SEAGATE TECHNOLOGY
Form 10-Q
February 10, 2009
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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 January 2, 2009

¨ **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

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-0355609**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

P.O. Box 309, Ugland House

Grand Cayman KY1-1104, Cayman Islands

(Address of Principal Executive Offices)

Telephone: (345) 949-8066

(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 ¨

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, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of February 3, 2009, 491,165,112 shares of the registrant s common shares, par value $0.00001 per share, were issued and outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	January 2, 2009	June 27, 2008 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,161	$ 990
Short-term investments	148	151
Accounts receivable, net	1,040	1,410
Inventories	796	945
Deferred income taxes	157	274
Other current assets	486	502
Total Current Assets	3,788	4,272
Property, equipment and leasehold improvements, net	2,510	2,464
Goodwill	31	2,352
Other intangible assets, net	78	111
Deferred income taxes	436	616
Other assets, net	217	305
Total Assets	$ 7,060	$ 10,120
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 350	$
Accounts payable	1,370	1,652
Accrued employee compensation	156	440
Accrued warranty	212	226
Accrued expenses	586	599
Accrued income taxes	13	10
Current portion of long-term debt	320	360
Total Current Liabilities	3,007	3,287
Long-term accrued warranty	229	219
Long-term accrued income taxes	166	210
Other non-current liabilities	134	148
Long-term debt, less current portion	1,684	1,670
Total Liabilities	5,220	5,534
Contingencies (See Note 11)		

Shareholders equity:		
Common shares and additional paid-in capital	3,602	3,501
Accumulated other comprehensive income (loss)	(14)	(16)
Retained earnings (accumulated deficit)	(1,748)	1,101
Total Shareholders Equity	1,840	4,586
Total Liabilities and Shareholders Equity	$ 7,060	$ 10,120

(a) The information in this column was derived from the Company s audited Consolidated Balance Sheet as of June 27, 2008.

See notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	January 2, 2009	December 28, 2007	January 2, 2009	December 28, 2007
Revenue	$ 2,270	$ 3,420	$ 5,302	$ 6,705
Cost of revenue	1,948	2,531	4,455	5,008
Product development	235	262	495	504
Marketing and administrative	142	167	290	319
Amortization of intangibles	14	13	28	27
Restructuring and other, net	78	27	101	32
Impairment of goodwill and long-lived assets	2,290		2,290	
Total operating expenses	4,707	3,000	7,659	5,890
Income (loss) from operations	(2,437)	420	(2,357)	815
Interest income	5	19	12	35
Interest expense	(30)	(34)	(60)	(66)
Other, net	(14)	18	(27)	14
Other income (expense), net	(39)	3	(75)	(17)
Income (loss) before income taxes	(2,476)	423	(2,432)	798
Provision for (benefit from) income taxes	316	20	300	40
Net income (loss)	$ (2,792)	$ 403	$ (2,732)	$ 758
Net income (loss) per share:				
Basic	$ (5.73)	$ 0.77	$ (5.62)	$ 1.43
Diluted	(5.73)	0.73	(5.62)	1.37
Number of shares used in per share calculations:				
Basic	487	526	486	529
Diluted	487	556	486	558
Dividends declared per share	$ 0.12	$ 0.10	$ 0.24	$ 0.20

See notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Six Months Ended January 2, 2009	For the Six Months Ended December 28, 2007
OPERATING ACTIVITIES		
Net income (loss)	$ (2,732)	$ 758
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	481	420
Stock-based compensation	53	58
Impairment of goodwill and long-lived assets	2,290	
Deferred income taxes	305	12
Other non-cash operating activities, net	(13)	(9)
Changes in operating assets and liabilities:		
Accounts receivable	368	(249)
Inventories	149	(36)
Accounts payable	(282)	475
Accrued expenses, employee compensation and warranty	(389)	74
Other assets and liabilities	162	(25)
Net cash provided by (used in) operating activities	392	1,478
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(494)	(362)
Proceeds from sale of fixed assets	3	24
Purchases of short-term investments	(116)	(383)
Maturities and sales of short-term investments	120	222
Proceeds from sale of investment in equity securities	11	
Acquisitions, net of cash acquired		(78)
Other investing activities, net	1	17
Net cash provided by (used in) investing activities	(475)	(560)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	350	
Repayment of long-term debt	(15)	
Proceeds from exercise of employee stock options and employee stock purchase plan	36	132
Dividends to shareholders	(117)	(107)
Repurchases of common shares		(500)
Other financing activities, net		2
Net cash provided by (used in) financing activities	254	(473)
Increase (decrease) in cash and cash equivalents	171	445
Cash and cash equivalents at the beginning of the period	990	988
Cash and cash equivalents at the end of the period	$ 1,161	$ 1,433

Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 58	$ 61
Cash paid for income taxes, net of refunds	5	19

See notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Six Months Ended January 2, 2009

(In millions)

(Unaudited)

	Number of Common Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Balance at June 27, 2008	485	$	$ 3,501	$ (16)	$ 1,101	$ 4,586
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				2		2
Change in unrealized gain (loss) on auction rate securities, net				(1)		(1)
Net income (loss)					(2,732)	(2,732)
Comprehensive income (loss)						(2,730)
Issuance of common shares related to employee stock options and employee stock purchase plan	3		36			36
Fair value of beneficial conversion feature for convertible debt (See Note 3)			12			12
Dividends to shareholders					(117)	(117)
Stock-based compensation			53			53
Balance at January 2, 2009	488	$	$ 3,602	$ (14)	$ (1,748)	$ 1,840

See notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Nature of Operations Seagate Technology (Seagate or 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 information in systems ranging from desktop and notebook computers and consumer electronics devices to data centers delivering information over corporate networks and the Internet. 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; desktop applications, where its products are used in desktop computers; mobile computing applications, where its products are used in notebook computers; and consumer electronics applications, where its products are used in a wide variety of digital video recorders (DVRs), gaming devices and other consumer electronic devices that require storage. The Company sells its disk drives primarily to major original equipment manufacturers (OEMs), distributors and retailers. The Company also sells its branded storage solutions under both the Seagate and Maxtor brands.

Basis of Presentation and Consolidation The Condensed Consolidated Financial Statements include the accounts of the Company and all 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 have been condensed or omitted pursuant to such rules and regulations. The Condensed Consolidated Financial Statements reflect, in the opinion of management, all material 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 recurring nature. The Company s Consolidated Financial Statements for the fiscal year ended June 27, 2008 are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on August 13, 2008. 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 June 27, 2008 and the notes thereto, are adequate to make the information presented not misleading.

The results of operations for the three and six months ended January 2, 2009 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 3, 2009.

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 six months ended January 2, 2009 consisted of 13 weeks and 27 weeks, respectively. The three and six months ended December 28, 2007 consisted of 13 weeks and 26 weeks, respectively. Fiscal year 2009 will be comprised of 53 weeks and will end on July 3, 2009.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

Critical Accounting Policies and Use of Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the Company s Condensed 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 Condensed Consolidated Financial Statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company s financial condition and results of operations, and require the 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, valuation of deferred tax assets, as well as the accounting for goodwill and intangible assets. The Company also has other key accounting policies and accounting estimates relating to uncollectible customer accounts, valuation of inventory, and valuation of share-based payments. 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 June 27, 2008, there have been no significant changes in its critical accounting policies and estimates. Please refer to the *Critical Accounting Policies and Use of Estimates* in the Notes to the Consolidated Financial Statements contained in Part II, Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended June 27, 2008, as filed with the SEC on August 13, 2008, for a discussion of the Company s critical accounting policies and estimates. As the Company incurred impairment charges relating to goodwill and long-lived assets, and charges related to deferred tax assets in the three months ended January 2, 2009, the disclosures below provide additional detail related to the policies applicable to the review and determination of the impairment of goodwill and other long-lived assets, and of deferred tax assets.

Impairment of Goodwill and Other Long-lived Assets The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). As required by SFAS No. 142, the Company tests goodwill of its reporting units for impairment annually during its fourth quarter or whenever events occur or circumstances change, such as an adverse change in business climate or a decline in the overall industry, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Testing goodwill for impairment requires a two-step approach under SFAS No. 142. In determining the fair value of its reporting units in step one of its SFAS No. 142 impairment analysis, the Company uses one or both of these commonly accepted valuation methodologies: 1) the income approach, which is based on the present value of discounted cash flows and terminal value projected for the reporting unit, and 2) the market approach, which estimates fair value based on an appropriate valuation multiple of revenue or earnings derived from comparable companies, adjusted by an estimated control premium. The estimated control premium is based on reviewing observable transactions involving controlling interests in comparable companies. The discount rate that the Company uses in the income approach of valuation represents the weighted average cost of capital that the Company believes is reflective of the relevant risk associated with the projected cash flows. The Company may use a weighted average of the fair values determined separately using the income and market approaches if it determines that this will provide a more appropriate estimated fair value of the reporting units.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

To validate the reasonableness of the reporting unit fair values, the Company reconciles the aggregate fair values of the reporting units determined in step one (as described above) to the enterprise market capitalization to derive the implied control premium.

In performing the reconciliation the Company may, depending on the volatility of the market value of its stock price, use either the stock price on the valuation date or the average stock price over a range of dates around the valuation date. The Company compares the implied control premium to premiums paid in observable recent transactions of comparable companies to determine if the fair values of the reporting units estimated in step one are reasonable.

In accordance with the guidance in SFAS No. 142, the Company has determined that it has two reporting units to which goodwill is assignable: the Hard Disk Drive reporting unit and the Services reporting unit. Each of these reporting units constitutes a business and is the lowest level for which discrete financial information is available and is regularly reviewed by management. The acquired businesses underlying the Company s goodwill are specific to either the Hard Disk Drive or the Services reporting units and the goodwill amounts are assigned as such. The Services reporting unit represents approximately 1% of the Company s revenues and total assets.

If step one of the SFAS No. 142 analysis demonstrates that the fair value of either reporting unit is below the carrying value, the Company will proceed to step two of SFAS No. 142. If step two is necessary, the Company will estimate the fair values of all identifiable assets and liabilities of the reporting unit using the income, market or the replacement cost approaches, as appropriate. The excess of the fair value of the reporting unit over the fair values of the identified assets and liabilities is the implied fair value of goodwill. If the fair value of goodwill is lower than the carrying value of the goodwill, an impairment charge is recorded to reduce the carrying value to fair value.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS No. 144), the Company tests other long-lived assets, including property, equipment and leasehold improvements and other intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that the carrying value of those assets may not be recoverable. The Company assesses the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using the same approaches indicated above for SFAS No. 142 step two and compare it to its carrying value. The excess of the carrying value over the fair value is allocated pro rata to derive the adjusted carrying value. The adjusted carrying value of each asset in the asset group is not reduced below its fair value.

See additional disclosure of these analyses in Note 7 to the Company s Condensed Consolidated Financial Statements including the impairment charges recorded during the quarter.

The process of evaluating the potential impairment of goodwill or long-lived assets is subjective and requires significant judgment on matters such as, but not limited to, the reporting unit at which goodwill should be measured for impairment and the asset group to be tested for recoverability. The Company is also required to make estimates that may significantly impact the outcome of the analyses. Such estimates include, but are not limited to, future operating performance and cash flows, cost of capital, terminal values, control premiums and remaining economic lives of assets.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

Income Taxes The deferred tax assets the Company records each period depend primarily on its ability to generate future taxable income in the United States and certain foreign jurisdictions. Each period, the Company evaluates the need for a valuation allowance on its deferred tax assets and, if necessary, adjusts the valuation allowance so that net deferred tax assets are recorded only to the extent the Company concludes it is more likely than not that these deferred tax assets will be realized. If the Company s outlook for future taxable income changes significantly, its assessment of the need for a valuation allowance may also change. As a result of adverse changes in the Company s outlook for its future U.S. taxable income, the Company completed a reassessment of its valuation allowance against U.S. deferred tax assets. As a result, in the three months ended January 2, 2009, the Company increased the valuation allowance against its deferred tax assets.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

Net Income (Loss) Per Share

In accordance with the provisions of SFAS No. 128, *Earnings per Share*, the following table sets forth the computation of basic and diluted net income (loss) per share for the three and six months ended January 2, 2009 and December 28, 2007:

	For the Three Months Ended		For the Six Months Ended	
(Dollars in millions, except per share data)	**January 2, 2009**	**December 28, 2007**	**January 2, 2009**	**December 28, 2007**
Numerator:				
Net income (loss)	$ (2,792)	$ 403	$ (2,732)	$ 758
Adjustment for interest expense on 6.8% Convertible Senior Notes due April 2010		2		5
Net income (loss), adjusted	$ (2,792)	$ 405	$ (2,732)	$ 763
Denominator:				
Weighted-average common shares outstanding	489	528	488	531
Weighted-average nonvested shares	(2)	(2)	(2)	(2)
Total shares for purpose of calculating basic net income (loss) per share	487	526	486	529
Weighted-average effect of dilutive securities:				
Nonvested shares				
Dilution from employee stock options		19		19
2.375% Convertible Senior Notes due August 2012		7		6
6.8% Convertible Senior Notes due April 2010		4		4
Dilutive potential common shares:		30		29
Total shares for purpose of calculating diluted net income (loss) per share	487	556	486	558
Net Income (loss) per share:				
Basic net income (loss) per share	$ (5.73)	$ 0.77	$ (5.62)	$ 1.43
Diluted net income (loss) per share	$ (5.73)	$ 0.73	$ (5.62)	$ 1.37

The following potential common shares were excluded from the computation of diluted net income (loss) per share, as their effect would have been anti-dilutive:

	For the Three Months Ended	For the Six Months Ended

(in millions)	January 2, 2009	December 28, 2007	January 2, 2009	December 28, 2007
Stock options	56	20	52	20
Nonvested shares	3		2	
6.8% Convertible Senior Notes due April 2010	4		4	
2.375% Convertible Senior Notes due August 2012				

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information

Accounts Receivable	**January 2, 2009**	**June 27, 2008**
	(in millions)	
Accounts receivable	$ 1,047	$ 1,416
Allowance for doubtful accounts	(7)	(6)
	$ 1,040	$ 1,410

Inventories	**January 2, 2009**	**June 27, 2008**
	(in millions)	
Raw materials and components	$ 274	$ 352
Work-in-process	93	111
Finished goods	429	482
	$ 796	$ 945

Other Current Assets	**January 2, 2009**	**June 27, 2008**
	(in millions)	
Vendor non-trade receivables	$ 271	$ 348
Other current assets	215	154
	$ 486	$ 502

The Company has non-trade receivables from certain manufacturing vendors resulting from the sale of components to these vendors who manufacture and sell completed sub-assemblies 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	**January 2, 2009**	**June 27, 2008**
	(in millions)	
Property, equipment and leasehold improvements	$ 6,303	$ 5,845
Accumulated depreciation and amortization	(3,793)	(3,381)
	$ 2,510	$ 2,464

The accumulated depreciation and amortization as of January 2, 2009, included $44 million of accelerated depreciation charges recorded during the six months ended January 2, 2009, related to the closure of the Milpitas and the Pittsburgh facilities.

In the three months ended January 2, 2009, the Company tested its long-lived assets, including Property, equipment and leasehold improvements for recoverability pursuant to SFAS No. 144 as it was determined that an adverse change in its business climate had occurred during the quarter. The Company concluded from this assessment that the carrying value of Property, equipment, and leasehold improvements of its Hard Disk Drive reporting unit were recoverable, but those of the Services reporting unit were not. As a result of this test, the Company recorded a $3 million impairment charge related to the Property, equipment and leasehold improvements of the Services reporting unit. See Note 7 for further discussion.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information (continued)

Derivative Financial Instruments. The Company hedges portions of its forecasted expenditures denominated in foreign currencies with forward exchange contracts. As of January 2, 2009, the total notional value of the Company s outstanding foreign currency forward exchange contracts was approximately $315 million comprised of approximately $199 million to purchase Thai baht, $76 million to purchase Singapore dollars, $6 million to purchase British pounds, $12 million to purchase Euros, $10 million to purchase Chinese yuan, $10 million to purchase Czech koruna, and $2 million to purchase Japanese yen. As of January 2, 2009, the fair value of the Company s outstanding forward exchange contracts was a net liability of approximately $15 million. Net foreign currency transaction losses included in the determination of consolidated net income (loss) were approximately $1 million and $7 million for the three and six months ended January 2, 2009, respectively, and approximately $1 million and $6 million for the three and six months ended December 28, 2007, respectively.

3. Long-Term Debt, Convertible Notes and Credit Facilities

Long-Term Debt

$300 Million Aggregate Principal Amount of Floating Rate Senior Notes due October 2009 (the 2009 Notes). During the three months ended October 3, 2008, the 2009 Notes became due within 12 months. As such, the balance was reclassified to Current portion of long-term debt.

Convertible Notes

$326 Million Aggregate Principal Amount of 2.375% Convertible Senior Notes due August 2012 (the 2.375% Notes). As a result of its acquisition of Maxtor on May 19, 2006, the Company assumed the 2.375% Notes that require semi-annual interest payments payable on February 15 and August 15. The 2.375% Notes are convertible into common shares of Seagate Technology at a conversion rate of approximately 60.2074 shares per $1,000 principal amount of the notes, at the option of the holders, at any time during a fiscal quarter if, during the last 30 trading days of the immediately preceding fiscal quarter the common shares trade at a price in excess of 110% of the conversion price for 20 consecutive trading days. Upon conversion, the 2.375% Notes are subject to net cash settlement whereby the Company will deliver cash for the lesser of the principal amount of the notes being converted or the conversion value of the notes which is calculated by multiplying the conversion rate then in effect by the market price of the Company s common shares at the time of conversion. To the extent that the conversion value exceeds the principal amount of the 2.375% Notes, the Company will, at its election, pay cash or issue common shares with a value equal to the value of such excess. If the 2.375% Notes are surrendered for conversion, the Company may direct the conversion agent to surrender those notes to a financial institution selected by the Company for exchange, in lieu of conversion, into a number of the Company s common shares equal to the applicable conversion rate, plus cash for any fractional shares, or cash or a combination of cash and the Company s common shares in lieu thereof.

During the three months ended October 3, 2008, the 2.375% Notes were convertible and were classified as Current portion of long-term debt on the Company s Condensed Consolidated Balance Sheet at October 3, 2008. During the three and six month periods ended January 2, 2009, the Company s shares traded below 110% of the conversion price for at least 20 consecutive trading days of the last 30 trading days of the quarter. As a result, the 2.375% Notes became nonconvertible effective October 4, 2008, and have been reclassified as Long-term debt on the Company s Condensed Consolidated Balance Sheet as of January 2, 2009. In addition, the payment of dividends to holders of the Company s common shares have in certain quarters resulted in upward adjustments to the conversion rate of the 2.375% Notes and this may continue in the future.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Long-Term Debt, Convertible Notes and Credit Facilities (continued)

The Company evaluates the application of Emerging Issues Task Force (EITF) No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio*, (EITF 98-5) and EITF No. 00-27, *Application of EITF Issue No. 98-5 to Certain Convertible Instruments*, (EITF 00-27), to its convertible notes on a quarterly basis. As of January 2, 2009, the Company concluded that the 2.375% Notes had a beneficial conversion feature. During the three months ended January 2, 2009, the Company recorded a debt discount of approximately $12 million to reflect the beneficial conversion feature of the convertible debt pursuant to EITF 00-27. In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded the debt discount as a reduction of the carrying amount of the 2.375% Notes and as an addition to additional paid-in capital.

The Company is amortizing the debt discount to interest expense over the term of the debt, using the effective interest method. Amortization of the debt discount for the three months ended January 2, 2009 was less than $1 million.

Credit Facilities

On December 10, 2008, the Company borrowed $350 million under its existing $500 million senior unsecured revolving credit facility (the Revolving Credit Facility) pursuant to the Credit Agreement dated November 22, 2005, as amended and restated on September 19, 2006, by and among Seagate, the lenders party thereto, and JPMorgan Chase Bank, National Association, as the administrative agent.

The Revolving Credit Facility bears interest per annum at a variable rate equal to LIBOR plus a margin of 75 basis points for the quarter ended January 2, 2009, which is subject to change depending on the Company s credit rating. Borrowings under the Revolving Credit Facility are prepayable at any time prior to maturity without penalty, other than customary breakage costs for LIBOR based loans.

The outstanding balance of the Revolving Credit Facility subsequent to the borrowing described above is approximately $393 million, including $350 million in outstanding loans and approximately $43 million in outstanding letters of credit. The remaining undrawn uncommitted amount of the Revolving Credit Facility after giving effect to the outstanding loan and letters of credit described above is approximately $107 million.

The credit agreement that governs the Company s revolving credit facility contains covenants that must be satisfied in order to remain in compliance with the agreement. The credit agreement contains three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. As of January 2, 2009, the Company is in compliance with these covenants.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Fair Value

On July 28, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*, (SFAS No. 157) for all financial assets and financial liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but applies to other accounting pronouncements that require or permit fair value measurements. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements.

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No.157 for all non-financial assets and non-financial liabilities, except for items recognized or disclosed at fair value on a recurring basis. Accordingly, the Company will not apply the provisions of SFAS No. 157 to non-financial assets and non-financial liabilities until July 2009, the beginning of its next fiscal year.

Measurement of Fair Value

SFAS No. 157 defines fair value 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

SFAS No. 157 establishes a fair value hierarchy based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflect 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. SFAS No. 157 establishes 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.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Fair Value (continued)

The adoption of SFAS No. 157 had no effect on the Company s consolidated net loss for the three and six months ended January 2, 2009.

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 January 2, 2009, consistent with the fair value hierarchy provisions of SFAS No. 157.

	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:				
Money market funds	$ 782	$	$	$ 782
Asset-backed securities		5		5
Agency bonds		25		25
Corporate bonds		18		18
Commercial paper		255		255
Municipal bonds		16		16
U.S. Treasuries		84		84
Total Cash Equivalents and Marketable Securities	782	403		1,185
Auction Rate Securities			27	27
Derivative Assets[1]		2		2
Total Assets	$ 782	$ 405	$ 27	$ 1,214
Liabilities:				
Derivative Liabilities[2]	$	$ 17	$	$ 17
Total Liabilities	$	$ 17	$	$ 17

(1)

The fair value of Foreign currency forward exchange contracts is classified within Other assets, net in the Condensed Consolidated Balance Sheet as of January 2, 2009.

(2) The fair value of Foreign currency forward exchange contracts is classified within Accrued expenses in the Condensed Consolidated Balance Sheet as of January 2, 2009.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Fair Value (continued)

Reported as:

	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:				
Cash and cash equivalents	$ 782	$ 255	$	$ 1,037
Short-term investments		148		148
Other assets, net[1]		2	27	29
Total Assets	$ 782	$ 405	$ 27	$ 1,214
Liabilities:				
Accrued expenses[2]	$	$ 17	$	$ 17
Total Liabilities	$	$ 17	$	$ 17

(1) Amount represents the fair value of Foreign currency forward exchange contracts and the fair value of the auction rate securities as of January 2, 2009.

(2) Amount represents the fair value of Foreign currency forward exchange contracts as of January 2, 2009.

Level 1 assets consist of money market funds for which quoted prices are available in an active market.

The Company classifies items in Level 2 if the financial asset or liability is valued using observable inputs. Level 2 assets include: asset-backed securities, agency bonds, corporate bonds, commercial paper, municipal bonds, and U.S. Treasuries. These debt investments are priced using observable inputs and valuation models which vary by asset class. The Company uses a pricing service to assist in determining the fair values of all of its cash equivalents and marketable securities. For the cash equivalents and marketable securities in the Company s portfolio, multiple pricing sources are generally available. The pricing service uses inputs from multiple industry standard data providers or other third party sources and various methodologies, such as weighting and models, to determine the appropriate price at the measurement date. The Company corroborates the prices obtained from the pricing service against other independent sources and as of January 2, 2009 has not found it necessary to make any adjustments to the prices obtained.

The Company s derivative financial instruments are also classified within Level 2. The Company s derivative financial instruments consist of foreign currency forward exchange contracts. The Company recognizes derivative financial instruments in its consolidated financial statements at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Company determines the fair value of these instruments by considering the estimated amount it would pay or receive to terminate these agreements at the reporting date. The Company uses observable inputs including quoted prices in active markets for similar assets or liabilities.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Fair Value (continued)

The Company s Level 3 assets consist of auction rate securities with a par value of approximately $31 million, all of which are collateralized by student loans guaranteed by the Federal Family Education Loan Program. Beginning in the March 2008 quarter, these securities have continuously failed to settle at auction. As of January 2, 2009, the estimated fair value of these auction rate securities was $27 million. The Company believes that the impairment totaling $4 million is temporary given its ability and intent to hold these securities until recovery of the cost basis or maturity of these securities. As such, the impairment was recorded in Accumulated other comprehensive income (loss) and these securities were classified as long-term investments.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three and six months ended January 2, 2009:

(Dollars in millions)	**Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction Rate Securities**	
Balance at October 3, 2008 and at June 27, 2008	$	28
Unrealized gains (losses)[1]		(1)
Purchases, sales, issuances, settlements		
Transfers in/(out) of Level 3		
Balance at January 2, 2009	$	27

[1] Unrealized gains (losses) on available for sale securities are recorded as a separate component of other comprehensive income (loss) in Accumulated other comprehensive income (loss), which is a component of Shareholders Equity.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Fair Value (continued)

Other Fair Value Disclosures

In accordance with SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, the Company is required to disclose the fair value of its long-term debt at least annually or more frequently if the fair value has changed significantly.

The Company s debt is carried at cost. The following table represents the fair value of the Company s debt as of January 2, 2009:

Reported as:

	January 2, 2009		June 27, 2008	
(Dollars in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Floating Rate Senior Notes due October 2009	$ 300	$ 277	$ 300	$ 293
6.375% Senior Notes due October 2011	599	445	599	584
6.8% Senior Notes due October 2016	599	318	599	555
6.8% Convertible Senior Notes due April 2010	135	123	135	142
5.75% Subordinated debentures due March 2012	41	33	41	40
2.375% Convertible Senior Notes due August 2012(1)	315	183	326	422
LIBOR Based China Manufacturing Facility Loans	15	15	30	30
LIBOR Based Revolving Credit Facility	350	350		
	$ 2,354	$ 1,744	$ 2,030	$ 2,066
Less current portion	(670)	(647)	(360)	(457)
Long-term debt, less current portion	$ 1,684	$ 1,097	$ 1,670	$ 1,609

(1) Carrying amount of 2.375% Convertible Senior Notes due August 2012, net of debt discount as a result of the beneficial conversion feature. See Note 3, Long-Term Debt, Convertible Notes and Credit Facilities for further discussion.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Income Taxes

The Company is a foreign holding company incorporated in the Cayman Islands with foreign and U.S. subsidiaries that operate in multiple taxing jurisdictions. As a result, the Company s worldwide operating income either is subject to varying rates of tax or is exempt from tax due to tax holidays or tax incentive programs applicable in China, Malaysia, Singapore, Switzerland and Thailand. These tax holidays or incentives are scheduled to expire in whole or in part at various dates through 2020.

The income tax provision for the three and six months ended January 2, 2009 includes a deferred tax charge of $271 million associated with increased valuation allowance recorded for U.S. federal and state deferred tax assets associated with reductions in the Company s forecasted U.S. taxable income. The goodwill impairment charges recorded in the three and six months ended January 2, 2009 result in no tax benefits. The three months ending January 2, 2009 also includes approximately $34 million of tax expense that otherwise would have been recorded in subsequent quarters of fiscal 2009 absent a required change in the method for computing the Company s annual effective tax rate. As of the close of the period ending January 2, 2009, the Company is forecasting losses in certain jurisdictions, including the U.S., for which tax benefits for the losses cannot be recognized. However, the Company is recording income tax expense related to operations in certain of these loss jurisdictions. Pursuant to the accounting guidance provided in FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28* (FIN 18), paragraph 22a, the Company is now required to exclude these loss jurisdictions from its normal overall estimated annual effective rate calculation and determine a separately computed effective tax rate for each loss jurisdiction.

The income tax provision recorded for the three and six months ended January 2, 2009 differs from the provision (benefit) for income taxes that would be derived by applying a notional U.S. 35% rate to income (loss) before income taxes primarily due to the net effect of (i) goodwill impairment charges with no associated tax benefit, (ii) an increase in the Company s valuation allowance for certain deferred tax assets, (iii) the tax benefit related to the aforementioned tax holidays and tax incentive programs, (iv) tax expense related to intercompany transactions, and (v) the effect of applying the provisions of FIN 18 as described above. The income tax provision recorded for the three and six months ended December 28, 2007 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) the tax benefit related to the aforementioned tax holidays and tax incentive programs, (ii) a decrease in the Company s valuation allowance for U.S. deferred tax assets, and (iii) tax expense related to intercompany transactions.

Based on the Company s foreign ownership structure, and subject to (i) potential future increases in the valuation allowance for deferred tax assets and (ii) limitations imposed by Internal Revenue Code Section 382 on usage of certain tax attributes, the Company anticipates that its effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from the Company s U.S. subsidiaries may be subject to U.S. withholding taxes when, and if distributed. Deferred tax liabilities have not been recorded on unremitted earnings of certain foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal income tax if remitted to the Company s foreign parent holding company.

During the three and six months ending January 2, 2009, there were three major U.S. tax law changes taken into account by the Company in computing its income tax provision for the period. On July 30, 2008, the Housing and Economic Recovery Act of 2008 was enacted. Under this law, companies can elect to accelerate a portion of their unused AMT and research tax credits in lieu of the 50-percent bonus depreciation enacted in February 2008. The Company has concluded that it qualifies for and will elect to accelerate approximately $9 million of R&D credit carryovers to fiscal years 2008 and 2009 of which approximately $8 million of tax benefit was recognized in the three months ending October 3, 2008.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Income Taxes (continued)

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law. Under this law, the R&D credit was retroactively extended through December 31, 2009 from December 31, 2007. This extension has no immediate impact on the Company s tax provision for the period due to valuation allowances that were recorded for the U.S. deferred tax assets related to these additional credits. The California 2008-2009 Budget Bill (AB 1452), enacted on September 30, 2008, resulted in two temporary changes to the California income tax. First, the bill suspends the use of Net Operating Loss (NOL) carryovers for two years, fiscal years 2009 and 2010. Second, the bill limits the use of R&D credit carryovers to no more than 50% of the tax liability before credits. The Company concluded that the California legislative change resulted in no net increase in the Company s income tax expense in the period.

As of January 2, 2009, the Company has recorded net deferred tax assets of $592 million. The realization of $546 million of these deferred tax assets is primarily dependent on the Company s ability to generate sufficient U.S. and certain foreign taxable income in future periods. Although realization is not assured, the Company s management believes that it is more likely than not that these deferred tax assets will be realized.

During the three months ending January 2, 2009, the Company s unrecognized tax benefits excluding interest and penalties decreased by approximately $6 million to $353 million primarily due to (i) reductions associated with the expiration of certain statutes of limitation of $18 million, (ii) increases in current year unrecognized tax benefits of $15 million, and (iii) reductions from other activity, primarily foreign exchange gains, of $3 million. Approximately $18 million of reduction in unrecognized tax benefits during the period was recorded as reduction to goodwill.

During the six months ending January 2, 2009, the Company s unrecognized tax benefits excluding interest and penalties decreased by approximately $21 million to $353 million primarily due to (i) reductions associated with audit activity of $6 million, (ii) reductions associated with the expiration of certain statutes of limitation of $23 million, (iii) increases in current year unrecognized tax benefits of $16 million, and (iv) reductions from other activity, primarily foreign exchange gains, of $8 million. Approximately $21 million of reduction in unrecognized tax benefits during the period was recorded as a reduction to goodwill.

The total unrecognized tax benefits that, if recognized, would impact the effective tax rate were $68 and $147 million as of June 27, 2008 and January 2, 2009, respectively, subject to certain future valuation allowance reversals.

During the 12 months beginning January 3, 2009, the Company expects to reduce its unrecognized tax benefits by approximately $7 million as a result of the expiration of certain statutes of limitation. The Company does not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the resolution and/or timing of closure on open audits are highly uncertain as to when these events occur.

The Company files U.S. federal, U.S. state, and foreign tax returns. The Internal Revenue Service (IRS) is currently examining fiscal years 2005 through 2007. For state and foreign tax returns, the Company is generally no longer subject to tax examinations for years prior to fiscal year 2001. The statute of limitation for U.S. Federal returns is open for fiscal year 2005 and forward.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. 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 Statement of Operations, unless otherwise noted.

January 2009 Plan On January 11, 2009, the Company committed to a restructuring plan intended to realign its cost structure with the current macroeconomic business environment (the January 2009 Plan). The January 2009 Plan included reducing worldwide headcount by approximately 6%, or 3,000 employees, which is inclusive of an over 10% reduction of the U.S. workforce. The January 2009 Plan is expected to result in total restructuring charges of approximately $90 million and is expected to be largely complete by April 3, 2009. During the three months ended January 2, 2009, the Company accrued total restructuring charges of approximately $79 million related to estimated post employment benefits for the January 2009 Plan.

Pittsburgh Closure On September 18, 2008, the Company announced the closure of its research facility in Pittsburgh, Pennsylvania, as part of the Company s ongoing focus on cost efficiencies in all areas of its business (the Pittsburgh Closure). The Company plans to cease operations at this facility by the end of its third quarter of fiscal year 2009 and integrate certain activities into its other research and development facilities located within the United States. During the three months ended January 2, 2009, the Company recorded an adjustment of approximately $1 million to reduce previous estimates for post employment benefit costs related to the Pittsburgh Closure. Through January 2, 2009, the Company recorded approximately $2 million in restructuring charges for post employment benefit costs. In addition, as a result of the Pittsburgh Closure, the Company recorded approximately $14 million related to accelerated asset depreciation recorded as Product development on the Condensed Consolidated Statement of Operations. The Pittsburgh Closure is expected to result in total charges of approximately $46 million to $56 million.

Milpitas Closure On July 9, 2008, the Company announced the proposed closure of its media manufacturing facility in Milpitas, California, as part of the Company s ongoing focus on cost efficiencies in all areas of its business (the Milpitas Closure). The Company ceased production at this facility in September 2008 and expects all activities related to the closure to be completed by the second half of fiscal year 2009. During the three months ended January 2, 2009, the Company recorded approximately $2 million for various other exit costs. Through January 2, 2009, the Company recorded approximately $20 million of restructuring charges associated with post employment benefits, $2 million related to facility lease costs after operations ceased, and $2 million for various other exit costs. In addition, as a result of the Milpitas closure, the Company has recorded approximately $30 million related to accelerated asset depreciation recorded as Cost of revenue in the first two quarters of fiscal year 2009. The Company expects to record additional restructuring charges of approximately $6 million for the Milpitas Closure.

Limavady Closure On October 29, 2007, the Company announced the closure of its substrate manufacturing facility in Limavady, Northern Ireland, as part of the Company s ongoing focus on cost efficiencies in all areas of its business (the Limavady Closure). The Company ceased production at its Limavady facility during September 2008 and expects all activities related to this closure to be completed by the second half of fiscal year 2009. During the three months ended January 2, 2009, the Company recorded approximately $2 million in other exit costs, offset by a $5 million adjustment to the accrual established in December 2007 for grant repayments. Through January 2, 2009, the restructuring charges recorded in connection with the Limavady Closure were primarily related to employee termination benefits of $34 million and approximately $15 million related to other exit costs. Other exit costs included $13 million related to expected grant repayments. The Company expects to record additional restructuring charges of approximately $1 million by the end of fiscal year 2009.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Restructuring and Exit Costs (continued)

Maxtor Pursuant to EITF 95-3, *Recognition of Liabilities in Connection with a Business Combination* (EITF 95-3), the Company recorded certain exit costs aggregating $246 million through fiscal year 2008. During the three months ended October 3, 2008, the Company recorded an additional $10 million to reflect the Company s revised sub-lease expectations in connection with the exit of certain Maxtor facilities. The adjustment was included in Restructuring and other, net in its Statement of Operations. The remaining balance of $23 million as of January 2, 2009 is associated with the exit of certain facilities and payment of which is expected to continue through the end of fiscal year 2016.

The following table summarizes the Company s restructuring activities for the six months ended January 2, 2009:

(Dollars in millions)	Employee Benefits	Operating Leases	Other Exit Costs	Total
January 2009 Plan				
Accrual balances at June 27, 2008	$	$	$	$
Restructuring charges	79			79
Cash payments	(2)			(2)
Adjustments				
Accrual balances at January 2, 2009	$ 77	$	$	$ 77
Site Closures[1]				
Accrual balances at June 27, 2008	$ 48	$	$ 18	$ 66
Restructuring charges	8	2	4	14
Cash payments	(46)		(4)	(50)
Adjustments	(1)		(5)	(6)
Accrual balances at January 2, 2009	$ 9	$ 2	$ 13	$ 24
Maxtor				
Accrual balances at June 27, 2008	$	$ 17	$	$ 17
Restructuring charges				
Cash payments		(4)		(4)
Adjustments		10		10
Accrual balances at January 2, 2009	$	$ 23	$	$ 23
Other				
Accrual balances at June 27, 2008	$ 4	$	$	$ 4
Restructuring charges	1	3		4
Cash payments	(3)			(3)
Adjustments				
Accrual balances at January 2, 2009	$ 2	$ 3	$	$ 5

Total for all plans								
Accrual balances at June 27, 2008	$	52	$	17	$	18	$	87
Restructuring charges		88		5		4		97
Cash payments		(51)		(4)		(4)		(59)
Adjustments		(1)		10		(5)		4
Accrual balance at January 2, 2009	**$**	**88**	**$**	**28**	**$**	**13**	**$**	**129**[2]

(1) Site closures include the restructuring charges associated with the closure of the Pittsburgh, Milpitas and Limavady facilities.

(2) Of the accrued restructuring balance of approximately $129 million at January 2, 2009, $111 million is included in Accrued expense and $18 million is included in Other non-current liabilities on the accompanying Condensed Consolidated Balance Sheet.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Impairment of Goodwill and Long-lived Assets

Goodwill

In accordance with SFAS No. 142, the Company tests goodwill for impairment on an annual basis and, if required, at an interim date should events occur or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying value.

During late November and December 2008, the Company observed a sharp deterioration in the general business environment and in all of its major markets. Several of the Company s customers and other technology companies in the supply chain of its customers, as well as its competitors reduced their financial outlook and/or otherwise disclosed that they were experiencing very challenging market conditions with little visibility of a rebound. Another indicator of the rapidly declining market was the gap between Total Available Market (TAM) forecasted by industry analysts and the actual demand that materialized for the quarter. Prior to the start of the second fiscal quarter, the TAM was estimated to be approximately 156 million units. At about eight weeks into the quarter, the outlook for the TAM had decreased to be approximately 135 million units. After the close of the quarter, preliminary industry data indicated actual shipments for the December quarter were approximately 123 million units. In December 2008, in response to these adverse business indicators and the rapidly declining revenue trends experienced during its second quarter of fiscal 2009, the Company reduced its near-term and long-term financial projections. The Company determined that a significant adverse change in its business climate had occurred, and commenced an interim review of goodwill for impairment in accordance with SFAS No. 142.

In the interim review of goodwill for impairment, the Company followed the two-step method described in SFAS No. 142. In step one, the Company determined and compared the fair value of each of its Hard Disk Drive and Services reporting units with the carrying value of the respective reporting unit, including goodwill. Since the step one analysis indicated that the carrying values of both reporting units as of January 2, 2009 exceeded their respective fair values, the Company continued to step two of the analysis. Step two required estimating the fair values of all assets and liabilities (including unrecorded intangible assets) of each reporting unit. The fair value of each reporting unit was then allocated to the fair values of the identified assets and liabilities to determine the implied fair value of goodwill.

In determining the fair value of its reporting units in step one of the SFAS No. 142 analysis, the Company used a weighted average of: 1) the income approach, which is based on the aggregate of the present values of discounted cash flows projected for the reporting unit and of its estimated terminal value, and 2) the market approach, which estimates fair value based on appropriate valuation multiple(s) of revenue and/or earnings determined from comparable companies, adjusted by an estimated control premium (since observable equity values of comparable companies are typically values of minority holdings). In the market approach, the Company selected a control premium based on reviewing observable transactions involving controlling interests in comparable companies. In the income approach of valuation, the Company used projected cash flows based on its current long-term forecast and a discount rate that represents the weighted average cost of capital and that the Company believes is reflective of the relevant risk associated with the projected cash flows.

The Company believes that in a period of unusual market volatility and limited forecast visibility, a weighted average of the values derived separately from each of the income and market approaches affords a more reliable value than the exclusive use of either approach.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Impairment of Goodwill and Long-lived Assets (continued)

SFAS No. 142 requires the use of market participant assumptions in estimating the fair values of the reporting unit and the assets and liabilities of the unit. Since Seagate is one of two publicly traded companies engaged principally in the manufacture and sale of disk drives and the Hard Disk Drive reporting unit comprised approximately 99% of the Company s revenue, the Company used valuation multiples based on Seagate s trading price as of January 2, 2009 (the valuation date) to determine the fair value of the Hard Disk Drive reporting unit under the market approach. For the Services reporting unit, the Company selected valuation multiples based on a range of multiples of comparable software and services companies.

To validate the reasonableness of the reporting unit fair values, the Company reconciled the aggregate fair values of the reporting units determined in step one (as described above) to the enterprise market capitalization to derive the implied control premium. Given the recent volatility in the capital markets, the Company s average market capitalization over a range of 15 trading days extending before and after the valuation date was used in the reconciliation. The Company compared the implied control premium to premiums paid in observable recent transactions of comparable companies and determined that the fair values of the reporting units estimated in step one were reasonable.

In step two of the analysis, the Company primarily used the income approach (including the excess earnings and relief from royalty methods) in the valuation of its intangible assets except internal use software for which the cost approach was used. Warranty and deferred revenue liabilities were also valued using the income approach (based on estimated cost to fulfill obligations and a reasonable profit). The majority of buildings, machinery and equipment were primarily valued using the replacement cost method (adjusted for physical depreciation and obsolescence), though the market approach was considered where market data was available. Land was valued using the market approach and favorable or unfavorable leasehold interests were valued using the income approach. Public debt was valued at market prices.

Based on the interim review described above, in the three months ended January 2, 2009, the Company recorded impairment charges of $2.1 billion for the goodwill of the Hard Disk Drive reporting unit, representing 100% of its carrying value, and $150 million for the goodwill of the Services reporting unit reducing the carrying value to $31 million. These impairment charges were included in Impairment of goodwill and long-lived assets in the Condensed Consolidated Statement of Operations.

The changes in the carrying amount of goodwill by reporting units for the six months ended January 2, 2009, were as follows:

(Dollars in millions)	Hard Disk Drive	Services	Total
Balance at June 27, 2008	$ 2,169	$ 183	$ 2,352
Goodwill adjustments[(1)]	(32)	(2)	(34)
Impairment charges	(2,137)	(150)	(2,287)
Balance at January 2, 2009	$	$ 31	$ 31

(1) Goodwill adjustments during the six months ended January 2, 2009 primarily consisted of a $24 million reduction in unrecognized tax benefits during the period, which was recorded as a reduction to goodwill.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Impairment of Goodwill and Long-lived Assets (continued)

Long-lived Assets (Property, equipment, leasehold improvements, and other intangible assets)

In accordance with SFAS No. 144, the Company tests other long-lived assets, including property, equipment and leasehold improvements and other intangible assets, subject to amortization for recoverability whenever events or changes in circumstance indicate that their carrying value may not be recoverable. The Company assesses the recoverability of an asset group by determining whether the carrying value exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining useful life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group and compare it to its carrying value. The excess of the carrying value over the fair value is allocated pro rata to derive the adjusted carrying value. The adjusted carrying value of each asset in the asset group is not reduced below its fair value.

The Company determined that the adverse change in the business climate discussed under Goodwill above was also an indicator requiring the testing of its long-lived assets for recoverability and performed this test in the three months ended January 2, 2009. In accordance with the guidance in SFAS No. 144, the Company determined that the asset group to be tested for recoverability was at the reporting unit level as it was the lowest level at which cash flows were identifiable.

The Company tested the long-lived assets of both the Hard Disk Drive and Services reporting units for recoverability based on a comparison of the respective aggregate values of their undiscounted cash flows to the respective carrying values. The aggregate estimated cash flows expected to be generated from the use and disposition of the assets over the remaining economic life of the primary asset in each reporting unit was compared to the carrying value of the reporting unit to determine recoverability. The primary asset of the Hard Disk Drive reporting unit was determined to be its machinery and equipment; the primary asset of the Services reporting unit was determined to be its developed technology intangible. The results of the evaluation indicated that the carrying value of the Hard Disk Drive reporting unit was recoverable while that of the Services reporting unit was not.

Since the analysis indicated that the carrying value of the Services reporting unit was not recoverable, the Company estimated the fair values of the intangible assets and Property, equipment and leasehold improvements of this reporting unit. Fair values of the technology, customer relationships, trade names and non-compete agreements were estimated using various methods under the income approach, including the excess earnings method and the relief from royalty method, internal use software was valued using the cost approach. The fair values of the Property, equipment and leasehold improvements were based primarily on estimated replacement costs adjusted for physical deterioration and obsolescence. The Company recorded impairment charges of $3 million for the property and equipment and intangible assets of the Services reporting unit during the three and six months ended January 2, 2009. The Company recorded these impairment charges in Impairment of goodwill and long-lived assets in the Condensed Consolidated Statement of Operations. No impairment charge was recorded for the intangible assets or Property, equipment and leasehold improvements of the Hard Disk Drive reporting unit.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Impairment of Goodwill and Long-lived Assets (continued)

As of the end of the quarter ended January 2, 2009, Other intangible assets consisted primarily of existing technology, customer relationships and trade names acquired in business combinations. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets. The net carrying value of intangible assets as of January 2, 2009 and June 27, 2008 was approximately $78 million and $111 million, respectively. Accumulated amortization of intangibles was approximately $305 million and $273 million as of January 2, 2009 and June 27, 2008, respectively.

The carrying value of intangible assets as of January 2, 2009 is set forth in the following table:

	Gross Carrying Amount (in millions)	Accumulated Amortization (in millions)	Net Carrying Amount (in millions)	Weighted Average Remaining Useful Life (in years)
Existing technology	$ 181	$ (160)	$ 21	2.2
Customer relationships	156	(113)	43	1.5
Trade names	37	(23)	14	1.5
Patents and licenses	9	(9)		
Total acquired identifiable intangible assets	$ 383	$ (305)	$ 78	1.7

In the three and six months ended January 2, 2009, amortization expense for other intangible assets was approximately $16 million and $33 million, respectively. In the three and six months ended December 28, 2007, amortization expense for other intangible assets was approximately $24 million and $48 million, respectively. Amortization of the existing technology intangible is charged to Cost of revenue while the amortization of the other intangible assets is included in operating expenses in the Condensed Consolidated Statements of Operations.

8. Stock-Based Compensation

Stock-Based Benefit Plans

The Company s stock-based benefit plans have been established to promote the Company s long-term growth and financial success by providing incentives to its employees, directors, and consultants through grants of share-based awards. The provisions of the Company s stock-based benefit plans, which allow for the grant of various types of equity-based awards, are also intended to provide flexibility to maintain the Company s competitive ability to attract, retain and motivate participants for the benefit of the Company and its shareholders.

Seagate Technology 2004 Stock Compensation Plan Under the Seagate Technology 2004 Stock Compensation plan a maximum of 63.5 million common shares has been made available for issuance. A maximum of 10 million of these shares can be awarded as nonvested shares or restricted share units. As of January 2, 2009, there were approximately 25.4 million shares available for issuance under the Seagate Technology 2004 Stock Compensation Plan, of which 6.7 million shares were available for issuance as nonvested shares or restricted share units.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Stock-Based Compensation (continued)

The Company granted 45,000 and 191,820 nonvested shares during the three and six months ended January 2, 2009, respectively. The Company granted 26,159 and 1,081,655 restricted share units during the three and six months ended January 2, 2009, respectively. The Company also granted 316,500 and 4,977,691 non-qualified stock options during the three and six months ended January 2, 2009, respectively.

Stock Purchase Plan On July 31, 2008, the Company issued approximately 2.5 million common shares under its Employee Stock Purchase Plan (ESPP), with a weighted-average purchase price of $12.72 per share. There were no shares issued under the Employee Stock Purchase Plan during the three months ended January 2, 2009 and December 28, 2007. As of January 2, 2009, there were approximately 6.4 million common shares available for issuance under the ESPP.

Determining Fair Value of Equity Awards

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing formula and a single option award approach. The fair value for nonvested shares and restricted share units is the share price on the grant date. The fair value for all equity awards is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period or the remaining service (vesting) period.

The fair value of the Company s stock options, nonvested shares and restricted share units granted to employees for the three and six months ended January 2, 2009 and December 28, 2007, was estimated using the following weighted-average assumptions:

	For the Three Months Ended		For the Six Months Ended	
	January 2, 2009	December 28, 2007	January 2, 2009	December 28, 2007
Option Plan Shares				
Expected term (in years)	4.0	4.0	4.0	4.0
Volatility	38%	36%	36 38%	36%
Expected dividend rate	5.5 12.2%	1.5 1.6%	3.0 12.2%	1.5 1.7%
Risk-free interest rate	1.7%	3.3%	1.7 3.0%	3.3 4.2%
Weighted-average fair value	$1.18	$7.56	$3.13	$7.44
Nonvested Shares Weighted-average fair value	$6.53	$26.47	$11.29	$26.47
Restricted Share Units Weighted-average fair value	$6.13		$13.55	
ESPP Plan Shares				
Expected term (in years)	0.5	0.5	0.5	0.5
Volatility	39%	31%	39%	31%
Expected dividend rate	3.2%	1.7%	3.2%	1.7%
Risk-free interest rate	2.0%	5.0%	2.0%	5.0%
Weighted-average fair value	$3.59	$5.49	$3.59	$5.49

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Stock-Based Compensation (continued)

Stock Compensation Expense

Stock Compensation Expense The Company recorded approximately $26 million and $53 million of stock-based compensation during the three and six months ended January 2, 2009, respectively. Of the $53 million recorded in the six months ended January 2, 2009, approximately $5 million related to stock options assumed and nonvested shares exchanged in the Maxtor acquisition. The Company recorded approximately $29 million and $58 million of stock-based compensation during the three and six months ended December 28, 2007. Of the $58 million recorded in the six months ended December 28, 2007, approximately $9 million related to stock options assumed and nonvested shares exchanged in the Maxtor acquisition. The Company has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

Excess Tax Benefits from Stock Options In accordance with guidance in SFAS No. 123 (Revised 2004), *Share-Based Payment*, the cash flows resulting from excess tax benefits (tax benefits related to the excess of proceeds from employee exercises of stock options over the stock-based compensation cost recognized for those options) are classified as financing cash flows. The Company did not recognize any excess tax benefits as a financing cash inflow during the three and six months ended January 2, 2009.

9. Guarantees

Indemnifications of Officers and Directors

The Company has entered into indemnification agreements with the members of its board of directors to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued as a result of their service as members of the Company s board of directors.

Intellectual Property Indemnification Obligations

The Company has entered into agreements with customers and suppliers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying Condensed Consolidated Financial Statements with respect to these indemnification obligations.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Guarantees (continued)

Product Warranty

The Company estimates and accrues product warranty costs at the time revenue is recognized. The Company generally warrants its products for periods from one to three years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine its warranty obligations. In addition, estimated settlements for customer compensatory claims relating to product quality issues, if any, are accrued as warranty expense. Changes in the Company s product warranty liability during the three and six months ended January 2, 2009 and December 28, 2007 were as follows:

	For the Three Months Ended		For the Six Months Ended	
(Dollars in millions)	**January 2, 2009**	**December 28, 2007**	**January 2, 2009**	**December 28, 2007**
Balance, beginning of period	$ 445	$ 442	$ 445	$ 430
Warranties issued	61	67	136	127
Repairs and replacements	(56)	(66)	(125)	(137)
Changes in liability for pre-existing warranties, including expirations	(9)	14	(15)	37
Balance, end of period	$ 441	$ 457	$ 441	$ 457

10. Equity

Issuance of Common Shares

During the six months ended January 2, 2009, the Company issued approximately 0.8 million of its common shares from the exercise of stock options and approximately 2.5 million of its common shares related to the Company s ESPP.

Repurchases of Equity Securities

The Company did not repurchase any of its common shares during the six months ended January 2, 2009. As of January 2, 2009, the Company had approximately $2.0 billion remaining under the authorized $2.5 billion February 2008 stock repurchase plan.

11. Contingencies

In accordance with SFAS No. 5, *Accounting for Contingencies,* the Company assessed the probability of an unfavorable outcome of all its material litigation, claims or assessments to determine whether a liability had been incurred and whether it is probable that one or more future events will occur confirming the fact of the loss. In the event that an unfavorable outcome is determined to be probable and the amount of the loss can be reasonably estimated, the Company established an accrual for the litigation, claim or assessment. Litigation is inherently uncertain and may result in adverse rulings or decisions. Additionally, the Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on its results of operations. Accordingly, actual results could differ materially.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Contingencies (continued)

Intellectual Property Litigation

Convolve, Inc. and Massachusetts Institute of Technology (MIT) v. Seagate Technology LLC, et al Between 1998 and 1999, Convolve, Inc., a small privately held technology consulting firm founded by an MIT Ph.D., engaged in discussions with Seagate Technology, Inc. with respect to the potential license of technology that Convolve claimed to own. During that period, the parties entered into non-disclosure agreements. The Company declined Convolve s offer of a license in late 1999. On July 13, 2000, Convolve and MIT filed suit against Compaq Computer Corporation and the Company in the U.S. District Court for the Southern District of New York, alleging infringement of U.S. Patent Nos. 4,9156,635, Shaping Command Inputs to Minimize Unwanted Dynamics (the 635 patent) and U.S. Patent No. 5,638,267, Method and Apparatus for Minimizing Unwanted Dynamics in a Physical System (the 267 patent), misappropriation of trade secrets, breach of contract, tortious interference with contract and fraud relating to Convolve and MIT s Input Shaping® and Convolve s Quick and Quiet technology. The plaintiffs claim their technology is incorporated in Seagate s sound barrier technology, which was publicly announced on June 6, 2000. The complaint seeks injunctive relief, $800 million in compensatory damages and unspecified punitive damages.

The Company answered the complaint on August 2, 2000 and filed counterclaims for declaratory judgment that two Convolve/MIT patents are invalid and not infringed and that the Company owns any intellectual property based on the information that the Company disclosed to Convolve. The court denied plaintiffs motion for expedited discovery and ordered plaintiffs to identify their trade secrets to defendants before discovery could begin. Convolve served a trade secrets disclosure on August 4, 2000, and the Company filed a motion challenging the disclosure statement. On May 3, 2001, the court appointed a special master to review the trade secret issues. The special master resigned on June 5, 2001, and the court appointed another special master on July 26, 2001. After a hearing on its motion challenging the trade secrets disclosure on September 21, 2001, the special master issued a report and recommendation to the court that the trade secret list was insufficient.

Convolve revised the trade secret list, and the court entered an order on January 1, 2002, accepting the special master s recommendation that this trade secret list was adequate. On November 6, 2001, the U.S. Patent and Trademark Office (USPTO) issued US Patent No. 6,314,473, System for Removing Selected Unwanted Frequencies in Accordance with Altered Settings in a User Interface of a Data Storage Device. (the 473 patent) to Convolve. Convolve filed an amended complaint on January 16, 2002, alleging defendants infringement of this patent, and the Company answered and filed counterclaims on February 8, 2002. On July 26, 2002, the Company filed a Rule 11 motion challenging the adequacy of plaintiffs pre-filing investigation on the first two patents alleged in the complaint and seeking dismissal of plaintiffs claims related to these patents and reimbursement of attorney s fees. The court denied its motion on May 23, 2003. On May 6, 2003, the USPTO issued to Convolve U.S. Patent No. 6,560,658 B2, entitled Data Storage Device with Quick and Quiet Modes. Convolve indicated that it would seek leave of the court to add this patent to the lawsuit, but it never did so. This latest patent is a continuation of a patent currently in the lawsuit (U.S. Patent No. 6,314,473).

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Contingencies (continued)

The Company believes any claims that may relate to this continuation patent would be without merit, regardless of whether such claims were added to the ongoing litigation or asserted against it in a separate lawsuit. Judge John Martin, who was assigned this case, announced his retirement from the federal bench. The case was reassigned to Judge George B. Daniels. On October 14, 2003, the Special Master resigned from the case due to Convolve s claim that he had a conflict of interest. Magistrate Judge James C. Francis IV was appointed to handle all discovery matters. Plaintiffs eventually dropped the 267 patent from the case. The claims construction hearing on 635 and 473 patents was held on March 30 and 31, 2004. On August 11, 2005, the court entered an order construing the patent claims. Both Seagate and Compaq moved for reconsideration of its claim construction in light of intervening new law in the Federal Circuit s then-recent decision in *Phillips v. AWH Corp., et al.*, 415 F.3d 1303 (Fed. Cir. 2005). Convolve also moved for clarification. The court denied reconsideration without oral argument on December 7, 2005. The court later granted Convolve s unopposed clarification motion. On March 29, 2006, the court granted Seagate s summary judgment motion that Convolve s fraud, tortious interference with contract, unfair competition and breach of confidence claims are preempted by the California Uniform Trade Secrets Act (CUTSA). The court also held that while Convolve s claim for breach of the covenant of good faith and fair dealing is not preempted by the CUTSA, no tort damages are available. The court denied its motion for summary judgment on a trade secret issue without prejudice, finding there is an issue of fact that must be decided. Finally, the court entered an order on July 14, 2006, that Convolve has no evidence to prove its claims regarding 10 alleged trade secrets, precluding Convolve from proceeding at trial on those claims, and precluding Convolve from alleging violations of the 10 alleged trade secrets by either defendant prior to December 7, 2005, the date of the hearing.

At Seagate s request, the USPTO determined that both patents in suit have substantial new issues of patentability and ordered re-examination of the patents. The court denied its motion to stay the case pending patent re-examination. On December 2, 2008, the USPTO issued a re-examination Certificate for the 473 patent in which nine of the claims asserted in this litigation were determined to be patentable as amended and three asserted claims were confirmed. Another re-examination proceeding for the 473 patent is pending and the Company is awaiting an initial office action. A final office action has issued in the 635 re-examination in which five asserted claims were confirmed as patentable and three asserted claims were finally rejected. The 635 patent expired on September 12, 2008. No specific trial date has been set in the litigation, although the court indicated that the parties should be ready for trial in January 2010. The Company believes the claims are without merit, and intend to defend against them vigorously.

Siemens, AG v. Seagate Technology On August 23, 2006, Siemens, AG, a German corporation, filed a complaint against Seagate Technology in the U.S. District Court for the Central District of California alleging infringement of U.S. Patent No. 5,686,838 (the 838 patent) entitled Magnetoresistive Sensor Having at Least a Layer System and a Plurality of Measuring Contacts Disposed Thereon, and a Method of Producing the Sensor. The suit alleges that Seagate drives incorporating Giant Magnetic Resistance (GMR) sensors infringe the 838 patent. The complaint seeks damages in an unstated amount, an accounting, preliminary and permanent injunctions, prejudgment interest, enhanced damages for alleged willful infringement and attorney fees and costs. The lawsuit was served on Seagate on September 6, 2006. The Company served an answer to the complaint on November 27, 2006, denying all material allegations and asserting affirmative defenses. Siemens amended its complaint to add Tunnel Magnetic Resistance (TMR) sensors to the case. On May 9, 2008, the court entered summary judgment that TMR sensors are not covered by the 838 patent, thus eliminating TMR products from the case. On September 23, 2008, the court entered summary judgment that Seagate drives incorporating GMR sensors are covered by the 838 patent. Trial began on November 12, 2008, and a jury returned a verdict in favor of Seagate on December 23, 2008, finding the 838 patent invalid on grounds of both anticipation and obviousness.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Contingencies (continued)

StorMedia Texas LLC v. Comp USA, et al On January 22, 2007, a lawsuit was filed against 11 defendants, alleging infringement of U.S. Patent No. 6,805,891 (the 891 patent), a media patent that is allegedly owned by StorMedia Texas LLC. The suit was filed in U.S. District Court for the Eastern District of Texas, Marshall Division. All major hard disk drive companies were named, including Seagate Technology, Seagate Technology LLC, Hitachi, Fujitsu, Samsung, Toshiba and Western Digital, as well as retailers Comp USA, J&R Electronics and Tiger Direct. The Company served an answer to the complaint on April 13, 2007, denying all material allegations and asserting affirmative defenses. This case was resolved November 24, 2008, and dismissed with prejudice.

Siemens, AG v. Seagate Technology (Ireland) On December 2, 2008, Siemens served Seagate Technology (Ireland) with a writ of summons alleging infringement of European Patent (UK) No. 0 674 769 (the EU 769 patent), which is the European counterpart to US Patent No. 5,686,838 upon which Siemens had sued Seagate Technology in the United States. The suit was filed in the High Court of Justice in Northern Ireland, Chancery Division. Siemens alleges that giant magnetoresistance (GMR), tunnel magnetoresistance (TMR), and tunnel giant magnetoresistance (TGMR) products designed and manufactured by Seagate Technology (Ireland) infringe the EU 769 patent. The Company believes the claims are without merit and intend to defend against them vigorously.

Magsil Corporation and Massachusetts Institute of Technology v. Seagate Technology, et al. On December 12, 2008, Magsil Corporation and Massachusetts Institute of Technology filed a complaint in the US District Court for the District of Delaware against three Seagate entities, Maxtor Corporation, and twelve other hard disc drive and recording head manufacturing companies. The complaint alleges that unspecified hard disc drives and components thereof infringe two US patents: 5,629,922, entitled Electron Tunneling Device Using Ferromagnetic Thin Films, and 5,835,314, entitled Tunnel Junction Device For Storage and Switching of Signals. The complaint seeks judgment of infringement, an injunction, damages in an unstated amount, interest, and costs. The Company is evaluating the complaint.

Qimonda AG v, LSI Corporation, et al. On December 19, 2008, the US International Trade Commission (ITC) instituted an investigation under section 337 of the Tariff Act of 1930, as amended, at the request of complainant Qimonda AG, naming LSI Corporation and six Seagate Technology entities as respondents. The complaint alleges that LSI and Seagate import products into the US that infringe seven Qimonda patents relating to the design and manufacture of semiconductor integrated chips. The ITC set trial for June 1, 2009. The target date for completion of the investigation and, if a violation of the law is found, issuance of any remedy is February 16, 2010. The Company is evaluating the complaint.

Other Matters

The Company is involved in a number of other judicial and administrative proceedings incidental to its business, and the Company may be involved in various legal proceedings arising in the normal course of its business in the future. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its financial position or results of operations.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Recently Issued Accounting Pronouncements

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations*. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company currently does not have any investments that are accounted for under the equity method. The pending adoption of EITF 08-6 is not expected to have an impact on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, *Accounting for Defensive Intangible Assets*. EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company is currently evaluating the impact of the pending adoption of EITF 08-7 on its consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP), Accounting Principles Board (APB) Opinion No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB No. 14-1), which may require the Company to recognize additional non cash interest expense related to its Convertible Senior Notes in its consolidated statements of operations. FSP APB No. 14-1 requires the issuer to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB No. 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. FSP APB No. 14-1 must be applied retrospectively to all periods presented pursuant to the guidance of SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). The Company will adopt FSP APB No. 14-1 in its fiscal year 2010, and is currently evaluating the impact of the pending adoption on its consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company is currently evaluating the impact of the pending adoption of FSP FAS 142-3 on its fiscal year 2010 consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires disclosure of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of SFAS No. 161 on the disclosures in its consolidated financial statements.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Recently Issued Accounting Pronouncements (continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS No. 141(R) will change the Company s accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2010.

In September 2006, the FASB issued SFAS No. 157. In the first quarter of fiscal year 2009, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) for all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The adoption of SFAS No. 157 did not have a significant impact on the Company s consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance. See Note 4. Fair Value for further details on its fair value measurements.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP FAS 152-1) and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 152-2). Collectively, the Staff Positions defer the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of SFAS No. 157. In addition, in October 2008, the FASB issued FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* (FSP FAS 152-3) which clarified the application of how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. As described in Note 4, the Company has adopted SFAS No. 157 and the related FASB staff positions except for those items specifically deferred under FSP FAS 157-2. The Company is currently evaluating the impact of the full adoption of SFAS No. 157 on its consolidated results of operations and financial condition.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed Consolidating Financial Information

The Company has guaranteed obligations of Seagate Technology HDD Holdings (HDD) under senior notes totaling $1.5 billion comprised of $300 million aggregate principal amount of Floating Rate Senior Notes due October 2009 (the 2009 Notes), $600 million aggregate principal amount of 6.375% Senior Notes due October 2011 (the 2011 Notes) and $600 million aggregate principal amount of 6.8% Senior Notes due October 2016 (the 2016 Notes , and together with the 2009 Notes and the 2011 Notes, the Senior Notes), on a full and unconditional basis. The following tables present parent guarantor, subsidiary issuer and combined non-guarantors Condensed Consolidating Balance Sheets of the Company and its subsidiaries at January 2, 2009 and June 27, 2008, the Condensed Consolidating Statements of Operations for the three and six months ended January 2, 2009 and December 28, 2007 and the Condensed Consolidating Statements of Cash Flows for the six months ended January 2, 2009 and December 28, 2007. The information classifies the Company s subsidiaries into Seagate Technology-parent company guarantor, HDD-subsidiary issuer, and the Combined Non-Guarantors based upon the classification of those subsidiaries. Under each of these instruments, dividends paid by HDD or its restricted subsidiaries would constitute restricted payments and loans between the Company and HDD or its restricted subsidiaries would constitute affiliate transactions.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

January 2, 2009

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$	$	$ 1,161	$	$ 1,161
Short-term investments			148		148
Accounts receivable, net			1,040		1,040
Intercompany receivable			87	(87)	
Inventories			796		796
Other current assets			643		643
Total Current Assets			3,875	(87)	3,788
Property, equipment and leasehold improvements, net			2,510		2,510
Goodwill			31		31
Other intangible assets, net			78		78
Equity investment in HDD	5,103			(5,103)	
Equity investments in Non-Guarantors		3,349	249	(3,598)	
Intercompany note receivable		3,610	693	(4,303)	
Other assets, net		12	641		653
Total Assets	$ 5,103	$ 6,971	$ 8,077	$ (13,091)	$ 7,060
Short-term borrowings	$	$ 350	$	$	$ 350
Accounts payable			1,370		1,370
Intercompany payable			87	(87)	
Accrued employee compensation			156		156
Accrued expenses		20	778		798
Accrued income taxes			13		13
Current portion of long-term debt		300	20		320
Total Current Liabilities		670	2,424	(87)	3,007
Other non-current liabilities			363		363
Intercompany note payable	3,263		1,040	(4,303)	
Long-term accrued income taxes			166		166

Long-term debt, less current portion		1,198	486		1,684
Liability for deficit of Maxtor			651	(651)	
Total Liabilities	3,263	1,868	5,130	(5,041)	5,220
Shareholders Equity	1,840	5,103	2,947	(8,050)	1,840
Total Liabilities and Shareholders Equity	$ 5,103	$ 6,971	$ 8,077	$ (13,091)	$ 7,060

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

June 27, 2008

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors (In millions)	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 3	$	$ 987	$	$ 990
Short-term investments			151		151
Accounts receivable, net			1,410		1,410
Intercompany receivable			181	(181)	
Inventories			945		945
Other current assets			776		776
Total Current Assets	3		4,450	(181)	4,272
Property, equipment and leasehold improvements, net			2,464		2,464
Goodwill			2,352		2,352
Other intangible assets, net			111		111
Equity investment in HDD	7,767			(7,767)	
Equity investments in Non-Guarantors		6,089	253	(6,342)	
Intercompany note receivable		3,183	652	(3,835)	
Other assets, net		14	907		921
Total Assets	$ 7,770	$ 9,286	$ 11,189	$ (18,125)	$ 10,120
Accounts payable	$	$	$ 1,652	$	$ 1,652
Intercompany payable			181	(181)	
Accrued employee compensation			440		440
Accrued expenses	1	22	802		825
Accrued income taxes			10		10
Current portion of long-term debt			360		360
Total Current Liabilities	1	22	3,445	(181)	3,287
Other non-current liabilities			577		577
Intercompany note payable	3,183		652	(3,835)	
Long-term debt, less current portion		1,497	173		1,670

Liability for deficit of Maxtor			636	(636)	
Total Liabilities	3,184	1,519	5,483	(4,652)	5,534
Shareholders Equity	4,586	7,767	5,706	(13,473)	4,586
Total Liabilities and Shareholders Equity	$ 7,770	$ 9,286	$ 11,189	$ (18,125)	$ 10,120

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Three Months Ended January 2, 2009

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 2,270	$	$ 2,270
Cost of revenue			1,948		1,948
Product development			235		235
Marketing and administrative			142		142
Amortization of intangibles			14		14
Restructuring and other, net			78		78
Impairment of goodwill and long-lived assets			2,290		2,290
Total operating expenses			4,707		4,707
Income (loss) from operations			(2,437)		(2,437)
Interest income		1	13	(9)	5
Interest expense		(23)	(16)	9	(30)
Equity in income (loss) of HDD	(2,792)			2,792	
Equity in income (loss) of Non-Guarantors		(2,770)	(50)	2,820	
Other, net			(14)		(14)
Other income (expense), net	(2,792)	(2,792)	(67)	5,612	(39)
Income (loss) before income taxes	(2,792)	(2,792)	(2,504)	5,612	(2,476)
Provision for (benefit from) income taxes			316		316
Net income (loss)	$ (2,792)	$ (2,792)	$ (2,820)	$ 5,612	$ (2,792)

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed Consolidating Financial Information (continued)