SEAGATE TECHNOLOGY
Form 10-Q
May 03, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 March 30, 2007

¨ **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 309GT

Ugland House, South Church Street

George Town, Grand Cayman

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer: x Accelerated filer: ¨ Non-accelerated filer: ¨

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 April 27, 2007, 543,677,593 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)

	March 30, 2007	June 30, 2006 (a)
ASSETS		
Cash and cash equivalents	$ 909	$ 910
Short-term investments	301	823
Accounts receivable, net	1,367	1,445
Inventories	832	891
Other current assets	400	264
Total Current Assets	3,809	4,333
Property, equipment and leasehold improvements, net	2,279	2,106
Goodwill	2,440	2,475
Other intangible assets	219	307
Other assets, net	517	323
Total Assets	$ 9,264	$ 9,544
LIABILITIES		
Accounts payable	$ 1,397	$ 1,692
Accrued employee compensation	156	385
Accrued restructuring	25	210
Accrued expenses, other	763	648
Accrued income taxes	77	72
Current portion of long-term debt	330	330
Total Current Liabilities	2,748	3,337
Accrued restructuring	21	23
Other non-current liabilities	342	332
Long-term debt, less current portion	1,733	640
Total Liabilities	4,844	4,332
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common shares and additional paid-in capital	3,165	2,858
Deferred stock compensation		(1)

Accumulated other comprehensive income (loss)	4	(7)
Retained earnings	1,251	2,362
Total Shareholders Equity	4,420	5,212
Total Liabilities and Shareholders Equity	$ 9,264	$ 9,544

(a) The information in this column was derived from the Company s audited consolidated balance sheet as of June 30, 2006.

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 March 30, 2007	For the Three Months Ended March 31, 2006	For the Nine Months Ended March 30, 2007	For the Nine Months Ended March 31, 2006
Revenue	$ 2,828	$ 2,289	$ 8,616	$ 6,677
Cost of revenue	2,225	1,733	7,025	4,995
Product development	214	195	683	573
Marketing and administrative	126	108	446	303
Amortization of intangibles	13		36	
Restructuring, net	3			4
Total operating expenses	2,581	2,036	8,190	5,875
Income from operations	247	253	426	802
Interest income	15	19	59	48
Interest expense	(33)	(7)	(107)	(31)
Other, net	1	12	11	22
Other income (expense), net	(17)	24	(37)	39
Income before income taxes	230	277	389	841
Provision for income taxes	18	3	18	8
Net income	$ 212	$ 274	$ 371	$ 833
Net income per share:				
Basic	$ 0.39	$ 0.56	$ 0.66	$ 1.72
Diluted	0.37	0.53	0.62	1.63
Number of shares used in per share calculations:				
Basic	546	489	564	483
Diluted	577	521	595	511
Dividends declared per share	$ 0.10	$ 0.08	$ 0.28	$ 0.24

See notes to condensed consolidated financial statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Nine Months Ended March 30, 2007	March 31, 2006
OPERATING ACTIVITIES		
Net income	$ 371	$ 833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	650	436
Stock-based compensation	101	57
Allowance for doubtful accounts receivable	42	
Redemption charges on 8% Senior Notes due 2009	19	
In-process research and development	4	
Excess tax benefits from exercise of stock options		(14)
Other non-cash operating activities, net	16	(13)
Changes in operating assets and liabilities:		
Accounts receivable	48	(58)
Inventories	68	(118)
Accounts payable	(295)	74
Accrued expenses, employee compensation and warranty	(431)	145
Accrued income taxes	15	16
Other assets and liabilities	(38)	(63)
Net cash provided by operating activities	570	1,295
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(688)	(606)
Proceeds from sales of fixed assets	29	
Purchases of short-term investments	(322)	(2,627)
Maturities and sales of short-term investments	851	2,724
Acquisitions, net of cash and cash equivalents acquired	(178)	(28)
Other investing activities, net	(44)	(134)
Net cash used in investing activities	(352)	(671)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	1,477	
Repayment of long-term debt	(5)	(340)
Redemption of 8% Senior Notes due 2009	(400)	
Redemption premium on 8% Senior Notes due 2009	(16)	
Proceeds from exercise of employee stock options and employee stock purchase plan	207	106
Dividends to shareholders	(158)	(115)
Excess tax benefits from exercise of stock options		14
Repurchases of common shares and payments made under prepaid forward agreements	(1,324)	
Net cash used in financing activities	(219)	(335)

Increase (decrease) in cash and cash equivalents		(1)		289
Cash and cash equivalents at the beginning of the period		910		746
Cash and cash equivalents at the end of the period	$	909	$	1035
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	35	$	22
Cash paid for income taxes, net of refunds		24		14

See notes to condensed consolidated financial statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Nine Months Ended March 30, 2007

(In millions)

(Unaudited)

	Number of Common Shares	Par Value of Shares	Additional Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 30, 2006	576	$	$ 2,858	$ (1)	$ (7)	$ 2,362	$ 5,212
Comprehensive income, net of tax:							
Unrealized gain on marketable securities					7		7
Unrealized gain on cash flow hedges, net					4		4
Net income						371	371
Comprehensive income							382
Issuance of common shares related to exercise of employee stock options	16		146				146
Issuance of common shares related to employee stock purchase plan	3		61				61
Repurchases of common shares	(14)					(374)	(374)
Payments made under prepaid forward agreements (see Note 9)						(950)	(950)
Shares received under prepaid forward agreements (see Note 9)	(38)						
Dividends to shareholders						(158)	(158)
Stock-based compensation			100	1			101
Balance at March 30, 2007	543	$	$ 3,165	$	$ 4	$ 1,251	$ 4,420

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, or the Company, designs, manufactures and markets rigid disc drives. Rigid disc drives, which are commonly referred to as disc 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 disc 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 digital video recorders, gaming devices and other consumer electronic devices that require storage. The Company sells its disc drives primarily to major original equipment manufacturers, or OEMs, distributors and retailers.

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. 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 30, 2006 are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on September 11, 2006. 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 30, 2006 and the notes thereto, are adequate to make the information presented not misleading.

The results of operations for the three and nine months ended March 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 29, 2007.

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 quarters ended March 30, 2007 and March 31, 2006 were 13 weeks. Fiscal year 2007 will be comprised of 52 weeks and will end on June 29, 2007.

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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 methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company s financial condition and operating results, 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 valuation of intangibles and goodwill. Below, these policies are discussed further, as well as the estimates and judgments involved. The Company also has other key accounting policies and accounting estimates relating to uncollectible customer accounts, valuation of inventory, valuation of share-based payments and acquisition related restructuring. 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.

The Company establishes certain distributor and original equipment manufacture, or OEM sales programs aimed at increasing customer demand. These programs are typically related to a distributor s level of sales, order size, advertising or point of sale activity or an OEM s level of sale activity or agreed upon rebate programs. The Company provides for these obligations at the time that revenue is recorded based on estimated requirements. These contra-revenue estimates are based on various factors, including price reductions during the period reported, estimated future price erosion, customer orders and sell-through levels, program participation, customer claim submittals and sales returns. During periods in which the Company s distributors inventories of its products are at higher than historical levels, the Company s contra-revenue estimates are subject to a greater degree of subjectivity and the potential for actual results to vary is accordingly higher. Currently, the Company s distributors inventories are within the historical range. Significant actual variations in any of the factors upon which the Company bases its contra-revenue estimates could have a material effect on the Company s operating results. In addition, the Company s failure to accurately predict the level of future sales returns by its distribution customers could have a material impact on the Company s financial condition and results of operations.

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of one to five years. The Company s warranty provision considers estimated product failure rates and trends (including the timing of product returns during the warranty periods), estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. The Company uses a statistical model to help with its estimates and the Company exercises considerable judgment in determining the underlying estimates. Should actual experience in any future period differ significantly from its estimates, or should the rate of future product technological advancements fail to keep pace with the past, the Company s future results of operations could be materially affected. The Company s judgment is subject to a greater degree of subjectivity with respect to newly introduced products and legacy Maxtor designed products because of limited experience with those products upon which to base its warranty estimates. The Company continually introduces new products and has recently begun a shift to disc drive products that utilize perpendicular recording technology. The actual results with regard to warranty expenditures could have a material adverse effect on the Company s results of operations if the actual rate of unit failure, the cost to repair a unit, or the actual cost required to satisfy customer compensatory claims are greater than that which the Company has used in estimating the warranty expense accrual. The Company also exercises judgment in estimating its ability to sell certain repaired disc drives. To the extent such sales fall below the Company s forecast, warranty cost will be adversely impacted.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

The Company s recording of deferred tax assets each period depends primarily on the Company s ability to generate current and future taxable income in the United States and certain foreign jurisdictions. Each period, the Company evaluates the need for a valuation allowance for its deferred tax assets and 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. With the Company s acquisition of Maxtor, the realizability of U.S. deferred tax assets was determined on a consolidated return basis. As a result, Maxtor s deferred tax assets that were determined to be realizable were recorded as a reduction of goodwill and Seagate deferred tax assets that were determined to be no longer realizable were written off with a charge to income tax expense at the date of acquisition.

In accordance with the provisions of Financial Accounting Standards Board (FASB) Statement (SFAS) No. 141, *Business Combinations* (SFAS No. 141), the purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. The Company engages third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant judgments, estimates and assumptions, especially with respect to intangible assets. Management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies, and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from existing technology, customer relationships, trade names, and other intangible assets; the acquired company s brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

The Company is required to periodically evaluate the carrying values of its intangible assets for impairment. If any of the Company s intangible assets are determined to be impaired, the Company may have to write down the impaired asset and its earnings would be adversely impacted in the period that occurs.

At March 30, 2007, the Company s goodwill totaled approximately $2.440 billion and its identifiable other intangible assets totaled $219 million. In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), the Company assesses the impairment of goodwill at least annually, or more often if warranted by events or changes in circumstances indicating that the carrying value may exceed its fair value. This assessment may require the projection and discounting of cash flows, an analysis of the Company s market capitalization and the estimation of the fair values of tangible and intangible assets and liabilities. Estimates of cash flow are based upon, among other things, certain assumptions about expected future operating performance; judgment is also exercised in determining an appropriate discount rate. The Company s estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model, or changes in operating performance. Significant differences between these estimates and actual cash flows could materially affect the Company s future financial results.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Summary of Significant Accounting Policies (continued)

Net Income Per Share

In accordance with SFAS No. 128, *Earnings per Share*, the following table sets forth the computation of basic and diluted net income per share for the three and nine months ended March 30, 2007 and March 31, 2006:

	For the Three Months Ended		For the Nine Months Ended March 31,	
	March 30, 2007	March 31, 2006	March 30, 2007	2006
	(In millions, except per share data)			
Numerator				
Net Income	$ 212	$ 274	$ 371	$ 883
Denominator				
Weighted-average common shares outstanding	548	489	566	483
Weighted-average nonvested shares	(2)		(2)	
Denominator for basic calculation	546	489	564	483
Weighted-average effect of dilutive securities:				
Weighted-average nonvested shares	1		1	
Employee stock options	24	32	25	28
2.375% convertible senior notes due August 2012	6		5	
Total shares for purpose of calculating diluted net income per share	577	521	595	511
Net income per share:				
Basic	$ 0.39	$ 0.56	$ 0.66	$ 1.72
Diluted	$ 0.37	$ 0.53	$ 0.62	$ 1.63

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

	For the Three Months Ended		For the Nine Months Ended March 31,	
	March 30, 2007	March 31, 2006	March 30, 2007	2006
	(In millions)			
Stock options	19.3	4.4	18.8	12.8
Nonvested shares			0.3	
6.8% convertible senior notes due April 2010	4.1		4.1	

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information

	March 30, 2007	June 30, 2006
	(in millions)	
Accounts Receivable:		
Accounts receivable	$ 1,422	$ 1,482
Allowance for doubtful accounts	(55)	(37)
	$ 1,367	$ 1,445
Inventories:		
Raw materials and components	$ 258	$ 209
Work-in-process	87	126
Finished goods	487	556
	$ 832	$ 891
Property, equipment and leasehold improvements, net:		
Property, equipment and leasehold improvements	$ 4,949	$ 4,286
Accumulated depreciation and amortization	(2,670)	(2,180)
	$ 2,279	$ 2,106
Accrued Warranty:		
Short-term accrued warranty included in Accrued expenses, other on the balance sheet	$ 235	$ 249
Long-term accrued warranty included in Other non-current liabilities on the balance sheet	202	196
	$ 437	$ 445

Allowance for Doubtful Accounts

During the three months ended December 29, 2006, the Company terminated its distributor relationships with eSys Technologies Pte. Ltd. and its affiliated entities (eSys) and the Company ceased shipments of its products to eSys. eSys was the largest distributor of Seagate products (including Maxtor products) for the fiscal year ended June 30, 2006 and for the three months ended September 29, 2006, representing approximately 5% and 6% of the Company s revenues for those respective periods.

The Company recorded an additional $40 million of allowance for doubtful accounts in the three months ended September 29, 2006 due to the inherent uncertainties following the termination of the distribution relationships, eSys continuing delinquency in payments and failure to pay amounts when promised, and eSys failure to comply with the terms of its commercial agreements with the Company. The Company is pursuing collection of all amounts owed by eSys as promptly as possible. Any amounts recovered on these receivables will be recorded in the period received.

While the Company terminated its distributor relationships with eSys, the Company has and will continue to aggressively pursue its contractual audit rights as well as any claims that may be assertable against eSys as a result of material breaches of the distribution agreements and any intentionally wrongful conduct that may have occurred. Specifically, the Company has commenced legal proceedings against eSys and its Chief Executive Officer under a distribution agreement and a personal guarantee to recover all amounts owed to the Company for purchased products.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information (continued)

Long-Term Debt and Credit Facilities

In September 2006, Seagate Technology HDD Holdings (HDD), the Company s wholly-owned direct subsidiary, issued 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). The Company has guaranteed these notes on a full and unconditional basis (see Note 12). These notes are unsecured and rank equally in right of payment with all of HDD s other existing and future senior unsecured indebtedness and senior to any present and future subordinated indebtedness of HDD.

$300 Million Aggregate Principal Amount of Floating Rate Senior Notes due October 2009. The 2009 Notes bear interest at a floating rate equal to three-month LIBOR plus 0.84% per year, payable quarterly on January 1, April 1, July 1 and October 1 of each year. The 2009 Notes will mature on October 1, 2009. The Company may not redeem the 2009 Notes prior to maturity.

$600 Million Aggregate Principal Amount of Fixed Rate Senior Notes due October 2011. The 2011 Notes bear interest at the rate of 6.375% per year, payable semi-annually on April 1 and October 1 of each year. The 2011 Notes are redeemable at the option of the Company in whole or in part, on not less than 30 nor more than 60 days notice at a make-whole premium redemption price. The make-whole redemption price will be equal to the greater of (1) 100% of the principal amount of the notes being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the 2011 Notes being redeemed, discounted at the redemption date on a semi-annual basis at a rate equal to the sum of the applicable Treasury rate plus 50 basis points.

$600 Million Aggregate Principal Amount of Fixed Rate Senior Notes due October 2016. The 2016 Notes bear interest at the rate of 6.8% per year, payable semi-annually on April 1 and October 1 of each year. The 2016 Notes are redeemable at the option of the Company in whole or in part, on not less than 30 nor more than 60 days notice at a make-whole premium redemption price. The make-whole redemption price will be equal to the greater of (1) 100% of the principal amount of the notes being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the 2016 Notes being redeemed, discounted at the redemption date on a semi-annual basis at a rate equal to the sum of the applicable Treasury rate plus 50 basis points.

$400 Million Aggregate Principal Amount of 8% Senior Notes due May 2009. In October 2006, the Company redeemed its 8% Senior Notes due May 2009 (the 8% Notes) at a redemption price of $1,040 per $1,000 principal amount of Notes for a total amount paid of $416 million. The redemption premium of $16 million as well as approximately $3 million of unamortized issuance costs were recorded as interest expense in the Company s Condensed Consolidated Statement of Operations for the nine months ended March 30, 2007.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information (continued)

Revolving Credit Facility. HDD has a senior unsecured $500 million revolving credit facility that matures in September 2011. The $500 million revolving facility, which was entered into in September 2006, replaced the then-existing $100 million revolving credit facility.

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 March 30, 2007, the Company is in compliance with all covenants.

The $500 million revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to a sub-limit of $100 million. Although no borrowings have been drawn under this revolving credit facility to date, the Company had utilized $47 million for outstanding letters of credit and bankers guarantees as of March 30, 2007, leaving $453 million for additional borrowings. The credit agreement governing the revolving credit facility includes limitations on the ability of the Company to pay dividends, including a limit of $300 million in any four consecutive quarters.

As a result of its acquisition of Maxtor in May 2006, the Company assumed $135 million aggregate principal amount of 6.8% Convertible Senior Notes due April 2010, $326 million aggregate principal amount of 2.375% Convertible Senior Notes due August 2012, $55 million aggregate principal amount of 5.75% Subordinated Debentures due March 2012 and $60 million aggregate principal amount of LIBOR based China Manufacturing Facility Loans. Following the payment by the Company of a dividend of $0.10 per common share on February 16, 2007 to holders of record of the Company s common shares as of February 2, 2007, the conversion rate of the 2.375% Convertible Senior Notes due August 2012 has been adjusted from 56.6503 to 57.3380 as of February 16, 2007.

Upon the closing of the merger with Maxtor, the Company and Maxtor entered into a supplemental indenture whereby the Company agreed to guarantee the 2.375% Notes and the 6.8% Notes on a full and unconditional basis (see Note 12).

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. 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, its worldwide operating income either is subject to varying rates of tax or is exempt from tax due to tax holidays or tax incentive programs 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 Company s provision for income taxes recorded for the three and nine months ended March 30, 2007 differs 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 holiday and tax incentive programs, (ii) an increase in the Company s valuation allowance for U.S. deferred tax assets, and (iii) foreign tax benefits recorded during the period relating to reductions in previously accrued taxes and reductions in valuation allowances for certain foreign deferred tax assets. The Company s provision for income taxes recorded for the three and nine months ended March 31, 2006 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 holiday and tax incentive programs, (ii) a decrease in the Company s valuation allowance recorded for U.S. and certain foreign deferred tax assets, and (iii) a tax benefit related to a reduction in previously accrued U.S. federal income taxes resulting from the final preparation of the Company s U.S. fiscal 2005 income tax returns.

Based on the Company s foreign ownership structure, participation in tax holiday and tax incentive programs in the Far East, and subject to potential future increases in its valuation allowance for U.S. and certain foreign deferred tax assets, 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.

As of March 30, 2007, the Company has recorded net deferred tax assets of $251 million. The realization of $136 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 fiscal years 2007 and 2008 and the first nine months of fiscal year 2009. 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. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when the Company reevaluates the underlying basis for its estimates of future U.S. and certain foreign taxable income.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Income Taxes (continued)

During the nine months ended March 30, 2007, the Company recorded a $180 million reduction to goodwill originally recorded in connection with the Maxtor acquisition. The reduction in goodwill was required in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109) as a result of the reversal of valuation allowance that had been previously recorded as of the date of acquisition against Maxtor related deferred tax assets for tax net operating loss carryovers. The valuation allowance was reduced primarily to reflect expected realization of acquired Maxtor net operating loss carry forwards due to increased forecasts of future U.S. taxable income and a $296 million gain for U.S. tax purposes from the inter company sale of certain intellectual property rights to a foreign subsidiary. Approximately $120 million of tax expense associated with the gain on the inter company sale of intangibles has been capitalized in accordance with Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB No. 51) and is being amortized to income tax expense over a sixty-month period which approximates the expected useful life of the intangibles sold in the inter company transaction.

As a result of the Maxtor acquisition, Maxtor underwent a change in ownership within the meaning of Section 382 of the Internal Revenue Code (IRC Sec. 382) on May 19, 2006. In general, IRC Sec. 382 places annual limitations on the use of certain tax attributes such as net operating losses and tax credit carryovers in existence at the ownership change date. The annual limitation for this change is $110 million. Certain amounts may be accelerated into the first five years following the acquisition pursuant to IRC Section 382 and published notices. On January 3, 2005, the Company underwent a change in ownership under IRC Sec. 382 due to the sale of common shares to the public by its then largest shareholder, New SAC. Based on an independent valuation as of January 3, 2005, the annual limitation for this change is $44.8 million. To the extent management believes it is more likely than not that the deferred tax assets associated with tax attributes subject to this IRC Sec. 382 limitation will not be realized, a valuation allowance has been provided.

The Internal Revenue Service is currently examining the Company s federal income tax returns for fiscal years ending in 2001-2004. The timing of the settlement of these examinations is uncertain. The Company believes that adequate amounts of tax have been provided for any final assessment that may result.

4. Restructuring Costs

Ongoing Restructuring Activities

During the nine months ended March 30, 2007, the Company reversed $4 million of restructuring accruals relating to the sale of a surplus building previously impaired in a prior restructuring and recorded restructuring accruals of approximately $4 million in connection with its ongoing restructuring activities, $3 million which was incurred during the three months ended March 30, 2007.

Liabilities Recognized in Connection with Business Combinations

In connection with the Maxtor acquisition, the Company accrued certain exit costs (see Note 5).

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Acquisitions

Maxtor Corporation

On December 20, 2005, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Maxtor Corporation, a Delaware corporation, and MD Merger Corporation, a Delaware corporation and direct wholly-owned subsidiary of Seagate, by which Seagate agreed to acquire Maxtor (the Merger), and whereby Maxtor would become a wholly owned subsidiary of Seagate. On May 19, 2006, the Company completed the acquisition of Maxtor in a stock-for-stock transaction. The acquisition was structured to qualify as a tax-free reorganization and the Company has accounted for the acquisition in accordance with SFAS No. 141. The combination of the two companies brands and the related product lines represent the most differentiated storage offering to customers and enhance the Company s scale and capacity to better drive technology advances and accelerate delivery of a wide range of differentiated products and cost-effective solutions to a growing base of customers.

Under the terms of the Merger Agreement, each share of Maxtor common stock was exchanged for 0.37 of Company s common shares. The Company issued approximately 96.9 million common shares to Maxtor s shareholders, assumed and converted Maxtor options (based on the 0.37 exchange ratio) into options to purchase approximately 7.1 million of the Company s common shares and assumed and converted all outstanding Maxtor nonvested stock into approximately 1.3 million of the Company s nonvested shares. The purchase consideration comprising the fair value of the common shares, stock options and nonvested shares assumed and including transaction costs was approximately $2.0 billion.

Purchase Price Allocation

The application of purchase accounting under SFAS No. 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. The allocation process requires an analysis and valuation of acquired assets, including fixed assets, technologies, customer contracts and relationships, trade names and liabilities assumed, including contractual commitments and legal contingencies.

The Company has identified and recorded the assets, including specifically identifiable intangible assets, and liabilities assumed from Maxtor at their preliminary estimated fair values as at May 19, 2006, the date of acquisition, and allocated the initial residual value of approximately $2.5 billion to goodwill. During the nine months ended March 30, 2007, the Company recorded $156 million of net adjustments that decreased goodwill, including a $180 million reduction to goodwill relating to the reversal of a corresponding amount of the valuation allowance previously recorded as of the acquisition date against certain deferred tax assets comprised of former Maxtor operating losses (see Note 3 and Note 6), a decrease of $41 million to goodwill related to adjustments of the fair value of acquired property, plant and equipment partially offset by increases to goodwill related to certain pre-acquisition contingencies of $52 million, as well as increases to goodwill related to fair value changes of certain assets acquired and liabilities assumed.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Acquisitions (continued)

Recognition of Liabilities in Connection with Maxtor Acquisition

Under Emerging Issues Task Force (EITF) 95-3, *Recognition of Liabilities in Connection with a Business Combination,* the Company has accrued certain exit costs aggregating $247 million, of which $108 million relates to employee severance, $45 million relates to the planned exit of leased or owned excess facilities and $94 million relates to the cancellation or settlement of contractual obligations that will not provide any future economic benefit. The severance and associated benefits liability relates to the employment termination of approximately 4,900 Maxtor employees, primarily in the U.S. and Far East, substantially all of whom had been terminated as of March 30, 2007. In the nine months ended March 30, 2007, the Company paid $186 million of the accrued exit costs. The Company expects payments for severance and related benefits and for contractual settlements to be substantially completed by the end of fiscal year 2007, while the costs associated with the exit of certain facilities will continue to the end of fiscal year 2016.

The following table summarizes the Company s exit activities in connection with the Maxtor acquisition:

	Severance and Benefits	Excess Facilities	Contract Cancellations	Total
	(in millions)			
Accrued exit costs, May 19, 2006	$ 117	$ 43	$ 91	$ 251
Cash payments	(8)		(10)	(18)
Accrued exit costs, June 30, 2006	109	43	81	233
Purchase accounting adjustments	(9)	2	3	(4)
Cash payments	(93)	(14)	(79)	(186)
Accrued exit costs, March 30, 2007	$ 7	$ 31	$ 5	$ 43

Accrued exit costs are included in short-term and long-term Accrued Restructuring on the Condensed Consolidated Balance Sheet.

Stock-Based Compensation

The fair value of stock-based compensation related to the unearned stock options and nonvested shares assumed from Maxtor was approximately $69 million, net of forfeitures, of which approximately $40 million has been amortized through March 30, 2007. The remaining $29 million will be amortized on a straight-line basis over the remaining estimated service (vesting) periods of the underlying stock options or nonvested shares.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Acquisitions (continued)

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company with the results of Maxtor prior to the Merger, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. Pro forma financial information for our other acquisitions have not been presented as the effects were not material to our historical consolidated financial statements either individually or in aggregate. The pro forma financial information for the period presented includes the business combination accounting effect on conforming Maxtor s revenue recognition policy to the Company s, adjustments related to the fair value of acquired inventory and fixed assets, amortization charges from acquired intangible assets, stock-based compensation charges for unvested stock options assumed and nonvested shares exchanged and related tax effects of these adjustments, where applicable. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of the period presented, nor does it intend to be a projection of future results.

The unaudited pro forma financial information for the three and nine months ended March 31, 2006 combines the Company s historical results for the three and nine months ended March 31, 2006 and, due to differences in our reporting periods, the historical results of Maxtor for the three and nine months ended April 1, 2006.

	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2006
	(Unaudited) (In millions, except for per share data)	
Revenue	$ 3,166	$ 9,397
Net income	$ 147	$ 681
Basic net income per share	$ 0.25	$ 1.18
Diluted net income per share	$ 0.24	$ 1.13

EVault, Inc.

During the three months ended March 30, 2007, the Company completed its acquisition of EVault, Inc. (EVault) in an all cash transaction valued at approximately $186 million, which includes approximately $2 million in estimated acquisition-related expenses. EVault provides online backup, archival, data protection and recovery solutions for small-medium businesses and remote enterprise computing.

The purchase price has been preliminarily allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition date as follows (in millions):

Tangible assets acquired and liabilities assumed	$ 20
Identifiable intangible assets	41
In-process research and development	4
Goodwill	121

Total purchase price	$ 186

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Acquisitions (continued)

Tangible net assets were valued at their respective carrying amounts as we believe that these amounts approximated their current fair values at the acquisition dates. The fair value of identifiable intangible assets acquired reflects management s estimates based on, among other factors, use of established valuation methods. Such assets consist of existing technology, customer relationships and trade names. Identifiable intangible assets are amortized over their estimated remaining useful lives. The Company assigned $4 million to the value of EVault s in-process research and development projects as at the acquisition date, all of which was written off in the three months ended March 30, 2007. Goodwill of approximately $121 million represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired.

The recorded values and estimated useful lives of the intangibles acquired from EVault were:

	Estimated Fair Value ($ in millions)	Estimated Remaining Useful Life (in years)
Existing technology	$ 26	4 5
Customer relationships	12	4 6
Trade names	3	3 4
Total acquired identifiable intangible assets	$ 41	

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Goodwill and Other Intangible Assets

Goodwill

In accordance with SFAS No. 141, the Company allocated the excess of the cost of the acquired entities over the net amounts of assets acquired and liabilities assumed to goodwill. As at March 30, 2007, the composition of the amounts recorded to goodwill is as follows (in millions):

Balance as of June 30, 2006	$ 2,475
Adjustment to goodwill acquired through Maxtor acquisition (see Note 5)	(156)
Goodwill acquired through EVault acquisition (see Note 5)	121
Balance as of March 30, 2007	$ 2,440

In accordance with the guidance in SFAS No. 142, goodwill is not amortized. Instead, it is tested for impairment on an annual basis or more frequently upon the occurrence of circumstances that indicate that goodwill may be impaired. The Company did not record any impairment of goodwill during the nine months ended March 30, 2007 or the nine months ended March 31, 2006.

Other Intangible Assets

Other intangible assets consist 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. Accumulated amortization of intangibles was $162 million and $33 million at March 30, 2007 and June 30, 2006, respectively. The carrying value of intangible assets at March 30, 2007 is set forth in the table below.

(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	$ 176	$ (111)	$ 65
Customer relationships	152	(36)	116
Trade names	36	(7)	29
Patents and licenses	17	(8)	9
Total acquired identifiable intangible assets	$ 381	$ (162)	$ 219

In the nine months ended March 30, 2007 and March 31, 2006, amortization expense for other intangible assets was $129 million and $4 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. During the three months ended March 30, 2007, the Company recorded a write-off of in-process research and development related to the acquisition of EVault in the amount of $4 million, which is included in Operating expenses in the Condensed Consolidated Statements of Operations.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Stock-Based Compensation

Stock-Based Benefit Plans

Seagate Technology 2001 Share Option Plan In December 2000, the Company s board of directors adopted the Seagate Technology 2001 Share Option Plan (the 2001 Plan). Under the terms of the 2001 Plan, eligible employees, directors, and consultants can be awarded options to purchase up to 100 million common shares of the Company under vesting terms to be determined at the date of grant. Options granted to exempt employees generally vest as follows: 25% of the shares will vest on the first anniversary of the vesting commencement date and the remaining 75% will vest proportionately each month over the next 36 months. Options granted to non-exempt employees vest on the first anniversary of the vesting commencement date. Except for certain options granted below deemed fair value shortly prior to the Company s initial public offering in fiscal year 2003, all other options granted under the 2001 Plan were granted at fair market value. Options granted up through September 5, 2004 expire ten years from the date of grant and options granted subsequent to September 5, 2004 expire seven years from the date of grant. As of March 30, 2007, there were approximately 0.4 million common shares available for issuance under the 2001 Plan.

Seagate Technology 2004 Stock Compensation Plan On August 5, 2004, the Company s board of directors adopted the Seagate Technology 2004 Stock Compensation Plan (the 2004 Plan), and on October 28, 2004, the Company s shareholders approved the 2004 Plan. The purpose of the 2004 Plan is 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. On October 26, 2006, the Company s shareholders approved an amendment to the 2004 Plan to increase the number of common shares available for issuance by 36 million. The provisions of the 2004 Plan, which allows for the grant of various types of equity-based awards up to 63.5 million shares, are also intended to provide greater flexibility to maintain the Company s competitive ability to attract, retain and motivate participants for the benefit of the Company and its shareholders. Options granted to exempt employees generally vest as follows: 25% of the shares will vest on the first anniversary of the vesting commencement date and the remaining 75% will vest proportionately each month over the next 36 months. Options granted to non-exempt employees vest on the first anniversary of the vesting commencement date. As of March 30, 2007, there were approximately 38.5 million common shares available for issuance under the 2004 Plan.

Assumed Maxtor Stock Options In connection with the Company s acquisition of Maxtor, the Company assumed all outstanding options to purchase Maxtor common stock with a weighted-average exercise price of $16.10 on an as-converted basis. Each stock option assumed was converted into a stock option to purchase the Company s common shares after applying the exchange ratio of 0.37 Company common shares for each share of Maxtor common stock. In total, the Company assumed and converted Maxtor stock options into stock options to purchase approximately 7.1 million of the Company s common shares. In addition, the Company assumed and converted all outstanding Maxtor nonvested stock into approximately 1.3 million of the Company s nonvested shares, based on the 0.37 exchange ratio. The assumed options and nonvested shares exchanged retained all applicable terms and vesting periods. As of March 30, 2007, approximately 2.6 million of the assumed stock options and approximately 1.0 million of the exchanged nonvested shares remained outstanding.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Stock-Based Compensation (continued)

Maxtor Corporation 1996 Stock Plan As a result of the acquisition of Maxtor, the Company assumed all outstanding stock options and nonvested stock under Maxtor s Amended and Restated 1996 Stock Option Plan (the 1996 Plan). Stock options under the 1996 Plan generally vest over a four-year period from the date of grant with 25% vesting at the first anniversary of the vest date and 6.25% each quarter thereafter, expiring ten years from the date of grant. Nonvested shares generally vest over a three-year period from the date of grant with 1/3 vesting at the first anniversary date of the vest date and 1/3 each year thereafter, and are subject to forfeiture if employment is terminated prior to the time the shares become fully vested and non-forfeitable.

Maxtor Corporation 2005 Performance Incentive Plan As a result of the acquisition of Maxtor, the Company assumed all outstanding stock options and nonvested stock under Maxtor s 2005 Performance Incentive Plan (the 2005 Plan). Stock options granted under the 2005 Plan generally vest over a four-year period with 25% vesting at the first anniversary of the vest date and 6.25% each quarter thereafter, expiring ten years from the date of grant. Nonvested shares generally vest over a three-year period from the date of grant with 1/3 vesting at the first anniversary of the vest date and 1/3 each year thereafter, and are subject to forfeiture if employment is terminated prior to the time the shares become fully vested and non-forfeitable.

Maxtor (Quantum HDD) Merger Plan As a result of the acquisition of Maxtor, the Company assumed all outstanding options under Maxtor s (Quantum HDD) Merger Plan. Options granted under this plan are completely vested and exercisable.

Stock Purchase Plan The Company established an Employee Stock Purchase Plan (ESPP) in December 2002. At that time, a total of 20 million common shares had been authorized for issuance under the ESPP. On October 26, 2006, the Company s shareholders approved an amendment to the ESPP to increase the number of common shares available for issuance by 10 million bringing the total amount of common shares authorized to be issued under the ESPP to 30 million. In no event shall the total number of shares issued under the ESPP exceed 75 million shares. The ESPP consists of a six-month offering period with a maximum issuance of 2.5 million shares per offering period. The ESPP permits eligible employees who have completed thirty days of employment prior to the commencement of any offering period to purchase common shares through payroll deductions generally at 85% of the fair market value of the common shares. On July 31, 2006, the Company issued approximately 1.7 million common shares under the ESPP, with a weighted-average purchase price of $16.45. On January 31, 2007, the Company issued approximately 1.7 million common shares under the ESPP, with a weighted-average purchase price of $19.09. As of March 30, 2007, there were approximately 12.5 million common shares available for issuance under the ESPP.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Stock-Based Compensation (continued)

Determining Fair Value of Stock Options

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing formula and a single option award approach. This fair value is then 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 granted to employees for the three and nine months ended March 30, 2007 and March 31, 2006 was estimated using the following weighted-average assumptions:

	For the Three Months Ended March 30, 2007	March 31, 2006	For the Nine Months Ended March 30, 2007	March 31, 2006
Option Plan Shares				
Expected term (in years)	4.0	3.7	4.0	3.5 3.7
Volatility	38%	41%	38 39%	41 43%
Expected dividend	1.5 1.6%	1.2 1.5%	1.4 1.9%	1.2 2.3%
Risk-free interest rate	4.5%	4.5%	4.4 4.7%	4.1 4.5%
Estimated annual forfeitures	4.5%	4.9%	4.5%	4.6 4.9%
Weighted-average grant date fair value	$ 8.43	$ 8.25	$ 7.44	$ 5.06
ESPP Plan Shares				
Expected term (in years)	0.5	0.5 1.0	0.5	0.5 1.0
Volatility	33%	37%	33 34%	37 41%
Expected dividend	1.5%	1.2%	1.4 1.5%	1.2 1.7%
Risk-free interest rate	5.2%	4.5%	5.0 5.2%	3.6 4.5%
Weighted-average grant date fair value	$ 6.29	$ 6.36	$ 5.80	$ 5.21

Stock Compensation Expense

The Company recorded approximately $32 million and $101 million of stock-based compensation during the three and nine months ended March 30, 2007, respectively. Of the $101 million recorded in the nine months ended March 30, 2007, approximately $24 million related to assumed stock options and nonvested shares exchanged in the Maxtor acquisition (see Note 5). The Company recorded approximately $20 million and $57 million of stock-based compensation during the three and nine months ended March 31, 2006, respectively. The Company has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Guarantees

Indemnifications to Officers and Directors

We have entered into indemnification agreements, a form of which is incorporated by reference in the exhibits of this report, with the members of our 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 our 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.

Product Warranty

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of one to five years. The Company warrants its internal desktop and notebook disc drives shipped through the distribution and retail channels for a period of three to five years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine its warranty obligation. 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 nine months ended March 30, 2007 and March 31, 2006 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
	(in millions)			
Balance, beginning of period	$ 457	$ 250	$ 445	$ 243
Warranties issued	50	36	164	103
Repairs and replacements	(91)	(36)	(235)	(99)
Changes in liability for pre-existing warranties, including expirations and customer compensatory claims	21	8	63	11
Balance, end of period	$ 437	$ 258	$ 437	$ 258

The Company offers extended warranties on certain of its products. Revenue on extended warranties is recognized ratably over the extended warranty period.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Equity

Issuance of Common Shares

During the nine months ended March 30, 2007, the Company issued approximately 16.0 million of its common shares from the exercise of stock options and approximately 3.4 million of its common shares related to the Company s employee stock purchase plan.

Repurchases of Equity Securities

On August 8, 2006, the Company announced that its board of directors had authorized the use of up to $2.5 billion for the repurchase of the Company s outstanding common shares over a two-year period. From the authorization of this repurchase program and through the nine months ended March 30, 2007, the Company repurchased approximately 52.2 million shares, all of which were cancelled on the day received and are no longer outstanding. The Company repurchased these shares through a combination of open market purchases and prepaid forward agreements with large financial institutions, whereupon the Company prepaid financial institutions to deliver shares at future dates. The Company entered into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price (VWAP) of its common shares. The Company s policy to date has been to enter into such transactions only when the discount that it receives is higher than the foregone return on its cash prepayment to the financial institution. There were no explicit commissions or fees on these prepaid forward agreements. Under the terms of these agreements, there was no requirement for the financial institution to return any portion of the prepayment to the Company. These prepaid forward agreements were not derivatives because the Company had prepaid all amounts and had no remaining obligation. The prepayments were recorded as a reduction to shareholder s equity when paid and the shares were deducted from shares outstanding when delivered. The agreements require the physical delivery of shares; there were no settlement alternatives, except in the case of certain defined extraordinary events. The parameters used to calculate the final number of shares deliverable were: the total notional amount of the contract and the average VWAP of the Company s stock during the contract period less the agreed upon discount.

During the nine months ended March 30, 2007, the Company repurchased 14.5 million shares through open market repurchases. In addition, the Company made payments totaling $950 million under prepaid forward agreements and took delivery of 37.7 million shares using prepaid forward agreements. Shares physically delivered to the Company were cancelled on the day received and were no longer outstanding. At March 30, 2007, there were no outstanding prepaid forward agreements to repurchase the Company s common shares.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Equity (continued)

As of March 30, 2007, the Company had approximately $1.2 billion remaining under the authorized $2.5 billion stock repurchase program. The Company did not repurchase any shares during the nine months ended March 31, 2006. Share repurchases during the nine months ended March 30, 2007 were as follows:

	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased Under Publicly Announced Plans or Programs (in millions)	Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions)
July 2006		$		$ 2,500
August 2006		$		$ 2,500
September 2006	6.7	$ 22.47	6.7	$ 2,350
October 2006		$		$ 2,350
November 2006	5.3	$ 23.41	5.3	$ 2,225
December 2006 (1)	17.7	$ 25.82	17.7	$ 1,768
January 2007 (1)	13.3	$ 25.82	13.3	$ 1,425
February 2007	6.5	$ 26.66	6.5	$ 1,251
March 2007	2.7	$ 27.45	2.7	$ 1,176
Total	52.2	$ 25.34	52.2	$ 1,176

(1) The Company took delivery of 17.7 million shares in December 2006 under one of the prepaid forward agreements, which subsequently closed in January 2007 upon delivery of an additional 13.3 million shares. The average price paid per share was calculated based on the average price paid for the total 31 million shares delivered under this prepaid forward agreement.

10. Litigation

See Part II, Item 1, Legal Proceedings.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Recently Adopted Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition.

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006 and will be adopted by the Company in the first quarter of fiscal year 2008. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155), which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the entire instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial position, results of operations, or cash flows.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information

The Company has guaranteed HDD s obligations under the 2009 Notes, the 2011 Notes and the 2016 Notes (the Senior Notes), on a full and unconditional basis, and prior to October 25, 2006 when the Company s 8% Notes were redeemed, the Company had guaranteed HDD s obligations under the 8% Notes. The following tables present parent guarantor, subsidiary issuer and combined non-guarantors condensed consolidating balance sheets of the Company and its subsidiaries at March 30, 2007 and June 30, 2006, the condensed consolidating statements of operations for the three and nine months ended March 30, 2007 and March 31, 2006, and the condensed consolidating statements of cash flows for the nine months ended March 30, 2007 and March 31, 2006. 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.

From the date of acquisition (May 19, 2006) through June 30, 2006, Maxtor was a wholly-owned direct subsidiary of Seagate Technology. The accompanying condensed consolidating balance sheet as of June 30, 2006 reflects the corporate legal structure of Seagate Technology, HDD, and the Combined Non-Guarantors, as they existed at that time. On July 3, 2006, through a corporate organizational change and realignment, Maxtor became a wholly-owned indirect subsidiary of HDD and of Seagate Technology. As a result, beginning July 3, 2006, the investment in Maxtor is accounted for on an equity method basis in the financial information of HDD.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

March 30, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 8	$ 83	$ 818	$	$ 909
Short-term investments			301		301
Accounts receivable, net			1,367		1,367
Intercompany receivable	32			(32)	
Inventories			832		832
Other current assets			400		400
Total Current Assets	40	83	3,718	(32)	3,809
Property, equipment and leasehold improvements, net			2,279		2,279
Goodwill			2,440		2,440
Other intangible assets			219		219
Other assets, net		18	499		517
Equity investment in HDD	5,840			(5,840)	
Equity investments in Non-Guarantors		5,832		(5,832)	
Intercompany note receivable		1,450	560	(2,010)	
Total Assets	$ 5,880	$ 7,383	$ 9,715	$ (13,714)	$ 9,264
Accounts payable	$	$	$ 1,397	$	$ 1,397
Intercompany payable			32	(32)	
Accrued employee compensation			156		156
Accrued expenses	2	47	739		788
Accrued income taxes			77		77
Current portion of long-term debt			330		330
Total Current Liabilities	2	47	2,731	(32)	2,748
Other liabilities	8		355		363
Intercompany note payable	1,450		560	(2,010)	
Long-term debt, less current portion		1,496	237		1,733

Total Liabilities	1,460	1,543	3,883	(2,042)	4,844
Shareholders Equity	4,420	5,840	5,832	(11,672)	4,420
Total Liabilities and Shareholders Equity	$ 5,880	$ 7,383	$ 9,715	$ (13,714)	$ 9,264

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

June 30, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$	$ 1	$ 909	$	$ 910
Short-term investments			823		823
Accounts receivable, net			1,445		1,445
Intercompany receivable	2		10	(12)	
Intercompany loan receivable		464	4	(468)	
Inventories			891		891
Other current assets			264		264
Total Current Assets	2	465	4,346	(480)	4,333
Property, equipment and leasehold improvements, net			2,106		2,106
Other intangible assets			307		307
Other assets, net		4	395	(76)	323
Goodwill			2,475		2,475
Equity investment in HDD	3,331			(3,331)	
Equity investments in Non-Guarantors	2,023	4,101		(6,124)	
Intercompany note receivable			835	(835)	
Total Assets	$ 5,356	$ 4,570	$ 10,464	$ (10,846)	$ 9,544
Accounts payable	$	$	$ 1,692	$	$ 1,692
Intercompany payable	3		8	(11)	
Accrued employee compensation			385		385
Accrued expenses	1	4	853		858
Accrued income taxes			72		72
Intercompany loan payable	140		329	(469)	
Current portion of long-term debt			330		330
Total Current Liabilities	144	4	3,669	(480)	3,337
Other liabilities			355		355
Intercompany note payable		835	76	(911)	

Long-term debt, less current portion		400	240		640
Total Liabilities	144	1,239	4,340	(1,391)	4,332
Shareholders Equity	5,212	3,331	6,124	(9,455)	5,212
Total Liabilities and Shareholders Equity	$ 5,356	$ 4,570	$ 10,464	$ (10,846)	$ 9,544

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Three Months Ended March 30, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 2,882	$ (54)	$ 2,828
Cost of revenue			2,279	(54)	2,225
Product development			214		214
Marketing and administrative			126		126
Amortization of intangibles			13		13
Restructuring, net			3		3
Total operating expenses			2,635	(54)	2,581
(Loss) income from operations			247		247
Interest income		2	13		15
Interest expense		(25)	(8)		(33)
Equity in income of HDD	212			(212)	
Equity in income (loss) of Non-Guarantors		235		(235)	
Other, net			1		1
Other income (expense), net	212	212	6	(447)	(17)
Income before income taxes	212	212	253	(447)	230
Provision for (benefit from) income taxes			18		18
Net income	$ 212	$ 212	$ 235	$ (447)	$ 212

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Nine Months Ended March 30, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 9,534	$ (918)	$ 8,616
Cost of revenue			7,943	(918)	7,025
Product development			683		683
Marketing and administrative	2		444		446
Amortization of intangibles			36		36
Restructuring, net					
Total operating expenses	2		9,106	(918)	8,190
(Loss) income from operations	(2)		428		426
Interest income	1	20	53	(15)	59
Interest expense	(2)	(97)	(23)	15	(107)
Equity in income of HDD	374			(374)	
Equity in income (loss) of Non-Guarantors		451		(451)	
Other, net			11		11
Other income (expense), net	373	374	41	(825)	(37)
Income before income taxes	371	374	469	(825)	389
Provision for (benefit from) income taxes			18		18
Net income	$ 371	$ 374	$ 451	$ (825)	$ 371

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Cash Flows

Nine Months Ended March 30, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Operating Activities					
Net Income	$ 371	$ 374	$ 451	$ (825)	$ 371
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization			650		650
Stock-based compensation			101		101
Allowance for doubtful accounts receivable			42		42
Redemption charges on 8% Senior Notes due 2009		19			19
In-process research and development			4		4
Equity in (income) of HDD	(374)			374	
Equity in (income) of Non-Guarantors		(451)		451	
Other non-cash operating activities, net		1	15		16
Changes in operating assets and liabilities, net	(24)	39	(648)		(633)
Net cash (used in) provided by operating activities	(27)	(18)	615		570
Investing Activities					
Acquisition of property, equipment and leasehold improvements			(688)		(688)
Proceeds from sales of fixed assets			29		29
Purchase of short-term investments		(85)	(237)		(322)
Maturities and sales of short-term investments		85	766		851
Acquisitions, net of cash and cash equivalents acquired			(178)		(178)
Other investing activities, net			(44)		(44)
Net cash used in investing activities			(352)		(352)
Financing Activities					
Net proceeds from issuance of long-term debt		1,477			1,477
Repayment of long-term debt			(5)		(5)
Redemption of 8% Senior Notes due 2009		(400)			(400)
Redemption premium on 8% Senior Notes due 2009		(16)			(16)
Loan from HDD to Parent	1,310	(1,310)			

Loan repayment to HDD from Non-Guarantor		329	(329)		
Loan repayment to Non-Guarantor from HDD		(839)	839		
Distribution from Non-Guarantor to HDD		859	(859)		
Proceeds from exercise of employee stock options and employee stock purchase plan	207				207
Dividends to shareholders	(158)				(158)
Repurchases of common shares and payments made under prepaid forward agreements	(1,324)				(1,324)
Net cash provided by (used in) financing activities	35	100	(354)		(219)
Increase (decrease) in cash and cash equivalents	8	82	(91)		(1)
Cash and cash equivalents at the beginning of the period		1	909		910
Cash and cash equivalents at the end of the period	$ 8	$ 83	$ 818	$	$ 909

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Three Months Ended March 31, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 2,289	$	$ 2,289
Cost of revenue			1,733		1,733
Product development			195		195
Marketing and administrative			108		108
Restructuring					
Total operating expenses			2,036		2,036
Income from operations			253		253
Interest income			21	(2)	19
Interest expense		(9)		2	(7)
Equity in income of HDD	274			(274)	
Equity in income of Non-Guarantors		283		(283)	
Other, net			12		12
Other income (expense), net	274	274	33	(557)	24
Income before income taxes	274	274	286	(557)	277
Provision for (benefit from) income taxes			3		3
Net income	$ 274	$ 274	$ 283	$ (557)	$ 274

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Nine Months Ended March 31, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 6,677	$	$ 6,677
Cost of revenue			4,995		4,995
Product development			573		573
Marketing and administrative			303		303
Restructuring			4		4
Total operating expenses			5,875		5,875
Income from operations			802		802
Interest income		3	52	(7)	48
Interest expense		(32)	(6)	7	(31)
Equity in income of HDD	833			(833)	
Equity in income of Non-Guarantors		862		(862)	
Other, net			22		22
Other income (expense), net	833	833	68	(1,695)	39
Income before income taxes	833	833	870	(1,695)	841
Provision for (benefit from) income taxes			8		8
Net income	$ 833	$ 833	$ 862	$ (1,695)	$ 833

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Cash Flows

Nine Months Ended March 31, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Operating Activities					
Net Income	$ 833	$ 833	$ 862	$ (1,695)	$ 833
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization			436		436
Stock-based compensation			57		57
Excess tax benefit from exercise of stock options			(14)		(14)
Equity in (income) of HDD	(833)			833	
Equity in (income) of Non-Guarantors		(862)		862	
Other non-cash operating activities, net		2	(15)		(13)
Changes in operating assets and liabilities, net	3	5	(12)		(4)
Net cash provided by (used in) operating activities	3	(22)	1,314		1,295
Investing Activities					
Acquisition of property, equipment and leasehold Improvements			(606)		(606)
Purchase of short-term investments			(2,627)		(2,627)
Maturities and sales of short-term investments			2,724		2,724
Acquisitions, net of cash and cash equivalents acquired			(28)		(28)
Other investing activities, net	(7)	1	(128)		(134)
Net cash provided by (used in) investing activities	(7)	1	(665)		(671)
Financing Activities					
Repayment of long-term debt		(243)	(97)		(340)
Loan to Non-Guarantor from HDD		(2)	2		
Loan repayment to HDD from Non-Guarantor		226	(226)		
Loan to HDD from Non-Guarantor		109	(109)		
Dividend paid to Parent from HDD	42	(42)			
Proceeds from exercise of employee stock options and employee stock purchase plan	106				106
Dividend paid to shareholders	(115)				(115)

Excess tax benefit from exercise of stock options			14		14
Net cash provided by (used in) financing activities	33	48	(416)		(335)
Increase (decrease) in cash and cash equivalents	29	27	233		289
Cash and cash equivalents at the beginning of the period	9		737		746
Cash and cash equivalents at the end of the period	$ 38	$ 27	$ 970	$	$ 1,035

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

On May 19, 2006, in connection with the acquisition of Maxtor, the Company, Maxtor and the trustee under the indenture for the 2.375% Notes and 6.8% Notes entered into a supplemental indenture pursuant to which the notes became convertible into the Company s common shares. In addition, the Company agreed to fully and unconditionally guarantee the 2.375% Notes and 6.8% Notes on a senior unsecured basis. The Company s obligations under its guarantee rank in right of payment with all of its existing and future senior unsecured indebtedness. The indenture does not contain any financial covenants and does not restrict Maxtor from paying dividends, incurring additional indebtedness or issuing or repurchasing its other securities (see Note 5). The following tables present parent guarantor, subsidiary issuer and combined non-guarantors condensed consolidating balance sheets of the Company and its subsidiaries at March 30, 2007 and June 30, 2006, the condensed consolidating statements of operations for the three and nine months ended March 30, 2007, and the condensed consolidating statement of cash flows for the nine months ended March 30, 2007. The information classifies the Company s subsidiaries into Seagate Technology-parent company guarantor, Maxtor-subsidiary issuer and the Combined Non-Guarantors based on the classification of those subsidiaries under the terms of the 2.375% Notes and 6.8% Notes.

From the date of acquisition (May 19, 2006) through June 30, 2006, Maxtor was a wholly-owned direct subsidiary of Seagate Technology. The accompanying condensed consolidating balance sheet as of June 30, 2006 reflects the corporate legal structure of Seagate Technology, HDD, and the Combined Non-Guarantors, as they existed at that time. On July 3, 2006, through a corporate organizational change and realignment, Maxtor became a wholly-owned indirect subsidiary of HDD and of Seagate Technology. As a result, beginning July 3, 2006, the investment in Maxtor is accounted for on an equity method basis in the financial information of HDD, a non-guarantor, and therefore, the balance sheet of the Combined Non-Guarantors as of March 30, 2007 reflects the investment in Maxtor on an equity method basis.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

March 30, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 8	$ 3	$ 898	$	$ 909
Short-term investments			301		301
Accounts receivable, net		(39)	1,406		1,367
Intercompany receivable	32	8		(40)	
Inventories		2	830		832
Other current assets		69	331		400
Total Current Assets	40	43	3,766	(40)	3,809
Property, equipment and leasehold improvements, net		50	2,229		2,279
Goodwill		805	1,635		2,440
Other intangible assets		34	185		219
Other assets, net		178	339		517
Equity investment in Maxtor			1,711	(1,711)	