Seagate Technology plc
Form 10-Q
May 03, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2011

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

For the transition period from: to

Commission File Number 001-31560

SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland	**98-0648577**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Arthur Cox Building, Earlsfort Terrace

Dublin 2, Ireland

(Address of Principal Executive Offices)

Telephone: (353) (1) 618-0517

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer: x	Accelerated filer: o
Non-accelerated filer: o (Do not check if a smaller reporting company)	Smaller reporting company: o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 26, 2011, 430,085,128 shares of the registrant s ordinary shares, par value $0.00001 per share, were issued and outstanding.

Table of Contents

INDEX

SEAGATE TECHNOLOGY PLC

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	April 1, 2011	July 2, 2010(a)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,201	$ 2,263
Short-term investments	279	252
Restricted cash and investments	103	114
Accounts receivable, net	1,394	1,400
Inventories	834	757
Deferred income taxes	107	118
Other current assets	586	514
Total current assets	5,504	5,418
Property, equipment and leasehold improvements, net	2,208	2,263
Deferred income taxes	373	395
Other assets, net	195	171
Total assets	$ 8,280	$ 8,247
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,778	$ 1,780
Accrued employee compensation	136	263
Accrued warranty	198	189
Accrued expenses	419	422
Accrued income taxes	14	14
Current portion of long-term debt	560	329
Total current liabilities	3,105	2,997
Long-term accrued warranty	163	183
Long-term accrued income taxes	68	59
Other non-current liabilities	105	111
Long-term debt, less current portion	2,352	2,173
Total liabilities	5,793	5,523

Commitments and contingencies (See Notes 10 and 12)				
Shareholders equity:				
Ordinary shares and additional paid-in capital		3,930		3,851
Accumulated other comprehensive income (loss)		(2)		(4)
Retained earnings (accumulated deficit)		(1,441)		(1,123)
Total shareholders equity		2,487		2,724
Total liabilities and shareholders equity	$	8,280	$	8,247

(a) The information in this column was derived from the Company s audited Consolidated Balance Sheet as of July 2, 2010.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010
Revenue	$ 2,695	$ 3,049	$ 8,112	$ 8,738
Cost of revenue	2,179	2,148	6,517	6,261
Product development	224	224	646	658
Marketing and administrative	110	105	317	323
Amortization of intangibles	—	8	2	23
Restructuring and other, net	3	4	14	50
Impairment of long-lived assets	—	—	—	64
Total operating expenses	2,516	2,489	7,496	7,379
Income from operations	179	560	616	1,359
Interest income	2	2	6	4
Interest expense	(59)	(41)	(151)	(127)
Other, net	—	1	(21)	(7)
Other income (expense), net	(57)	(38)	(166)	(130)
Income before income taxes	122	522	450	1,229
Provision for (benefit from) income taxes	29	4	58	(1)
Net income	$ 93	$ 518	$ 392	$ 1,230
Net income per share:				
Basic	$ 0.21	$ 1.05	$ 0.85	$ 2.48
Diluted	0.21	1.00	0.83	2.38
Number of shares used in per share calculations:				
Basic	437	493	459	495
Diluted	453	520	475	519

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Nine Months Ended April 1, 2011	For the Nine Months Ended April 2, 2010
OPERATING ACTIVITIES		
Net income	$ 392	$ 1,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	567	584
Share-based compensation	38	38
Loss on redemption of debt	26	—
Impairment of long-lived assets	—	64
Deferred income taxes	35	10
Other non-cash operating activities, net	(5)	22
Changes in operating assets and liabilities:		
Accounts receivable, net	7	(418)
Inventories	(77)	(98)
Accounts payable	181	242
Accrued employee compensation	(127)	70
Accrued expenses, income taxes and warranty	(10)	(131)
Other assets and liabilities	(80)	(5)
Net cash provided by operating activities	947	1,608
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(685)	(372)
Purchases of short-term investments	(208)	(278)
Sales of short-term investments	118	75
Maturities of short-term investments	59	101
Change in restricted cash and investments	13	26
Other investing activities, net	—	1
Net cash used in investing activities	(703)	(447)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	—	15
Repayment of short-term borrowings	—	(365)
Repayments of long-term debt and capital lease obligations	(377)	(385)
Net proceeds from issuance of long-term debt	736	—
Repurchases of ordinary shares	(710)	(251)
Change in restricted cash and investments	2	379
Proceeds from issuance of ordinary shares under employee stock plans	48	81
Other financing activities, net	(5)	—
Net cash used in financing activities	(306)	(526)
Increase (decrease) in cash and cash equivalents	(62)	635
Cash and cash equivalents at the beginning of the period	2,263	1,427
Cash and cash equivalents at the end of the period	$ 2,201	$ 2,062

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Nine Months Ended April 1, 2011

(In millions)

(Unaudited)

	Number of Ordinary Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Balance at July 2, 2010	470	$	$ 3,851	$ (4)	$ (1,123)	$ 2,724
Comprehensive income (loss), net of tax:						
Change in unrealized gain (loss) on marketable securities, net				(1)		(1)
Change in unrealized gain (loss) on cash flow hedges, net				3		3
Net income					392	392
Comprehensive income						394
Issuance of ordinary shares under employee stock plans	6		48			48
Share repurchase	(50)				(710)	(710)
Adjustment to equity component of convertible debt upon redemption			(7)			(7)
Share-based compensation			38			38
Balance at April 1, 2011	426	$	$ 3,930	$ (2)	$ (1,441)	$ 2,487

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Organization and Basis of Presentation and Consolidation

Effective as of July 3, 2010, Seagate Technology public limited company, an Irish public limited company, (Seagate-Ireland , Seagate or the Company) became the successor to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands (Seagate-Cayman). In connection with the reorganization, all issued and outstanding Seagate-Cayman common shares were cancelled and ceased to exist, and Seagate-Ireland issued ordinary shares on a one-for-one basis to the holders of Seagate-Cayman common shares for each Seagate-Cayman common share that was cancelled. For presentation purposes, unless otherwise noted, common shares prior to the reorganization and ordinary shares subsequent to the reorganization are referred to herein as ordinary shares (see Note 8).

The Company designs, manufactures, markets and sells hard disk drives. Hard disk drives, which are commonly referred to as disk drives or hard drives, are used as the primary medium for storing electronic data. The Company produces a broad range of disk drive products addressing enterprise applications, where its products are primarily used in enterprise servers, mainframes and workstations; client compute applications, where its products are used in desktop and notebook computers; and client non-compute applications, where its products are used in a wide variety of devices such as digital video recorders (DVRs), and other consumer electronic devices such as personal data backup systems, portable external storage systems and digital media systems. The Company sells its disk drives primarily to major original equipment manufacturers (OEMs), distributors and retailers. In addition to manufacturing and selling disk drives, the Company provides storage services for small- to medium-sized businesses, including online backup, data protection and recovery solutions.

The Condensed Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned subsidiaries, after elimination of intercompany transactions and balances. The Condensed Consolidated Financial Statements have been prepared by the Company and have not been audited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. The Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary to summarize fairly the consolidated financial position, results of operations, cash flows and shareholders equity for the periods presented. Such adjustments are of a normal and recurring nature. The Company s Consolidated Financial Statements for the fiscal year ended July 2, 2010 are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on August 20, 2010. The Company believes that the disclosures included in the unaudited Condensed Consolidated Financial Statements, when read in conjunction with its Consolidated Financial Statements as of July 2, 2010 and the notes thereto, are adequate to make the information presented not misleading.

The results of operations for the three and nine months ended April 1, 2011, are not necessarily indicative of the results of operations to be expected for any subsequent interim period in the Company s fiscal year ending July 1, 2011. The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The three and nine months ended April 1, 2011 and April 2, 2010, consisted of 13 weeks and 39 weeks, respectively. Fiscal year 2011 will be comprised of 52 weeks and will end on July 1, 2011.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company s consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of a company s financial condition and results of operations, and require a company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are highly uncertain at the time of estimation. Based on this definition, the Company s most critical policies include: establishment of sales program accruals, establishment of warranty accruals, the accounting for income taxes and the accounting for goodwill and other long-lived assets.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company also has other accounting policies and accounting estimates relating to uncollectible customer accounts, valuation of inventory, valuation of share-based payments and restructuring and exit costs. The Company believes that these other accounting policies and accounting estimates either do not generally require it to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on the Company s reported results of operations for a given period.

Since the Company s fiscal year ended July 2, 2010, there have been no significant changes in the Company s critical accounting policies and estimates. Please refer to Note 1 of Financial Statements and Supplementary Data contained in Part II, Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended July 2, 2010, as filed with the SEC on August 20, 2010, for a discussion of the Company s critical accounting policies and estimates.

Accounting Changes

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (ASC Topic 605) Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25, *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the best estimate of selling price in addition to vendor-specific objective evidence and verifiable objective evidence (now referred to as third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when vendor-specific objective evidence or third-party evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. The Company implemented the provisions of this guidance beginning on July 3, 2010 on a prospective basis for all new or materially modified arrangements entered into on or after that date. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14, *Software (ASC Topic 985) Certain Revenue Arrangements That Include Software Elements*, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 985-605, *Software-Revenue Recognition* to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product s essential functionality. The Company implemented the provisions of this guidance beginning on July 3, 2010 on a prospective basis for all new or materially modified arrangements entered into on or after that date. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

2. Balance Sheet Information

Investments

The Company s short-term investments are primarily comprised of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. With the exception of securities held for its non-qualified deferred compensation plan, which are classified as trading securities, the Company classifies its investment portfolio as available-for-sale. The Company recognizes its available-for-sale investments at fair value with unrealized gains and losses included in Accumulated other comprehensive income (loss), which is a component of shareholders equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in Other, net. The cost of securities sold is based on the specific identification method.

The Company s available-for-sale securities include investments in auction rate securities. Beginning in fiscal year 2008, the Company s auction rate securities failed to settle at auction and have continued to fail through April 1, 2011. Since the Company continues to earn interest on its auction rate securities at the maximum contractual rate, there have been no payment defaults with respect to such securities, and they are all collateralized, the Company expects to recover the entire amortized cost basis of these auction rate securities. The Company does not intend to sell these securities and has concluded it is not more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis. As such, the Company believes the impairments totaling $2 million are not other-than-temporary and therefore have been recorded in Accumulated other comprehensive income (loss). Given the uncertainty as to when the liquidity issues associated with these securities will improve, these securities were classified as long-term investments in the Company s Condensed Consolidated Balance Sheets.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of April 1, 2011, the Company s restricted cash and investments consisted of $85 million in cash and investments held in trust for payment of its non-qualified deferred compensation plan liabilities and $18 million in cash and investments held as collateral at banks for various performance obligations. As of July 2, 2010, the Company s restricted cash and investments consisted of $76 million in cash and investments held in trust for payment of its non-qualified deferred compensation plan liabilities and $38 million in cash and investments held as collateral at banks for various performance obligations.

Effective January 3, 2011, the Company cancelled its Total Return Swap (TRS), which had been used to manage the equity market risks associated with its Non-qualified Deferred Compensation Plan the Seagate Deferred Compensation Plan (the SDCP). Currently, the Company manages its exposure to equity market risks associated with the deferred compensation liabilities by investing directly in mutual funds that mirror the employees investment options. The Company classified investments held to satisfy the deferred compensation liabilities as trading securities.

The following table summarizes, by major type, the fair value and amortized cost of the Company s investments as of April 1, 2011:

(Dollars in millions)	**Amortized Cost**	**Unrealized Gain/ (Loss)**	**Fair Value**
Available-for-sale securities:			
Commercial paper	$ 1,477	$	$ 1,477
Money market funds	655		655
U.S. treasuries and agency bonds	131		131
Corporate bonds	47		47
Asset-backed securities	47		47
Certificates of deposit	27		27
Auction rate securities	19	(2)	17
Sovereigns and supranationals	15		15
Municipal bonds	14		14
	2,432	(2)	2,430
Trading securities:			
Mutual funds	79	4	83
Money market funds	2		2
	81	4	85
Total	$ 2,513	$ 2	$ 2,515
Included in Cash and cash equivalents			$ 2,116
Included in Short-term investments			279
Included in Restricted cash and investments			103
Included in Other assets, net			17
Total			$ 2,515

As of April 1, 2011, with the exception of the Company s auction rate securities, the Company had no available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. The Company determined no available-for-sale securities were other-than-temporarily impaired as of April 1, 2011.

The fair value of the Company s investments in debt securities classified as available-for-sale at April 1, 2011 by remaining contractual maturity was as follows:

(Dollars in millions)	Amortized Cost	Fair Value
Due in less than 1 year	$ 2,323	$ 2,323
Due in 1 to 3 years	90	90
Thereafter	19	17
Total	$ 2,432	$ 2,430

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes, by major type, the fair value and amortized cost of the Company s investments as of July 2, 2010:

(Dollars in millions)	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value
Available-for-sale securities:			
Commercial paper	$ 1,231	$	$ 1,231
Money market funds	833		833
U.S. treasuries and agency bonds	154	1	155
Asset-backed securities	45		45
Corporate bonds	41		41
Certificates of deposit	25		25
Sovereigns and supranationals	20		20
Auction rate securities	19	(2)	17
Municipal bonds	3		3
Total	$ 2,371	$ (1)	$ 2,370
Included in Cash and cash equivalents			$ 2,101
Included in Short-term investments			252
Included in Other assets, net			17
Total			$ 2,370

As of July 2, 2010, with the exception of the Company s auction rate securities, the Company had no available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. The Company determined no available-for-sale securities were other-than-temporarily impaired as of July 2, 2010.

Inventories

(Dollars in millions)	April 1, 2011	July 2, 2010
Raw materials and components	$ 281	$ 263
Work-in-process	176	145
Finished goods	377	349
	$ 834	$ 757

Other Current Assets

(Dollars in millions)	April 1, 2011	July 2, 2010
Vendor non-trade receivables	$ 404	$ 351
Other	182	163
	$ 586	$ 514

Other current assets include non-trade receivables from certain manufacturing vendors resulting from the sale of components to these vendors, who use the components to manufacture completed sub-assemblies that they sell back to the Company. The Company does not reflect the sale of these components in Revenue and does not recognize any profits on these sales. The costs of the completed sub-assemblies are included in inventory upon purchase from the vendors.

Property, Equipment and Leasehold Improvements, net

(Dollars in millions)	April 1, 2011	July 2, 2010
Property, equipment and leasehold improvements	$ 7,267	$ 6,842
Accumulated depreciation and amortization	(5,059)	(4,579)
	$ 2,208	$ 2,263

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Restructuring and Exit Costs

The Company s significant restructuring plans are described below. All restructuring charges are reported in Restructuring and other, net on the Condensed Consolidated Statements of Operations, unless otherwise noted.

California Facility Consolidation. During the nine months ended April 1, 2011, the Company recorded restructuring charges of $3 million related to lease termination costs for the Company s Sunnyvale, California facility as a result of the Company s planned consolidation of its California facilities. The Company made cash payments of $3 million related to these plans during the six months ended December 31, 2010. This plan was substantially complete by the second quarter of fiscal year 2011.

2010 Plan. From the inception of the Company s restructuring plans announced in fiscal year 2010 as a result of the ongoing focus on cost efficiencies in all areas of its business, the Company has recorded $4 million related to employee termination costs. The Company made cash payments of $2 million relating to this plan during the three months ended October 1, 2010. This plan was substantially complete by the first quarter of fiscal year 2011.

AMK Plan. In August 2009, the Company announced that it will close its Ang Mo Kio (AMK) facility in Singapore (the AMK Plan). The Company expects to complete the closure during fiscal year 2011. The hard drive manufacturing operations have been relocated to other existing Seagate facilities and the Company s Asia International Headquarters remains in Singapore. This closure and relocation is part of the Company s ongoing focus on cost efficiencies in all areas of its business and is intended to facilitate leveraging manufacturing investments across fewer sites. The Company does not expect the closure to meaningfully change production capacity. The Company currently estimates total restructuring charges of approximately $60 million, all in cash, including approximately $40 million for severance, approximately $10 million for the relocation of manufacturing equipment, and approximately $10 million for other plant closure and relocation costs. From the inception of this plan through April 1, 2011 the Company has recorded restructuring charges of approximately $45 million. During the nine months ended April 1, 2011, the Company recorded an additional $4 million in restructuring charges for other exit costs for the AMK Plan and another $2 million related to an adjustment of previously accrued post-employment benefits. The Company made cash payments of $29 million relating to this plan during the nine months ended April 1, 2011.

Other Restructuring and Exit Costs. Through April 1, 2011, the Company has recorded restructuring charges of approximately $119 million, net of adjustments, related to the previously announced closures of its Pittsburgh, Pennsylvania and Milpitas, California facilities, and also has recorded certain exit costs aggregating $270 million related to its acquisition of Maxtor. During the nine months ended April 1, 2011, the Company recorded restructuring charges of $3 million related to facility lease obligations and $2 million related to post-employment benefits and made cash payments of $15 million on these and other smaller restructuring plans. The remaining balance as of April 1, 2011, is primarily associated with the exit of certain facilities or facility lease obligations. Payment of these exit costs are expected to continue through the end of fiscal year 2017.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During the three months ended April 1, 2011, the Company recorded restructuring charges and adjustments of $3 million, comprised primarily of charges related to the planned closure of the Company s AMK manufacturing operations in Singapore. The following table summarizes the Company s restructuring activities for the nine months ended April 1, 2011:

(Dollars in millions)	Employee Benefits	Operating Leases	Other Exit Costs	Total
All Restructuring Activities				
Accrual balances at July 2, 2010	$ 38	$ 46	$	$ 84
Restructuring charges		2	1	3
Cash payments	(5)	(4)	(1)	(10)
Adjustments	1			1
Accrual balances at October 1, 2010	34	44		78
Restructuring charges	1	3	1	5
Cash payments	(6)	(8)	(1)	(15)
Adjustments	1	1		2
Accrual balances at December 31, 2010	30	40		70
Restructuring charges	1		3	4
Cash payments	(17)	(4)	(3)	(24)
Adjustments		(1)		(1)
Accrual balances at April 1, 2011	$ 14	$ 35	$	$ 49

Of the $49 million balance in accrued restructuring at April 1, 2011, $24 million is included in Accrued expenses and $25 million is included in Other non-current liabilities on the accompanying Condensed Consolidated Balance Sheet.

4. Debt and Convertible Notes

Short-Term Borrowings

On January 18, 2011, the Company and its subsidiary, Seagate HDD Cayman (the Borrower), entered into a credit agreement which provides for a $350 million senior secured revolving credit facility. Seagate Technology plc and certain of its material subsidiaries fully and unconditionally guarantee, on a senior secured basis, the revolving credit facility. The revolving credit facility matures in January 2015. There were no borrowings against the revolving credit facility as of April 1, 2011.

Long-Term Debt

$430 Million Aggregate Principal Amount of 10.00% Senior Secured Second-Priority Notes due May 2014 (the 2014 Notes). On March 31, 2011, Seagate Technology International, an exempt limited liability company organized under the laws of the Cayman Islands and an indirect wholly-owned subsidiary of Seagate Technology plc, redeemed approximately $14 million aggregate principal amount of its 2014 Notes for cash at 110% of their principal amount, plus accrued and unpaid interest to the redemption date. The Company recorded a loss on the redemption of approximately $2 million, which is included in Other, net on the Company s Condensed Consolidated Statement of Operations for the three and nine months ended April 1, 2011.

$750 Million Aggregate Principal Amount of 7.75% Senior Notes due December 2018 (the 2018 Notes). On December 14, 2010, the Company s subsidiary, Seagate HDD Cayman, completed the sale of $750 million aggregate principal amount of the 2018 Notes in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The obligations under the 2018 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The net proceeds from the offering of the 2018 Notes were approximately $736 million, which the Company intends to use for general corporate purposes, which may include the repayment, redemption and/or repurchase of a portion of its outstanding indebtedness. The 2018 Notes bear interest at the rate of 7.75% per year, payable semi-annually on June 15 and December 15 of each year. The 2018 Notes are redeemable at any time after December 15, 2014 at the option of the Company in whole or in part, on not less than 30, nor more than 60 days notice, at a make-whole premium redemption price. The make-whole redemption price will be equal to the greater of (1) 100% of the principal amount of the notes being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the 2018 Notes being redeemed, discounted at the redemption date on a semi-annual basis at a rate equal to the sum of the applicable Treasury rate plus 50 basis points.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

$600 Million Aggregate Principal Amount of 6.375% Senior Notes due October 2011 (the 2011 Notes). The 2011 Notes are included in Current portion of long-term debt on the Condensed Consolidated Balance Sheet at April 1, 2011.

$600 Million Aggregate Principal Amount of 6.875% Senior Notes due May 2020 (the 2020 Notes). The 2020 Notes were issued by the Company s subsidiary, Seagate HDD Cayman, in fiscal year 2010. The obligations under the 2020 Notes were fully and unconditionally guaranteed, on a senior unsecured basis, by Seagate-Cayman through July 2, 2010. On July 3, 2010, Seagate-Cayman entered into a Supplemental Indenture (the Supplemental Indenture) with Seagate HDD Cayman, Seagate-Ireland, and Wells Fargo Bank, National Association, as trustee (the Trustee), whereby Seagate-Ireland agreed to fully and unconditionally guarantee the 2020 Notes and Seagate-Cayman was released from all obligations and covenants thereunder.

$55 Million Aggregate Principal Amount of 5.75% Subordinated Debentures due March 2012 (the 5.75% Debentures). On July 27, 2010, the Company redeemed the entire outstanding aggregate principal amount of the 5.75% Debentures for cash at 100% of their principal amount, plus accrued and unpaid interest to the redemption date for approximately $34 million. The Company recorded a loss on the redemption of approximately $2 million, which is included in Other, net on the Company s Condensed Consolidated Statement of Operations for the nine months ended April 1, 2011.

Convertible Notes

$326 Million Aggregate Principal Amount of 2.375% Convertible Senior Notes due August 2012 (the 2.375% Notes). On August 19, 2010, the Company redeemed the entire $326 million outstanding aggregate principal amount of the 2.375% Notes for cash at a redemption price equal to 100.68% of their principal amount, plus accrued and unpaid interest to the redemption date for approximately $328 million. The Company recorded a loss on the redemption of approximately $22 million, which is included in Other, net on the Company s Condensed Consolidated Statement of Operations for the nine months ended April 1, 2011.

5. Income Taxes

The Company recorded an income tax provision of $29 million and $58 million for the three and nine months ended April 1, 2011, respectively. The income tax provision for the three and nine months ended April 1, 2011 included approximately $15 million and $4 million, respectively, of net discrete charges, primarily related to increases in income tax reserves recorded for non-U.S. income tax positions taken in prior fiscal years partially offset by the release of income tax reserves associated with settlements of income tax audits and the expiration of certain statutes of limitations. In addition, the nine month period ended April 1, 2011 included an $11 million discrete income tax benefit from the loss recognized in the three months ending October 1, 2010 on the redemption of debt which was offset by a corresponding increase in the valuation allowance for U.S. deferred tax assets.

The Company s provision for income taxes recorded for the three and nine months ended April 1, 2011 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes primarily due to the net effect of (i) the indefinite reinvestment of the Company s earnings outside of Ireland, (ii) income tax benefits related to tax holiday and tax incentive programs, (iii) income tax expense related to intercompany transactions, (iv) an increase in valuation allowance for U.S. deferred tax assets, and (v) income tax reserves related to non-U.S. tax positions taken in prior fiscal years and the release of income tax reserves from settlements of income tax audits and the expiration of certain statutes of limitations.

During the nine months ended April 1, 2011, the Company s unrecognized income tax benefits excluding interest and penalties increased by $9 million to $124 million. The unrecognized income tax benefits that, if recognized, would impact the effective tax rate were $124 million as of April 1, 2011, subject to certain future valuation allowance reversals. During the 12 months beginning April 2, 2011, the Company expects to reduce its unrecognized income tax benefits by approximately $9 million as a result of settlements and the expiration of certain statutes of limitations.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The income tax provision for the three months ended April 2, 2010 included approximately $11 million of discrete income tax benefits recorded primarily for the reversal of valuation allowance previously recorded for certain non-U.S. deferred tax assets and the release of income tax reserves as a result of the U.S. 9th Circuit Court of Appeals affirmation of the Tax Court decision in *Xilinx v. Commissioner*. The income tax benefit recognized for the nine months ended April 2, 2010 included approximately $39 million of discrete income tax benefits primarily for the release of income tax reserves associated with settlements, expiration of certain statutes of limitations, and the U.S. 9th Circuit Court decision, as mentioned above, the reversal of valuation allowance previously recorded for certain non-U.S. deferred tax assets, and U.S. federal income tax legislative changes.

During the nine months ended April 2, 2010, and prior to the Company s reorganization, the Company s publicly traded parent was incorporated in the Cayman Islands and not subject to income tax. The Company s income tax provision and benefit recorded for the three and nine months ended April 2, 2010 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the net effect of (i) income tax benefits related to tax holiday and tax incentive programs, (ii) a decrease in valuation allowance for certain non-U.S. deferred tax assets, (iii) income tax expense related to intercompany transactions, and (iv) the release of certain income tax reserves.

During the nine months ended April 2, 2010, the Company s unrecognized tax benefits excluding interest and penalties decreased by $4 million to $114 million.

6. Derivative Financial Instruments

The Company is exposed to foreign currency exchange rate, interest rate, and to a lesser extent, equity price risks relating to its ongoing business operations. The Company enters into foreign currency forward exchange contracts in order to manage the foreign currency exchange rate risk on forecasted expenses denominated in foreign currencies and to mitigate the remeasurement risk of certain foreign currency denominated liabilities. The Company s accounting policies for these instruments are based on whether the instruments are classified as designated or non-designated hedging instruments. The Company records all derivatives on the Condensed Consolidated Balance Sheets at fair value. The effective portions of designated cash flow hedges are recorded in Accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. Derivatives that are not designated as hedging instruments and the ineffective portions of cash flow hedges are adjusted to fair value through earnings. As of April 1, 2011 and July 2, 2010, the Company had net unrealized gains on cash flow hedges of approximately $6 million and $3 million, respectively.

The Company dedesignates its cash flow hedges when the forecasted hedged transactions are realized or it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in Accumulated other comprehensive income (loss) are reclassified into earnings in the same period that the underlying hedged transaction is included in earnings. Any subsequent changes in the fair value of such derivative instruments are immediately reflected in earnings. As of April 1, 2011, the Company s existing foreign currency forward exchange contracts mature within 12 months. The deferred amount currently recorded in

Accumulated other comprehensive income (loss) expected to be recognized into earnings over the next 12 months is a net gain of $7 million.

The following tables show the total notional value of the Company s outstanding foreign currency forward exchange contracts as of April 1, 2011 and July 2, 2010:

As of April 1, 2011

(Dollars in millions)	**Contracts Designated as Hedges**	**Contracts Not Designated as Hedges**
Thai baht	$ 266	$ 258
Singapore dollars	146	19
Czech koruna		11
	$ 412	$ 288

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of July 2, 2010

(Dollars in millions)	Contracts Designated as Hedges	Contracts Not Designated as Hedges
Thai baht	$ 406	$ 163
Singapore dollars	84	8
Japanese yen	1	
Czech koruna		10
	$ 491	$ 181

The Company is subject to equity market risks due to changes in the fair value of the notional investments selected by its employees as part of its SDCP. Through December 31, 2010, the Company had a TRS in order to manage the equity market risks associated with the SDCP liabilities. Effective January 3, 2011, the Company cancelled the TRS, and currently manages its exposure to equity market risks associated with the SDCP liabilities by investing directly in mutual funds that mirror the employees investment options.

The following tables show the Company s derivative instruments measured at fair value as reflected in the Condensed Consolidated Balance Sheets as of April 1, 2011 and July 2, 2010:

Fair Values of Derivative Instruments as of April 1, 2011

	Asset Derivatives		Liability Derivatives	
(Dollars in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$ 8	Accrued expenses	$ (2)
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	8	Accrued expenses	
Total derivatives		$ 16		$ (2)

Fair Values of Derivative Instruments as of July 2, 2010

(Dollars in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$ 5	Accrued expenses	$
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	2	Accrued expenses	
Total return swap	Other current assets		Accrued expenses	(1)
Total derivatives		$ 7		$ (1)

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables show the effect of the Company s derivative instruments on Other comprehensive income (OCI) and the Condensed Consolidated Statement of Operations for the three and nine months ended April 1, 2011:

The Effect of Derivative Instruments on the Statement of Operations

for the Three and Nine Months Ended April 1, 2011

(Dollars in millions)

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a)	
	For the Three Months	For the Nine Months		For the Three Months	For the Nine Months		For the Three Months	For the Nine Months
Foreign exchange forward contracts	$ (2)	$ 35	Cost of revenue	$ 10	$ 32	Cost of revenue	$ (2)	$ (1)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		For the Three Months	For the Nine Months
Foreign exchange forward contracts	Other, net	$ (1)	$ 19
Total return swap	Operating expenses	1	14
		$	$ 33

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relationships for both the three and nine months ended April 1, 2011. The amounts excluded from the assessment of hedge effectiveness, for the three and nine months ended April 1, 2011, were losses of $2 million and $1 million, respectively.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables show the effect of the Company s derivative instruments on OCI and the Condensed Consolidated Statement of Operations for the three and nine months ended April 2, 2010:

The Effect of Derivative Instruments on the Statement of Operations

for the Three and Nine Months Ended April 2, 2010

(Dollars in millions)

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Three Months	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Nine Months	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Three Months	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Nine Months	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Three Months	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Nine Months
Foreign exchange forward contracts	$ 6	$ 11	Cost of revenue	$ 2	$ 6	Cost of revenue	$	$ 1

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative For the Three Months	Amount of Gain or (Loss) Recognized in Income on Derivative For the Nine Months
Foreign exchange forward contracts	Other, net	$ 8	$ 12
Total return swap	Operating expenses	4	17
		$ 12	$ 29

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relationships for both the three and nine months ended April 2, 2010. The amounts excluded from the assessment of hedge effectiveness, for the three and nine months ended April 2, 2010, were $0 and $1 million, respectively.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Fair Value

Measurement of Fair Value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

A fair value hierarchy is based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflects the Company s own assumptions of market participant valuation (unobservable inputs). A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are inactive; quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; or

Level 3 Prices or valuations that require inputs that are both unobservable and significant to the fair value measurement.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and views an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate the Company s or the counterparty s non-performance risk is considered in determining the fair values of liabilities and assets, respectively.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company s assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of April 1, 2011:

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**
Assets:				
Commercial paper	$	$ 1,477	$	$ 1,477
Money market funds	639			639
U.S. treasuries and agency bonds		131		131
Corporate bonds		47		47
Asset-backed securities		47		47
Certificates of deposit		25		25
Sovereigns and supranationals		15		15
Municipal bonds		14		14
Total cash equivalents and short-term investments	639	1,756		2,395
Restricted cash and investments:				
Mutual funds	83			83
Money market funds	18			18
Certificates of deposit		2		2
Derivative assets		16		16
Auction rate securities			17	17
Total assets	$ 740	$ 1,774	$ 17	$ 2,531
Liabilities:				
Derivative liabilities	$	$ (2)	$	$ (2)
Total liabilities	$	$ (2)	$	$ (2)

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	**Quoted Prices in Active Markets for Identical Instruments**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**

	(Level 1)			
Assets:				
Cash and cash equivalents	$ 639	$ 1,477	$	$ 2,116
Short-term investments		279		279
Restricted cash and investments	101	2		103
Other current assets		16		16
Other assets, net			17	17
Total assets	$ 740	$ 1,774	$ 17	$ 2,531
Liabilities:				
Accrued expenses	$	$ (2)	$	$ (2)
Total liabilities	$	$ (2)	$	$ (2)

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the Company s assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of July 2, 2010:

Fair Value Measurements at Reporting Date Using