,487
	-----	-----
Total liabilities and shareholders' equity	\$ 73,011	\$ 77,573
	=====	=====

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

ZEOS INTERNATIONAL, LTD.

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

For the quarter ended	April 1, 1995	April 2, 1994
-----		
Net sales	\$ 82,838	\$ 49,208
Cost of goods sold	72,259	50,081
	-----	-----
Gross margin	10,579	(873)
Selling, general and administrative	8,325	7,421
Research and development	365	336
Royalty income	(499)	(222)
	-----	-----
Operating income (loss)	2,388	(8,408)
Other income (expense)	316	(156)
	-----	-----
Income (loss) before income taxes	2,704	(8,564)
Income tax provision	-	-
	-----	-----
Net income (loss)	2,704	(8,564)
Preferred stock dividend	75	-
	-----	-----
Net income (loss) applicable to common shareholders	\$ 2,629	\$ (8,564)
	=====	=====
Earnings (loss) per share:		
Primary	\$ 0.27	\$ (0.98)
Fully diluted	0.25	(0.98)
Number of shares used in per share calculations:		
Primary	9,845	8,704
Fully diluted	10,845	8,704

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

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ZEOS INTERNATIONAL, LTD.

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

For the quarter ended	April 1, 1995	April 2, 1994
-----		
Cash flows from operating activities		
Net income (loss)	\$ 2,704	\$ (8,564)

Adjustments to reconcile net income		
(loss) to net cash provided		
by operating activities		
Depreciation	410	453
Decrease (increase) in receivables	1,717	(1,552)
Decrease (increase) in inventories	(843)	7,215
Decrease in other assets	242	426
Increase (decrease) in accounts payable and accrued expenses	(6,551)	2,781
Decrease in accrued licenses and royalties	(745)	(390)
Other	7	145
	-----	-----
Net cash provided by (used for) operating activities	(3,059)	514
	-----	-----
Cash flows from investing activities		
Expenditures for property and equipment	(142)	(119)
Sales of property and equipment	-	19
	-----	-----
Net cash used for investing activities	(142)	(100)
	-----	-----
Cash flows from financing activities		
Proceeds from issuances of common stock	30	-
Costs of merger	(335)	-
	-----	-----
Net cash used for financing activities	(305)	-
	-----	-----
Net increase (decrease) in cash and equivalents	(3,506)	414
Cash and equivalents at beginning of period	25,314	9,204
	-----	-----
Cash and equivalents at end of period	\$ 21,808	\$ 9,618
	=====	=====

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

Notes to Consolidated Financial Statements  
(Tabular dollar amounts are stated in thousands)

1. Unaudited Interim Financial Statements

On April 7, 1995, Micron Computer, Inc., an Idaho corporation ("MCI"), and Micron Custom Manufacturing Services, Inc., an Idaho corporation ("MCMS"), both subsidiaries of Micron Technology, Inc. ("MTI") merged with and into ZEOS International, Ltd. (the "Merger") and the resulting company's name was changed to Micron Electronics, Inc. (the "Company"). The accompanying unaudited consolidated financial statements reflect the financial position and results of operations of ZEOS International, Ltd. prior to the Merger ("ZEOS") and do not reflect the financial position and results of operations of MCI and MCMS operations. Following the

Merger, the Company's fiscal year was changed to end on the Thursday closest to August 31 of each year, which corresponds to the fiscal years of MCI and MCMS prior to the Merger. Accordingly, the Company will next report results following the fiscal quarter ended June 1, 1995, for the preceding three-month and nine-month periods for the operations of MCI and MCMS, and the operations of ZEOS for the period from the Merger date through June 1, 1995.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the consolidated financial position of ZEOS International, Ltd. and subsidiaries and their consolidated results of operations and cash flows. Certain reclassifications, none of which affected results of operations, have been made to present the financial statements on a consistent basis.

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with audited financial statements and notes thereto included in ZEOS' Annual Report on Form 10-K for the year ended December 31, 1994.

2. Receivables	April 1, 1995	December 31, 1994
-----		
Trade receivables	\$ 23,806	\$ 25,491
Allowance for doubtful accounts	(1,569)	(1,537)
	-----	-----
	\$ 22,237	\$ 23,954
	=====	=====

3. Inventories	April 1, 1995	December 31, 1994
-----		
Finished goods	\$ 7,862	\$ 7,371
Work in progress	843	1,412
Raw materials	16,787	15,866
	-----	-----
	\$ 25,492	\$ 24,649
	=====	=====

4. Property and equipment, net	April 1, 1995	December 31, 1994
-----		
Machinery and equipment	\$ 6,926	\$ 6,786
Furniture and fixtures	435	435
Leasehold improvements	3,014	3,051
	-----	-----
	10,376	10,272
Less accumulated depreciation	(8,512)	(8,140)
	-----	-----
	\$ 1,864	\$ 2,132
	=====	=====

5. Accounts payable and accrued expenses	April 1, 1995	December 31, 1994
-----		
Accounts payable	\$ 34,726	\$ 43,213
Customer advances	2,087	1,392
Accrued warranty and sales		

allowances	1,685	1,627
Salaries, wages and benefits	2,057	1,183
Deferred income	531	348
Other	560	434
	-----	-----
	\$ 41,646	\$ 48,197
	=====	=====

#### 6. Preferred Stock

On July 20, 1994 Sanyo Electric Co., Ltd. and Marubeni Corporation invested an aggregate of \$5,000,000 in ZEOS International, Ltd. through the purchase of 100,000 shares of the ZEOS' \$3.00 Cumulative Convertible Preferred Stock at a price of \$50.00 per share.

The Preferred Stock paid an annual dividend of \$3.00 per share, except that payment of the dividends due in any year could be deferred to the extent that they exceeded the net income of ZEOS, but in no case could the accrued but unpaid dividends exceed \$600,000. Each share of Preferred Stock was initially convertible into 10 shares of common stock of ZEOS at the option of the holders, or at the option of ZEOS under certain, predetermined circumstances.

The Preferred Stock was redeemed by ZEOS on April 7, 1995, for \$5,466,667, which included an accrued preferred stock dividend of \$216,667 and a redemption premium of \$250,000.

#### 7. Earnings (loss) per share

Earnings (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding. Common equivalent shares result from the assumed exercise of outstanding options and affect earnings per share when they have a dilutive effect.

#### 8. Commitments and Contingencies

In connection with its principal business activities, ZEOS has been made aware of others in the industry who assert exclusive rights to certain technologies, including some which have granted related licenses to ZEOS and others which have notified ZEOS that their technologies may also require licenses. ZEOS evaluates all assertions on a case-by-case basis, enters into licenses that appear necessary or desirable, and makes accruals for the estimated impact of potential royalty payments.

#### 9. The Merger

On October 30, 1994, ZEOS executed a merger agreement with MCI and MCMS pursuant to which MCI and MCMS were merged with and into ZEOS and ZEOS issued approximately 82.5 million shares of common stock in exchange for all the outstanding shares of MCI and MCMS. The Merger was approved by the shareholders of ZEOS, MCI and MCMS during special meetings of the shareholders of each company on April 6, 1995, and became effective on April 7, 1995. The Merger resulted in a change of control of approximately 89% of ZEOS common stock wherein MTI received an ownership interest in ZEOS of approximately 79% and the other shareholders of MCI and MCMS received an ownership interest in ZEOS of approximately 10%. For accounting purposes, the Merger is treated as an acquisition of ZEOS by MTI and the other shareholders of MCI and MCMS.

ZEOS deferred approximately \$685,000 in costs associated with the Merger through April 1, 1995.

ZEOS retained Goldsmith, Agio, Helms Securities, Inc. ("GAHS") to act as its exclusive financial advisor. Upon consummation of the Merger, under the terms of an engagement agreement between ZEOS and GAHS, ZEOS paid \$480,000 and issued 40,000 shares of ZEOS' common stock to GAHS for services rendered. No effect of amounts due to GAHS under the engagement agreement have been included in the accompanying financial statements.

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

For the quarter ended April 1, 1995, ZEOS International, Ltd. recorded net sales of \$82.8 million, compared to net sales of \$49.2 million for the quarter ended April 2, 1994. ZEOS International, Ltd. recorded net income of \$2.7 million, or \$0.25 per fully diluted share, for the first quarter of 1995, compared to a net loss of \$8.6 million, or (\$0.98) per fully diluted share, for the first quarter of 1994. On April 7, 1995, Micron Computer, Inc. ("MCI") and Micron Custom Manufacturing Services, Inc. ("MCMS") merged with and into ZEOS International, Ltd. and the Company's name was changed from "ZEOS International, Ltd." to "Micron Electronics, Inc." The first quarter results reflect the ZEOS operations prior to the Merger ("ZEOS") and do not reflect the results of the MCI and MCMS operations and are not necessarily indicative of the combined results of Micron Electronics, Inc.

Results of Operations

	First Quarter		
	1995	Change	1994
Net Sales	\$ 82,838	68.3%	\$ 49,208

Net sales increased approximately \$33.6 million comparing the first quarter of 1994 to the same period in 1995, primarily as a result of an increase in the number of desktop PC systems sold, and to a lesser extent, an increase in overall average system selling prices. Unit sales of systems products for the first quarter of 1995 increased approximately 66% in comparison to the first quarter of 1994 as a result of an 82% increase in unit sales of desktop PC systems, offset in part by an approximate 46% decrease in unit sales of notebook PC systems. The increase in overall average selling prices 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 new line of Meridian notebook PC systems.

During the first quarter of 1995, direct sales of desktop and notebook products comprised approximately 88% and 4%, respectively, of total net sales, compared to 70% and 10%, respectively, for the same period in 1994. PC system sales

through retail stores combined with non-system revenue comprised approximately 8% and 20% in the first quarters of 1995 and 1994, respectively. Non-system revenue includes sales of parts, accessories and component inventory.

The Company continues to evaluate a range of PC product strategies to take advantage of both the ZEOS and Micron Computer brand names. There is substantial overlap and competition among product offerings of the Company's ZEOS and Micron Computer product lines. Until the Company's various product line strategies are fully defined, including the coordination of marketing strategies, the coordination of and sharing of research and development efforts and the broadening of overall product lines, the Company may face confusion in the marketplace regarding its personal computer products. Confusion in the marketplace regarding the Company's PC product lines could result in a substantial decrease in the Company's unit sales as compared to combined unit sales of the separate companies prior to the Merger, which would have a material adverse effect on the Company's results of operations.

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.

	First Quarter		
	1995	Change	1994
Cost of goods sold	\$ 72,259	44.3%	\$ 50,081
Gross margin %	12.8%		(1.8%)

Cost of goods sold primarily consists of component costs, direct labor, allocated manufacturing overhead, licenses and royalties paid to third parties. Component costs constitute a substantial majority of cost of goods sold.

Gross margin percentage was significantly higher for the first quarter of 1995 as compared to the same period of 1994. In the first quarter of 1994, ZEOS' gross margin was adversely affected by an adjustment of \$5.7 million relating to the reduction of certain inventories to their net realizable values. During the first quarter of 1995, ZEOS' gross margin was favorably affected by the purchase of approximately \$7.7 million of memory components for its PC systems from MTI and MCI at favorable prices relative to ZEOS' other sources of supply. The related savings in cost of goods sold in the first quarter of 1995 were approximately \$1.1 million. There can be no assurance that memory components will continue to be available from MTI or other sources at favorable prices. The Company expects to experience significant continuing pressure on gross margin percentage due to extensive competition in the PC industry and consumer expectations for more powerful PC systems at lower prices.

	First Quarter		
	1995	Change	1994

Selling, general and administrative	\$ 8,325	12.2%	\$ 7,421
as a % of net sales	10.1%		15.1%

The increased selling, general and administrative expenses for the first quarter of 1995 compared to the corresponding period in 1994 was primarily the result of increases in credit card processing fees, salesperson compensation and telephone expense, all attributable to the increase in net sales. The decrease in selling, general and administrative expenses as a percentage of net sales was a result of the increase in net sales.

	First Quarter		
	1995	Change	1994
Royalty income	\$ 499	124.8%	\$ 222
as a % of net sales	0.6%		0.5%

The increase in royalty income in the first quarter of 1995 compared to the same period in 1994 was due to an increase in fees resulting from the licensing of proprietary technology. Although the Company intends to continue the development of proprietary technology, there can be no assurance that royalty income in future periods will continue due to the relatively short life cycles of products using the licensed technology and uncertainty as to whether additional licensees will be identified and negotiated or whether royalty income under existing license agreements will continue at current levels.

#### Income taxes

ZEOS recorded no income tax benefit or provision during either the first quarter of 1995 or the first quarter of 1994. No provision was recorded in the first quarter of 1995 because taxable income was offset by the anticipated utilization of net operating loss carryforwards. No benefit was recorded during the first quarter of 1994 due to ZEOS' uncertainty regarding utilization of net operating loss carryforwards in future periods.

#### Liquidity and Capital Resources

Since its inception, ZEOS has satisfied its liquidity and capital resource requirements through a combination of equity and convertible debt financing, operating profits, short-term bank borrowings, extended credit terms with suppliers and advance deposits from customers. As of April 1, 1995, ZEOS had cash of \$21.8 million, representing a decrease of \$3.5 million compared to December 31, 1994. This decrease was due primarily to cash used in operating activities. Cash flows from investing activities were not material in the first quarter of 1995.

As of April 1, 1995, ZEOS had no outstanding bank borrowings or long-term debt. ZEOS' principal sources of liquidity at April 1, 1995 consisted of cash, supplier credit lines and a revolving line of credit agreement with a commercial finance company, which provided for cash advances and letters of credit up to a maximum of \$12.5 million at any one time. The line of credit agreement was terminated in April 1995 following the Merger.

ZEOS is required to make guaranteed royalty payments under certain agreements and frequently enters into minimum purchase commitments with certain of its suppliers. To date, the Company has satisfied all such commitments.

ZEOS' policies regarding extending credit to customers and establishing payment terms for customers are designed to facilitate customers' purchases of ZEOS' products while limiting ZEOS' risk and conserving its capital resources. ZEOS extends 30-day terms to qualifying businesses and accepts most major credit cards, as well as cash on delivery. In addition, ZEOS offers a private label credit program managed by a financial services company which assumes the related credit risk. ZEOS also offers qualified business customers a company-sponsored lease financing program through a national financing organization. Under this program, ZEOS assumes the related credit risk until the customer acknowledges receipt and acceptance of ZEOS' product.

The Company expects that its working capital requirements will continue to increase through 1995 and beyond. The Company believes that currently available cash and cash 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. While it is anticipated that the Company will enter into a replacement revolving credit facility to provide for the working capital requirements of the Company, there can be no assurance that the Company will be able to do so on acceptable terms. The Company may seek or require additional financing to pay for costs and expenses related to the Merger and to finance 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 financing will be available on terms acceptable to the Company, if at all.

#### Certain Factors

Periodically, the Company is made aware that technology used by the Company may infringe on product or process technology rights held by others. The Company accrues a liability and charges operations for the estimated costs of settlement or adjudication of asserted and unasserted claims for infringement. Resolution of whether the Company's products or processes infringe on valid rights held by others may have a material adverse effect on the Company's future financial position or results of operations and may require material changes in production processes and products. The Company has various product and process technology agreements expiring in the remainder of calendar 1995. The Company is not able to predict whether these license agreements can be renewed on terms acceptable to the Company.

Several states have enacted legislation which would require out-of-state direct marketers to collect and remit sales and use taxes or pay income 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 of income taxes or collection of sales and use taxes from direct marketing customers in those states. In the event that the Company is required to pay income or other taxes or collect and remit sales and use taxes in states where the Company is not currently paying or collecting such taxes, the future operating results and financial condition of the Company could be materially and adversely affected.

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 6. Exhibits and reports on Form 8-K

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

Exhibit Number -----	Description of Exhibit -----
2.1	Agreement of Merger dated as of October 30, 1994 as amended by the First amendment thereto dated as of December 13, 1994 by and among ZEOS, MCI and MCMS (Incorporated by reference to Exhibit 2.1 to ZEOS' Registration Statement on Form S-4) (File No. 33-90212) as declared effective on March 13, 1995 (the "S-4 Registration Statement")
2.2	Articles of Merger by and among ZEOS, MCI and MCMS (Incorporated by reference to Exhibit it 2.2 to ZEOS' Current Report on Form 8-K dated April 7, 1995)
3.1	Articles of Incorporation of registrant, as amended
10.32	Voting Agreement dated October 30, 1994 between ZEOS and Micron Technology, Inc. (Incorporated by reference to Exhibit 99.2 to the S-4 Registration Statement)
10.33	Component Recovery Revenue Sharing Agreement dated as of July 14, 1994 between MCMS and Micron Technology, Inc.
10.34	Amended and Restated Promissory Note dated September 3, 1992 between MCMS and Micron Technology, Inc.
11	Computation of per share earnings for the quarter ended April 1, 1995

(b) The registrant did not file any reports on Form 8-K during the quarter ended April 1, 1995.

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SIGNATURES

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: May 12, 1995

/s/ T. Erik Oaas

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

Exhibit 2.2

ARTICLES OF MERGER  
AMONG  
ZEOS INTERNATIONAL, LTD.,  
MICRON COMPUTER, INC., AND  
MICRON CUSTOM MANUFACTURING SERVICES, INC.

THE UNDERSIGNED, each being a duly appointed and qualified officer of ZEOS International, Ltd., a Minnesota corporation ("ZEOS"), Micron Computer, Inc., an Idaho corporation ("MCI"), and Micron Custom Manufacturing Services, Inc., an Idaho corporation ("MCMS"), as the case may be, hereby certify as follows:

1. Attached hereto as Exhibit A is the Plan of Merger (the "Plan of Merger") for the merger of MCI and MCMS with and into ZEOS (the "Merger"), which has been duly adopted by the board of directors of each of such corporations.

2. Such Plan of Merger has been approved by ZEOS pursuant to Chapter 302A of the Minnesota Business Corporation Act.

3. The number of shares of MCI capital stock outstanding and entitled to vote on the Plan of Merger consists of 987,500 shares of MCI Class A Common Stock and 474,260 shares of MCI Class B Common Stock. Each such class is entitled to vote on the Plan of Merger separately as a single class and, in addition, the classes vote on the Plan of Merger together as one class. The number of shares of MCMS capital stock outstanding and entitled to vote on the Plan of Merger consists of 1,849,281 shares of MCMS Common Stock.

4. The number of shares of MCI Class A Common Stock voted for and against the Plan of Merger was 987,500 and 0 shares, respectively. The number of shares of MCI Class B Common Stock voted for and against the Plan of Merger was 443,000 and 50, respectively. The number of shares of MCMS Common Stock voted for and against the Plan of Merger was 1,827,779 and 350, respectively.

5. The Merger shall become effective in both the State of Minnesota and the State of Idaho at 4:00 p.m., central daylight time, on April 7, 1995.

6. The undersigned officer of ZEOS, in accordance with Section 30-1-77(b) of the Idaho Business Corporation Act, hereby certifies and agrees on behalf of ZEOS that: (a) ZEOS may be served with process in the State of Idaho in a proceeding for the enforcement of an obligation of MCI or MCMS and in a proceeding for the enforcement of the rights of a dissenting shareholder of MCI or MCMS against ZEOS; (b) the Secretary of State of Idaho is hereby irrevocably appointed as agent for ZEOS to accept service of process on behalf of ZEOS in any proceeding; and (c) ZEOS will promptly pay to dissenting shareholders of MCI and MCMS the amount, if any, to which they are entitled under Section 30-1-80 of the Idaho Business Corporation Act.

IN WITNESS WHEREOF, the undersigned have duly executed this document for and on behalf of their respective corporations this 6th day of April, 1995.

ZEOS INTERNATIONAL, LTD.

By /s/ Charles T. Henderson  
-----  
Charles T. Henderson  
Chief Financial Officer

STATE OF MINNESOTA     )  
                              ) ss.  
COUNTY OF HENNEPIN    )

On this 6th day of April, 1995, before me personally appeared Charles T. Henderson to me known to be the person described in, and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

(Seal)

/s/ Jay E. Simpson  
-----  
Notary Public

MICRON COMPUTER, INC.

By /s/ Chase S. Mart  
-----  
Chase S. Mart  
President and  
Chief Executive Officer

I, Kristine W. Nitz, hereby certify that I am the Secretary of Micron Computer, Inc., and that I am authorized to execute these Articles of Merger on behalf of Micron Computer, Inc., and hereby certify that the foregoing signature is a specimen signature of the President and Chief Executive Officer of Micron Computer, Inc.

By /s/ Kristine W. Nitz  
-----  
Kristine W. Nitz  
Secretary

STATE OF IDAHO        )  
                              )            ss.  
COUNTY OF ADA        )

On this 6th day of April, 1995, before me personally appeared Chase S. Mart to me known to be the person described in, and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

(Seal)

/s/ Andrea Lanning  
-----  
Notary Public

MICRON CUSTOM MANUFACTURING SERVICES, INC.

By /s/ Joseph M. Daltoso  
-----  
Joseph M. Daltoso  
Chairman and President

I, Dena L. Banducci, hereby certify that I am the Secretary of Micron Custom Manufacturing Services, Inc., and that I am authorized to execute these Articles of Merger on behalf of Micron Custom Manufacturing Services, Inc., and hereby certify that the foregoing signature is a specimen signature of the Chairman and President of Micron Custom Manufacturing Services, Inc.

By /s/ Dena L. Banducci  
-----  
Dena L. Banducci  
Secretary

STATE OF IDAHO        )  
                          )            ss.  
COUNTY OF ADA        )

On this 6th day of April, 1995, before me personally appeared Joseph M. Daltoso to me known to be the person described in, and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

(Seal)

/s/ Andrea Lanning  
-----  
Notary Public

Exhibit A to  
Articles of Merger

PLAN OF MERGER

The respective boards of directors of ZEOS International, Ltd. ("ZEOS"), a Minnesota corporation, Micron Computer, Inc., an Idaho corporation ("MCI"), and Micron Custom Manufacturing Services, Inc., an Idaho corporation ("MCMS"), have, by resolutions duly adopted, approved the following provisions of this Plan of Merger (the "Plan of Merger") required by the Idaho Business Corporation Act (the "Idaho Law") and Chapter 302A of the Minnesota Business Corporation Act (the "Minnesota Law"):

ARTICLE I

TERMS AND CONDITIONS OF THE MERGER

SECTION 1.1     The Merger.

(a) At the Effective Time (as hereinafter defined), MCI and MCMS shall be merged (the "Merger") with and into the Company in accordance with the Minnesota Law and the Idaho Law, whereupon the separate existence of MCI and MCMS shall cease, and the Company shall be the surviving corporation (the "Surviving Corporation").

(b) The Merger shall become effective in both the State of Minnesota and the State of Idaho at 4:00 p.m., central daylight time, on April 7, 1995 (the "Effective Time").

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of the restrictions, disabilities and duties of the Company, MCI and MCMS, all as provided under the Minnesota Law and the Idaho Law.

SECTION 1.2     Conversion of Shares. At the Effective Time:

(a) each issued and outstanding share of MCMS Common Stock outstanding immediately prior to the Effective Time (other than shares held as treasury stock of MCMS, shares held directly or indirectly by the Company or shares as to which the holders thereof possess and have not effectively withdrawn or otherwise lost their appraisal rights pursuant to Idaho Law (the "MCMS Dissenters' Shares")) shall be converted into 20.475586 shares of Company Common Stock;

(b) each issued and outstanding share of MCI Class A Common Stock outstanding immediately prior to the Effective Time (other than shares held as treasury stock of MCI, shares held directly or indirectly by the Company or shares as to which the holders thereof possess and have not effectively withdrawn or otherwise lost their appraisal rights pursuant to Idaho Law (the "MCI Class A Dissenters' Shares")) shall be converted into 42.316865 shares of Company Common Stock;

(c) each issued and outstanding share of MCI Class B Common Stock outstanding immediately prior to the Effective Time (other than shares held as treasury stock of MCI, shares held directly or indirectly by the Company or shares as to which the holders thereof possess and have not effectively withdrawn or otherwise lost their appraisal rights pursuant to Idaho Law (the "MCI Class B Dissenters' Shares" and together with the MCMS Dissenters' Shares and the MCI Class A Dissenters' Shares, the "Dissenters' Shares")) shall be converted into 9.057555 shares of Company Common Stock; and

(d) each share of MCI and MCMS Common Stock held as treasury stock of MCI or MCMS, respectively, or held directly or indirectly by the Company, MCI or MCMS shall be canceled, retired and cease to exist, and no exchange or payment shall be made with respect thereof.

SECTION 1.3 Rights of Holders of MCI and MCMS Capital Stock; Capital Stock of the Company.

(a) On and after the Effective Time and until surrendered for exchange, each outstanding stock certificate which immediately prior to the Effective Time represented shares of MCI or MCMS Common Stock (other than Dissenters' Shares) shall be deemed for all purposes, except as provided in

Section 1.5(c) of this Plan of Merger, to evidence ownership of and to represent the number of whole shares of Company Common Stock into which such shares of MCI and MCMS Common Stock shall have been converted, and the record holder of such outstanding certificate shall, after the Effective Time, be entitled to vote the shares of Company Common Stock into which such shares of MCI and MCMS Common Stock shall have been converted on any matters on which the holders of record of Company Common Stock, as of any date subsequent to the Effective Time, shall be entitled to vote. In any matters relating to such certificates, the Company may rely conclusively upon the record of shareholders maintained by MCI and MCMS containing the names and addresses of the holders of record of MCI and MCMS Common Stock at the Effective Time.

(b) On and after the Effective Time, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued, outstanding and existing share of Company Common Stock of the Surviving Corporation and shall not be affected by the Merger.

(c) On and after the Effective Time, the Company shall reserve a sufficient number of authorized but unissued shares of Company Common Stock for issuance in connection with the conversion of MCI and MCMS Common Stock into

Company Common Stock as provided herein.

SECTION 1.4 No Fractional Shares. No fractional shares of Company Common Stock, and no certificates representing such fractional shares, shall be issued upon the surrender for exchange of certificates representing MCI or MCMS Common Stock. In lieu of any fractional share, the Company shall pay to each holder of MCI and MCMS Common Stock who otherwise would be entitled to receive a fractional share of Company Common Stock an amount of cash (without interest) determined by multiplying (a) the average of the last sale price per share of Company Common Stock for the five trading days preceding the date of the Effective Time as reported in The Wall Street Journal, times (b) the fractional share interest to which such holder would otherwise be entitled.

SECTION 1.5 Procedure for Exchange of Stock.

(a) After the Effective Time, holders of certificates theretofore evidencing outstanding shares of MCI and MCMS Common Stock, upon surrender of such certificates to an exchange agent appointed by the Company (the "Exchange Agent"), shall be entitled to receive (i) certificates representing the number of whole shares of Company Common Stock into which shares of MCI and MCMS Common Stock theretofore represented by the certificates so surrendered shall have been converted as provided in Section 1.2 and (ii) cash payments in lieu of fractional shares, if any, as provided in Section 1.4. As soon as practicable after the Effective Time, the Company shall cause the Exchange Agent to mail appropriate and customary transmittal materials (which shall specify that delivery shall be effected, and risk of loss and title to the certificates theretofore representing shares of MCI and MCMS Common Stock shall pass, only upon proper delivery of such certificates to the Exchange Agent) to each holder of MCI and MCMS Common Stock of record as of the Effective Time advising such holder of the effectiveness of the Merger and the procedure for surrendering to the Exchange Agent outstanding certificates formerly evidencing MCI and MCMS Common Stock in exchange for new certificates for Company Common Stock. The Company shall not be obligated to deliver the consideration to which any former holder of shares of MCI and MCMS Common Stock is entitled as a result of the Merger until such holder surrenders the certificate or certificates representing such shares for exchange as provided in such transmittal materials and this Section 1.5(a). Upon surrender, each certificate evidencing MCI and MCMS Common Stock shall be cancelled.

(b) On the Effective Time, the Company shall deposit, or shall cause to be deposited, with the Exchange Agent, for exchange in accordance with this Section 1.5, certificates representing the shares of Company Common Stock and the cash in lieu of fractional shares (such certificates and cash, hereinafter referred to as the "Exchange Fund") to be issued or paid by the Company pursuant to this Article I in connection with the Merger.

(c) Until outstanding certificates formerly representing MCI and MCMS Common Stock are surrendered as provided in Section 1.5(a), no dividend or distribution payable to holders of record of Company Common Stock shall be paid to any holder of such outstanding certificates, but upon surrender of such outstanding certificates by such holder there shall be paid to such holder the amount of any dividends or distributions (without interest) theretofore paid with respect to such whole shares of Company Common Stock, but not paid to such holder, and which dividends or distributions had a record date occurring on or subsequent to the Effective Time.

(d) After the Effective Time, there shall be no further registration of transfers on the records of MCI and

MCMS of outstanding certificates formerly representing shares of MCI and MCMS Common Stock and, if a certificate formerly representing such shares is presented to MCI and MCMS or the Company, it shall be forwarded to the Exchange Agent for cancellation and exchange for certificates

representing shares of Company Common Stock as herein provided.

(e) All shares of Company Common Stock and cash for any fractional shares issued and paid upon the surrender for exchange of MCI and MCMS Common Stock in accordance with the above terms and conditions shall be deemed to have been issued and paid in full satisfaction of all rights pertaining to such shares of MCI and MCMS Common Stock.

(f) Any portion of the Exchange Fund (including the proceeds of any investments thereof and any Company Common Stock or any dividends or distributions thereon) that remains unclaimed by the holders of MCI or MCMS Common Stock for six months after the Effective Time shall be repaid to the Company. Any holders of MCI or MCMS Common Stock who have not theretofore complied with this Section 1.5 shall thereafter look only to the Company for payment of their shares of Company Common Stock, cash in lieu of fractional shares and any unpaid dividends and distributions on the Company Common Stock deliverable in respect of each share of MCI or MCMS Common Stock that such holder holds as determined pursuant to this Agreement, in each case, without any interest thereon. If outstanding certificates for shares of MCI or MCMS Common Stock are not surrendered or the payment for them not claimed prior to the date on which such payments would otherwise escheat to or become the property of any governmental unit or agency, the unclaimed items shall, to the extent permitted by abandoned property and any other applicable law, become the property of the Company (and to the extent not in its possession shall be paid over to it), free and clear of all claims or interest of any person previously entitled to such claims. Notwithstanding the foregoing, none of the Company, the Exchange Agent or any other person shall be liable to any former holder of MCI and MCMS Common Stock for any amount delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(g) In the event any certificate for MCI and MCMS Common Stock shall have been lost, stolen or destroyed, the Exchange Agent shall issue and pay in exchange for such lost, stolen or destroyed certificate, upon the making of an affidavit of that fact by the holder of record thereof, such shares of Company Common Stock and cash for fractional shares, if any, as may be required pursuant to this Agreement; provided, however, that the Company may, in its discretion and as a condition precedent to the issuance and payment thereof, require the owner of such lost, stolen or destroyed certificate to deliver a bond in such sum as it may direct as indemnity against any claim that may be made against the Company, MCI and MCMS, the Exchange Agent or any other party with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 1.6 Dissenting Shares. Any Dissenters' Shares shall not be converted into Company Common Stock as provided in Section 1.2 unless and until the holder of such Dissenters' Shares shall have effectively withdrawn or otherwise lost the right to appraisal of and payment for such shares under the Idaho Law, at which time such shares shall be converted into Company Common Stock as provided in Section 1.2. MCI and MCMS each promptly following the approval of the Merger by its shareholders, or the Surviving Corporation, shall deliver notice to the holders of Dissenters' Shares as required by Section 30-1-81(d) of the Idaho Law. Promptly following the Effective Time (or the

later receipt of demand for payment and deposit of certificates representing Dissenters' Shares), the Surviving Corporation shall remit payment to the holders of Dissenters' Shares of the fair value of such shares, as determined by the Surviving Corporation.

## ARTICLE II

### THE SURVIVING CORPORATION

SECTION 2.1 Articles of Incorporation. The articles of incorporation of the Company in effect at the Effective Time shall be the articles of incorporation of the Surviving Corporation (the "Articles") (until amended in accordance with applicable law) except as follows:

(a) Article 1 of the Articles shall be restated in its entirety to read as follows:

#### ARTICLE 1. NAME

The name of the Corporation is "Micron Electronics, Inc."

(b) Article 3 of the Articles shall be restated in its entirety to read as follows:

#### ARTICLE 3. AUTHORIZED SHARES

The aggregate number of authorized shares of the corporation is 150,000,000 of \$.01 par value, which shall be divisible into the classes and series, have the designations, voting rights and other rights and preferences and be subject to the restrictions, that the Board of Directors of the corporation may from time to time establish, fix and determine consistent with Articles 4 and 5 hereof. Unless otherwise designated by the Board of Directors, all issued shares shall be deemed Common Stock with equal rights and preferences.

SECTION 2.2 Bylaws. The bylaws of the Company in effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.3 Directors. The directors of the Surviving Corporation shall be Steven R. Appleton, Joseph M. Daltoso, Gregory E. Herrick, Robert A. Lothrop, Chase S. Mart, T. Erik Oaas, John R. Simplot and Jerry M. Hess.

Exhibit 3.1

CERTIFICATE OF RESTATED ARTICLES OF INCORPORATION  
OF  
ZEOS INTERNATIONAL, LTD.

The undersigned, the President of ZEOS INTERNATIONAL, Ltd., a Minnesota corporation, hereby certifies that at a duly called special meeting of the shareholders of the Corporation, held on July 29, 1987, the following resolutions relating to the adoption of Restated Articles of Incorporation were duly adopted in accordance with Minnesota Statutes, Chapter 302A, and the Articles of Incorporation and Bylaws of the Corporation:

RESOLVED, that the presently existing Articles of Incorporation, as amended, of this corporation are hereby amended and restated in their entirety to read as set forth in the document entitled "Restated Articles of Incorporation of ZEOS INTERNATIONAL, Ltd." which is marked "Exhibit A" to these resolutions and attached hereto.

FURTHER RESOLVED, that such Restated Articles of Incorporation shall supersede the existing articles of Incorporation and all amendments thereto.

FURTHER RESOLVED, that the president is hereby authorized and directed to prepare and file with the Minnesota Secretary of State a Certificate of Restated Articles of Incorporation in accordance with law.

The undersigned further certifies that the document attached hereto and marked "Exhibit A" and entitled "Restated Articles of Incorporation of ZEOS INTERNATIONAL, Ltd." is a true copy of the Restated Articles of Incorporation as so adopted and such Restated Articles of Incorporation supersede the existing Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has executed this document this 30th day of July, 1987.

ZEOS INTERNATIONAL, LTD.

By /s/ Greg E. Herrick  
-----  
Greg E. Herrick  
Its President

STATE OF MINNESOTA )  
                                  )ss.  
COUNTY OF                )

The foregoing instrument was acknowledged before me on July 30, 1987, by Greg E. Herrick, the President of ZEOS INTERNATIONAL, Ltd., on behalf of the Corporation.

/s/ Teresa H. Peulen  
-----  
Notary Public

RESTATED  
ARTICLES OF INCORPORATION  
OF  
ZEOS INTERNATIONAL, LTD.

ARTICLE 1. NAME

The name of the corporation is "ZEOS INTERNATIONAL, LTD."

ARTICLE 2. REGISTERED OFFICE

The address of the registered office of the corporation in Minnesota is 30 Fifth Avenue, N.W., Suite 1000, New Brighton, Minnesota 55112

ARTICLE 3. AUTHORIZED SHARES

The aggregate number of authorized shares of the corporation is 5,000,000 of \$.01 par value, which shall be divisible into the classes and series, have the designations, voting rights, and other rights and preferences and be subject to the restrictions that the Board of Directors of the corporation may from time to time establish, fix, and determine consistent with Articles 4 and 5 hereof. Unless otherwise designated by the Board of Directors, all issued shares shall be deemed Common Stock with equal rights and preferences.

ARTICLE 4. NO CUMULATIVE VOTING

There shall be no cumulative voting by the shareholders of the corporation.

ARTICLE 5. NO PREEMPTIVE RIGHTS

The shareholders of the corporation shall not have preemptive rights to subscribe for or acquire securities or rights to purchase securities of any kind, class, or series of the corporation.

ARTICLE 6. BOARD OF DIRECTORS

The names and addresses of the members of the Board of Directors are:

Name	Address
Greg E. Herrick	1206 Kenwood Parkway Minneapolis, Minnesota 55405
Robert A. Burnett	300 Walnut Street Suite 270 Des Moines, Iowa 50309
Thomas William Evans, M.D.	1317 North Elm Street Ottumwa, Iowa 52501

ARTICLE 7. WRITTEN ACTION BY DIRECTORS

An action required or permitted to be taken at a meeting of the Board of Directors of the corporation may be taken by a written action signed, or counterparts of a written action signed in the aggregate, by all of the directors unless the action need not be approved by the shareholders of the corporation, in which case the action may be taken by a written action signed, or counterparts of a written action signed in the aggregate, the number of directors that would be required to take the same action at a meeting of the Board of Directors of the corporation at which all of the directors were present.

ARTICLE 8. DIRECTOR LIABILITY

A director of this corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (I) for any breach of the director's duty or

loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Sections 302A.559 or 80A.23 of the Minnesota Statutes; (iv) for any transaction from which the director derived an improper personal benefit; or (v) for any act or omission occurring prior to the date when this Article 8 became effective.

I. The Minnesota Business Corporation Act is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Minnesota Business Corporation Act, as so amended.

Any repeal or modification of the foregoing provisions of this Article 8 by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLES OF AMENDMENT  
OF  
ARTICLES OF INCORPORATION  
OF  
ZEOS INTERNATIONAL, LTD.

1. The name of the Corporation is ZEOS International, Ltd., a Minnesota corporation.

2. The following is the full text of amendments to the articles of incorporation of ZEOS International, Ltd.;

RESOLVED, that Article 3 of the Articles of Incorporation shall be amended in its entirety to read as follows:

"ARTICLE 3. AUTHORIZED SHARES

The aggregate number of authorized shares of the corporation is 15,000,000 of \$.01 par value, which shall be divisible into the classes and series, have the designations, voting rights, and other rights and preferences and be subject to the restrictions that the Board of Directors of the corporation may from time to time establish, fix and determine consistent with Articles 4 and 5 hereof. Unless otherwise designated by the Board of Directors, all issued shares shall be deemed Common Stock with Equal rights and preferences."

3. The amendment was adopted by the shareholders pursuant to section 302A.135 of the Minnesota Business Corporation Act on May 23, 1989.

IN WITNESS WHEREOF, the undersigned, the Executive Vice President of ZEOS International, Ltd., being duly authorized on behalf of ZEOS International, Ltd., has executed this document this 7th day of July, 1989.

/s/ Donald W. Cartwright  
-----  
Donald W. Cartwright  
Executive Vice President



COMPONENT RECOVERY

REVENUE SHARING AGREEMENT

This Component Recovery Revenue Sharing Agreement is entered into effective as of July 14, 1994 (the "Effective Date"), by and between Micron Semiconductor, Inc., and Idaho corporation located at 2805 E. Columbia Road, Boise, Idaho 83706 ("MSI"), and Micron Custom Manufacturing Services, Inc., and Idaho corporation located at 8445 Westpark Street, Boise, Idaho 83704 ("MCMS").

WHEREAS, MSI is engaged in the business of developing and manufacturing semiconductor memory devices and MCMS is engaged in the business of recovering semiconductor memory devices for sale to third parties; and

WHEREAS, MSI wishes to sell and MCMS wishes to purchase semiconductor memory devices manufactured by MSI which do not meet MSI's full specifications and utilize them in less critical applications;

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions. As used in this Agreement, the following terms have the following meanings:

(a) "Affiliated company" means any entity which is fifty percent (50%) owned or controlled by MCMS or by Micron Technology, Inc. and any entity which is fifty percent (50%) owned or controlled by any such entity.

(b) "Components" means MSI semiconductor memory devices, in die or packaged form, including but not limited to DRAMs, SRAMs, and VRAMs, which have failed MSI's electrical or burn-in tests or otherwise do not meet MSI's databook specifications for such devices.

(c) "MSI's Average Sales Price" means:

(i) with respect to a non-DRAM component, MSI's gross revenues from direct sales in the previous fiscal month of any such component meeting MSI's databook specifications, divided by the total number of such direct sales components sold during the same period; and

(ii) with respect to a DRAM component, the sum of

(a) MSI's gross revenues from direct sales in the previous fiscal month of any such component meeting MSI databook specifications;

(b) MSI's book revenues from sales by distributors in the previous fiscal month of any such component meeting MSI databook specifications; and,

(c) MSI's gross revenues from direct sales of modules in the previous fiscal month less applicable assembly changes relating to such module;

divided by the total number of direct, distributor and module components sold during the same period.

2. Sale of Components. MSI hereby grants to MCMS the right to purchase all of MSI's Components and to resale the Components upon the terms and conditions set forth herein. Accordingly, MSI shall not sell Components to any third party whether in the form of components, modules or board level products

without first offering such Components for sale to MCMS in accordance with this Agreement. Nothing contained herein shall obligate MSI to produce Components for sale to MCMS, or obligate MCMS to purchase Components made available for sale by MSS.

3. Component Recovery. MSI hereby grants to MCMS the right to enter onto MSI's premises at all reasonable business hours to recover Components from MSI. This right shall include the right by MCMS personnel directly or indirectly, with or without MSI's assistance, (i) to retrieve Components from MSI's Probe area; (ii) to select and assemble Components retrieved from MSI's Probe area for submission to MSI's Assembly area for packaging (encapsulation) by MSS; (iii) to retrieve from MSI's Assembly area Components packaged by MSI for MCMS, and (iv) to retrieve Components directly from MSI's Test area. for the purpose of allowing MCMS personnel to select and assemble Components for packaging by MS in MSI's Assembly area, MSI agrees to make available to MCMS at no cost approximately 300 square feet of Assembly cleanroom floor space for use by MCMS personnel and equipment; provided, however, that MSI may for reasonable business purposes deny MCMS access to MSI's manufacturing site, recover Components and provide such Components to MCMS off-site at MSI's cost. All risk of loss and all costs associated with the fabrication, probe, assembly and testing of Components by MSI, including Components selected by MCMS for packaging by MSI, shall be borne by MSI up to the point of delivery to MCMS. Except as otherwise provided above, the point of delivery shall be deemed to be the point of shipment by MSI at MSI's manufacturing site or the point of direct retrieval by MCMS personnel of packaged Components at MSI's manufacturing site.

4. Revenue Sharing. In consideration of the sale to MCMS of the components, MCMS hereby agrees to pay to MSI and amount equal to fifty percent (50%) of the total amount of net revenues obtained by MCMS from sales of the Components to third parties and affiliated companies and derived from intracompany sales to MCMS's contract assembly operations. For the purpose of determining revenues from sales to affiliated companies and intracompany sales to MCMS's contract assembly operations, prices for such components shall be based on MSI's Average Sales Price and established in accordance with the transfer price schedule set forth in Schedule A attached hereto.

5. Payment of Revenue Sharing Amount. Unless otherwise provided herein, MSI's share of revenues derived from sales to third parties and intracompany sales of Components shall be paid by MCMS to MSI net forty-five (45) days after the end of each MCMS fiscal month. Any amount not received by MSI when due shall be subject to a service charge of 1.5% per month from the due date. MCMS shall pay all of MSI's costs and expenses (including reasonable attorneys' fees) to enforce MSI's rights under this Section.

6. Inspection of Records. MCMS shall keep full, clear and accurate records with respect to third party and intracompany sales of Components. MSI shall keep full, clear and accurate records with respect to the Average Sales Price used for the purpose of calculating the price of Components. Each party's records shall be kept at the party's principal place of business and shall be open at all reasonable times during the term of this Agreement to the inspection of a mutually agreeable third party. Neither party hereto shall unreasonably withhold from the other information necessary to confirm compliance with the terms of this Agreement, including by not limited to information pertaining to intellectual property rights and agreements pertaining to the Components. In the event a party requests

and inspection as provided herein, such party shall bear all costs and expenses associated with such inspection, unless such inspection reveals noncompliance with the terms of this Agreement by the other party, in which case the noncomplying party shall bear all such costs and expenses.

7. Intellectual Property Rights. Each party hereby grants to the other party the right to use and make available as reasonably requested the intellectual property of the other, including but not limited to patents, patent applications, software programs, and copyrighted materials, as appropriate to identify, recover and sell the Components. In addition to bearing all costs of development and manufacture of Components, MSI shall bear sole responsibility for, and shall promptly pay when due, all royalty obligations arising from patent license agreements entered into by MSI, or Micron Technology, Inc. on behalf of MSI,

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and associated with sales of the Components to and by MCMS. MSI hereby agrees to indemnify MCMS for any damages incurred in the event of nonpayment by MSI of any such royalty obligations, provided that such indemnification royalties arising from a bona fide dispute by MSI regarding the terms or extent of such obligations.

8. Confidentiality. Each party acknowledges that it will have access to certain information and materials concerning the business, plans, customers, technology, and products of the other pertaining to the subject matter of this Agreement that are confidential and of substantial value to the other party. Each party agrees that it will not at any time disclose such confidential information to any third party.

9. No Warranty. MSI MAKES NO WARRANTIES, EXPRESSED OR IMPLIED, REGARDING THE COMPONENTS, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR QUALITY OR OTHERWISE. MSI DOES NOT MAKE TO MCMS OR ANY CUSTOMER OF MCMS, AND HEREBY EXPRESSLY DISCLAIMS ANY OTHER REPRESENTATION OR WARRANTY OF ANY KIND WITH RESPECT TO THE COMPONENTS. ALL COMPONENTS ARE SOLD "AS IS" AND "WITH ALL FAULTS".

10. Limitation on Liability. Except as otherwise provided herein, in the event of termination by either party in accordance with any of the provisions of this Agreement, neither party shall be liable of the provisions of this Agreement, neither party shall be liable to the other because of such termination, for compensation, reimbursement or damages on account of the loss of prospective profits or anticipated sales, or on account of any expenditures or commitments in connection with the business or goodwill of either party.

11. Patent Indemnity. MSI represents and warrants that the delivery and sale of components hereunder will not infringe any patent, trademark or other intellectual property rights of third parties. MSI shall indemnify and hold MCMS harmless of and from any and all losses, including without limitation loss of good will and loss of business opportunities, costs, claims, liabilities and expenses, including attorneys' fees, incurred by MCMS with respect to any such infringement of any patent, trademark or other intellectual property rights, provided that such indemnification shall not exceed that amount equal to MSI's share of the net revenues derived from the sale by MCMS of the infringing products. MCMS shall have the right to offset against payments due to MSI hereunder the amount to any indemnification owed by MS and to MCMS under this Section.

12. Term and Termination.

12.1 Term. The term of this Agreement shall commence on the Effective Date and shall continue thereafter for a

period of three (3) full fiscal years from the fiscal year-end next following the Effective Date, subject to earlier termination in accordance with the provisions of this Section.

12.2 Termination by Mutual Agreement. This Agreement may be terminated at any time upon the mutual written agreement of the parties.

12.3 Survival of certain Terms. Upon any termination of this Agreement, any provision of this Agreement which by its terms appears to be applicable to periods or actions occurring after termination of the Agreement, shall remain in full force and effect.

13. Application to Subsidiaries. The obligations of either party hereunder shall be applicable to subsidiaries of each such party. "subsidiary" shall mean any entity owned 50% or more by a party.

14. General Provisions.

14.1 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Idaho. The federal and state courts within the State of Idaho shall have exclusive jurisdiction to adjudicate any dispute arising out of this Agreement.

14.2 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the party to be charged.

14.3 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be sent by prepaid registered or certified mail return receipt requested, addressed to the other party at the address shown at the beginning of this Agreement or at such other address for which such party give notice hereunder. Such notice shall be deemed to have been given three (3) days after deposit in the mail.

14.4 Force Majeure. Nonperformance of either party shall be excused to the extent that performance is rendered impossible by strike, fire, flood, governmental acts or orders or restrictions, or any other reason where failure to perform is beyond the control and not caused by the negligence of the nonperforming party.

14.5 Nonassignability and Binding Effect. The rights and obligation of each party hereunder may not be assigned or transferred directly or indirectly without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors and assigns.

14.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

MICRON SEMICONDUCTOR, INC.

MICRON CUSTOM MANUFACTURING SERVICES, INC.

By: /s/ Steven R. Appleton

By: /s/ Joseph M. Daltoso

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Title: President  
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Title: Chairman and President  
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Schedule A

Intercompany Transfer Price

MSI Previous Fiscal Month's ASP	MCMS Purchase Price for Full Specification Parts	MCMS Purchase Price for Systems Grade Parts	MCMS Purchase Price for Printer Buffer Grade Parts	MCMS Purchase Price for Audio Grade Devices
X	.975 (X)	.8288 (X)	.70 (X)	.25 (X)

AMENDED AND RESTATED PROMISSORY NOTE

\$9,427,293

Boise, Idaho

Date: September 3, 1992

For value received, Micron Custom Manufacturing Services, Inc., an Idaho corporation ("Maker"), promises to pay to the order of Micron Technology, Inc., a Delaware corporation ("Holder"), the principal sum of Nine Million, four Hundred Twenty Seven Thousand, Two Hundred Ninety Three Dollars (\$9,427,293.00), together with interest on the unpaid principal balance from the date hereof, at the rate provided below, to be paid in lawful money of the United States of America as follows:

Interest shall accrue from the date of this Amended and restated Promissory Note (the "Note") at a rate equal to the lesser of (i) the prime lending rate as quoted by the Wall Street Journal, plus one-half percent (.5%), or (ii) the 90-day LIBOR rate quoted by the Wall Street Journal, plus one and one-half percent (1.5%). The rate of interest under this Note shall be adjusted on the first day of each fiscal quarter of Maker based on the interest rate reported in the wall Street Journal the previous business day. Interest on the Note shall be calculated on the basis of a 360 day year counting the actual number of days elapsed. Payments of principal and accrued interest shall be payable beginning the first day of Maker's first fiscal quarter of 1993, and thereafter on the first day of each fiscal quarter, in 39 payments equal to the 1/39th of the principal amount, plus interest on the outstanding balance thereof.

Maker shall have the right to prepay all or a portion of the principal balance of this Note at any time. Maker and all endorsers; sureties and guarantors hereof severally waive demand, protest, notice of dishonor, notice of non-payment of this Note and agree that any payments due or to become due hereunder may be extended, modified, amended or renewed from time to time by the Holder hereof without notice. This Note shall be binding upon all of the above parties and their respective heirs, representatives, successors and assigns.

If default is made in the payment of any sum due hereunder or if default is made in the performance of any of the covenants or conditions of any instrument by which this Note is secured, all unpaid principal evidence by this Note and all the interest accrued thereon, at the option of the Holder, shall become immediately due and payable without demand or notice. Failure or waiver of exercise of such option at one time shall not constitute a waiver of the right to exercise any option arising by reasons of any later additional default. This Note constitutes an amendment and restatement of that certain promissory note issued by Maker in favor of Holder and dated as of May 4, 1992. This Note may not be modified or amended except by written agreement of the parties hereto.

Maker promises to pay all costs and expenses of collection and attorneys' fees and court costs incurred by the Holder to enforce the terms of this Note and any instrument by which this Note is secured, including those expenses and fees which may be incurred in connection with the appointment of receiver and any appearances in bankruptcy or insolvency proceedings

This Note shall be governed by and construed in accordance with the laws of the State of Idaho.

MICRON CUSTOM MANUFACTURING SERVICES, INC.  
an Idaho corporation

By: /s/ Joseph M. Daltoso  
-----

Its: Chairman and President  
-----

MICRON TECHNOLOGY, INC.  
a Delaware corporation

By: /s/ Reid N. Langrill  
-----

Its: Vice President Finance  
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Exhibit 11

ZEOS INTERNATIONAL, LTD.

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

Quarter ended	April 1, 1995	April 2, 1994
PRIMARY		
Weighted average shares outstanding	8,806	8,704
Stock options using average market price	1,039	-
	-----	-----
Total shares	9,845	8,704
	=====	=====
Net income (loss)	\$ 2,704	\$ (8,564)
Less preferred stock dividend	75	-
	-----	-----
Net income (loss) applicable to common shareholders	\$ 2,629	\$ (8,564)
	=====	=====
Per share amount	\$ 0.27	(0.98)
FULLY DILUTED		
Weighted average shares outstanding	8,806	8,704
Stock options using greater of average or ending market price	1,039	-
Convertible preferred stock	1,000	-
	-----	-----
Total shares	10,845	8,704
	=====	=====
Net income (loss)	\$ 2,704	\$ (8,564)
Less preferred stock dividend	75	-
	-----	-----
Net income (loss) applicable to common shareholders	\$ 2,629	\$ (8,564)
	=====	=====
Per share amount	\$ 0.25	\$ (0.98)

<ARTICLE> 5

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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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