SEAGATE TECHNOLOGY
Form 10-Q
January 30, 2008
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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 December 28, 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 January 18, 2008, 527,189,708 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)

	December 28, 2007	June 29, 2007 (a)
ASSETS		
Cash and cash equivalents	$ 1,433	$ 988
Short-term investments	317	156
Accounts receivable, net	1,593	1,383
Inventories	830	794
Deferred income taxes	215	196
Other current assets	469	284
Total Current Assets	4,857	3,801
Property, equipment and leasehold improvements, net	2,267	2,278
Goodwill	2,385	2,300
Other intangible assets, net	157	188
Deferred income taxes	674	574
Other assets, net	276	331
Total Assets	$ 10,616	$ 9,472
LIABILITIES		
Accounts payable	$ 1,776	$ 1,301
Accrued employee compensation	297	157
Accrued expenses	782	786
Accrued income taxes	2	75
Current portion of long-term debt	330	330
Total Current Liabilities	3,187	2,649
Other non-current liabilities	381	353
Long-term accrued income taxes	232	
Long-term debt, less current portion	1,734	1,733
Total Liabilities	5,534	4,735
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common shares and additional paid-in capital	3,396	3,204
Accumulated other comprehensive income (loss)	1	(4)
Retained earnings	1,685	1,537

Total Shareholders Equity		5,082		4,737
Total Liabilities and Shareholders Equity	$	10,616	$	9,472

(a) The information in this column was derived from the Company s audited Consolidated Balance Sheet as of June 29, 2007.

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	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
Revenue	$ 3,420	$ 2,996	$ 6,705	$ 5,788
Cost of revenue	2,531	2,450	5,008	4,800
Product development	262	226	504	470
Marketing and administrative	167	141	319	320
Amortization of intangibles	13	12	27	23
Restructuring and other, net	27	1	32	(3)
Total operating expenses	3,000	2,830	5,890	5,610
Income from operations	420	166	815	178
Interest income	19	25	35	44
Interest expense	(34)	(55)	(66)	(74)
Other, net	18	9	14	11
Other income (expense), net	3	(21)	(17)	(19)
Income before income taxes	423	145	798	159
Provision for income taxes	20	5	40	
Net income	$ 403	$ 140	$ 758	$ 159
Net income per share:				
Basic	$ 0.77	$ 0.25	$ 1.43	$ 0.28
Diluted	0.73	0.23	1.37	0.27
Number of shares used in per share calculations:				
Basic	526	571	529	573
Diluted	556	598	558	600
Dividends declared per share	$ 0.10	$ 0.10	$ 0.20	$ 0.18

See notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Six Months Ended	
	December 28, 2007	December 29, 2006
OPERATING ACTIVITIES		
Net income	$ 758	$ 159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	420	414
Stock-based compensation	58	69
In-process research and development	4	
Allowance for doubtful accounts receivable	(4)	42
Redemption charges on 8% Senior Notes		19
Excess tax benefits from exercise of stock options	(2)	
Other non-cash operating activities, net	5	1
Changes in operating assets and liabilities:		
Accounts receivable	(249)	156
Inventories	(36)	129
Accounts payable	475	(267)
Accrued expenses, employee compensation and warranty	74	(340)
Accrued income taxes	(9)	14
Other assets and liabilities	(16)	(95)
Net cash provided by operating activities	1,478	301
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(362)	(466)
Proceeds from sales of fixed assets	24	28
Purchases of short-term investments	(383)	(322)
Maturities and sales of short-term investments	222	687
Acquisitions, net of cash and cash equivalents acquired	(78)	
Other investing activities, net	17	(29)
Net cash used in investing activities	(560)	(102)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt		1,477
Redemption of 8% Senior Notes		(400)
Redemption premium on 8% Senior Notes		(16)
Proceeds from exercise of employee stock options and employee stock purchase plan	132	104
Dividends to shareholders	(107)	(104)
Excess tax benefits from exercise of stock options	2	
Repurchases of common shares and payments made under prepaid forward agreements	(500)	(1,075)
Other financing activities, net		1
Net cash used in financing activities	(473)	(13)
Increase in cash and cash equivalents	445	186

Cash and cash equivalents at the beginning of the period	988	910
Cash and cash equivalents at the end of the period	$ 1,433	$ 1,096
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 61	$ 24
Cash paid for income taxes, net of refunds	19	3

See notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Six Months Ended December 28, 2007

(In millions)

(Unaudited)

	Number of Common Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 29, 2007	535	$	$ 3,204	$ (4)	$ 1,537	$ 4,737
Cumulative effect adjustment to adopt recognition and measurement provisions of FASB Interpretation No. 48 (See Note 3)					(3)	(3)
Comprehensive income, net of tax:						
Change in unrealized gain (loss) on cash flow hedges, net				5		5
Net income					758	758
Comprehensive income						763
Issuance of common shares related to employee stock options and employee stock purchase plan	11		132			132
Dividends to shareholders					(107)	(107)
Repurchases of common shares	(19)				(500)	(500)
Tax benefit from exercise of stock options			2			2
Stock-based compensation			58			58
Balance at December 28, 2007	527	$	$ 3,396	$ 1	$ 1,685	$ 5,082

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 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 and gaming devices. The Company sells its disc drives primarily to major original equipment manufacturers (OEMs), distributors and retailers. In addition to manufacturing and selling disc drives and branded storage products under the Seagate and Maxtor brands, the Company provides data storage services for small to medium size businesses, including online backup, data protection and recovery solutions.

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 29, 2007 are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on August 27, 2007. 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 29, 2007 and the notes thereto, are adequate to make the information presented not misleading.

The results of operations for the three and six months ended December 28, 2007 are not necessarily indicative of the operating results to be expected for any subsequent interim period of for the Company s fiscal year ending June 27, 2008.

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 December 28, 2007 and December 29, 2006 were 13 weeks. Fiscal year 2008 will be comprised of 52 weeks and will end on June 27, 2008.

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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 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 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. 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 29, 2007, there have been no significant changes in the Company s critical accounting policies and estimates other than the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48) see Note 3. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of the Company s Annual Report on Form 10-K for the fiscal year ended June 29, 2007, as filed with the SEC on August 27, 2007, for a discussion of the Company s critical accounting policies and estimates.

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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 the provisions of FASB Statement (SFAS) No. 128, *Earnings per Share* (SFAS No. 128), the following table sets forth the computation of basic and diluted net income per share for the three and six months ended December 28, 2007 and December 29, 2006:

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(in millions, except per share data)			
Numerator:				
Net income	$ 403	$ 140	$ 758	$ 159
Adjustment for interest expense on 6.8% convertible senior notes due April 2010	2		5	
Net income, adjusted	$ 405	$ 140	$ 763	$ 159
Denominator:				
Weighted-average common shares outstanding	528	573	531	575
Weighted-average nonvested shares	(2)	(2)	(2)	(2)
Total shares for purpose of calculating basic net income per share	526	571	529	573
Weighted-average effect of dilutive securities:				
Dilution from employee stock options	19	27	19	27
2.375% convertible senior notes due August 2012	7		6	
6.8% convertible senior notes due April 2010	4		4	
Potential dilutive common shares:	30	27	29	27
Total shares for purpose of calculating diluted net income per share	556	598	558	600
Net Income per share:				
Basic net income per share	$ 0.77	$ 0.25	$ 1.43	$ 0.28
Diluted net income per share	$ 0.73	$ 0.23	$ 1.37	$ 0.27

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 Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(in millions)			
Stock options	20	19	20	18
Nonvested shares		2		1
2.375% convertible senior notes due August 2012		5		4
6.8% convertible senior notes due April 2010		4		4

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information

Accounts Receivable, net	December 28, 2007	June 29, 2007
	(in millions)	
Accounts receivable	$ 1,639	$ 1,433
Allowance for doubtful accounts receivable	(46)	(50)
	$ 1,593	$ 1,383

Inventories	December 28, 2007	June 29, 2007
	(in millions)	
Raw materials and components	$ 293	$ 277
Work-in-process	119	85
Finished goods	418	432
	$ 830	$ 794

Property, Equipment and Leasehold Improvements, net	December 28, 2007	June 29, 2007
	(in millions)	
Property, equipment and leasehold improvements	$ 5,367	$ 5,104
Accumulated depreciation and amortization	(3,100)	(2,826)
	$ 2,267	$ 2,278

Accrued Warranty	December 28, 2007	June 29, 2007
	(in millions)	
Short-term accrued warranty included in Accrued expenses on the balance sheet	$ 245	$ 233
Long-term accrued warranty included in Other non-current liabilities on the balance sheet	212	197
	$ 457	$ 430

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Balance Sheet Information (continued)
Long-Term Debt and Credit Facilities

Revolving Credit Facility. As of December 28, 2007, there were no borrowings under the Company s $500 million revolving credit facility and the Company had utilized $47 million of the $100 million sub-limit for outstanding letters of credit and bankers guarantees. As of December 28, 2007, the Company is in compliance with all the covenants under the credit agreement that governs the Company s revolving credit facility.

Derivative Financial Instruments. The Company hedges portions of its forecasted expenditures denominated in foreign currencies with forward exchange contracts. At December 28, 2007, the total notional value of the Company s outstanding foreign currency forward exchange contracts was approximately $412 million comprised of approximately $32 million to purchase British pounds, $102 million to purchase Singapore dollars, $42 million to purchase Malaysian ringgit, and $236 million to purchase Thai baht. The fair value of the Company s outstanding forward exchange contracts at December 28, 2007 was not significant.

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 the Company operates under 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 recorded for the three and six months ended December 28, 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) a decrease in the Company s valuation allowance for U.S. deferred tax assets, and (iii) the tax expense related to intercompany transactions. The income tax benefit recorded for the three and six months ended December 29, 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) an increase in the Company s valuation allowance recorded for certain U.S. deferred tax assets, and (iii) foreign tax benefits recorded during the quarter relating to reductions in previously accrued taxes and reductions in valuation allowances for certain foreign deferred tax assets.

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 (further described below), 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 December 28, 2007, the Company has recorded net deferred tax assets of $888 million. The realization of $796 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. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when the Company reevaluates its estimates of future taxable income.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Income Taxes (continued)

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 of these attributes 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.

Unrecognized Tax Benefits

Effective at the beginning of the first quarter of 2008, the Company adopted FIN 48. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS No. 109). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of FIN 48, the Company increased its liability for net unrecognized tax benefits at the date of adoption. The Company accounted for the increase primarily as a cumulative effect of a change in accounting principle that resulted in a decrease to retained earnings of $3 million and an increase to goodwill of $25 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $385 million excluding interest and penalties. Of these unrecognized tax benefits, $63 million would reduce the effective tax rate upon recognition. During the six months ending December 28, 2007, the Company s unrecognized tax benefits increased by $5 million for tax positions taken in prior periods and by $6 million for tax positions taken during the current period.

During the 12 months beginning December 29, 2007, the Company expects to reduce its unrecognized tax benefits by approximately $12 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 Company notes that the resolution and/or closure on open audits is highly uncertain.

The Company files U.S. federal, U.S. state, and foreign tax returns. The statutes of limitation for U.S. Federal returns are open for fiscal year 2003 and forward. The Internal Revenue Service (IRS) has completed its examination of fiscal years ending in 2003 and 2004. For state and foreign tax returns, the Company is generally no longer subject to tax examinations for years prior to fiscal year 2001.

The Company s policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the Condensed Consolidated Statements of Operations did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, the Company had accrued approximately $19 million for the payment of interest and penalties relating to unrecognized tax benefits. This accrual increased by $3 million to approximately $22 million as of December 28, 2007.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Restructuring and Exit Costs

Ongoing Restructuring Activities

At June 29, 2007, the Company s accrued restructuring balance was $9 million. During the six months ended December 28, 2007, the Company recorded restructuring costs of approximately $32 million primarily in connection with its ongoing restructuring activities.

In the three months ended December 28, 2007, the Company recorded restructuring charges of $27 million primarily as a result of a restructuring plan related to the planned closure of its Limavady, Northern Ireland operations as part of its ongoing focus on cost efficiencies in all areas of its business. The restructuring charges associated with the Limavady facility were comprised of approximately $18 million in charges related to expected grant repayments, employee termination costs of approximately $6 million and approximately $1 million in charges related to impaired equipment as a result of the restructuring plan. The Company currently expects to complete the closure of its Limavady facility by the end of its first quarter of fiscal year 2009, with additional restructuring charges of approximately $25 million to $30 million to be recorded over the next three quarters, resulting in aggregate restructuring charges of approximately $50 million to $55 million.

During the three months ended September 28, 2007, the Company recorded restructuring charges of approximately $5 million in connection with its other ongoing restructuring activities. These charges were primarily a result of a restructuring plan established to continue the alignment of the Company s global workforce with existing and anticipated business requirements, primarily in its Far East operations. The restructuring charges were comprised of employee termination costs relating to a continuing effort to optimize the Company s production around the world. The Company expects these restructuring activities to be completed by the end of its third quarter of fiscal year 2008.

The accrued restructuring balance of $32 million at December 28, 2007, is included in Accrued expenses on the accompanying Condensed Consolidated Balance Sheet. The following table summarizes the Company s restructuring activities for the six months ended December 28, 2007:

	Severance and Benefits	Grant Repayment	Impaired Equipment	Total
		(in millions)		
Accrual balances, June 29, 2007	$ 9	$	$	$ 9
Restructuring charges	13	18	1	32
Cash payments	(7)			(7)
Non-cash charges and adjustments	(1)		(1)	(2)
Accrual balances, December 28, 2007	$ 14	$ 18	$	$ 32

Exit Liabilities Recognized in Connection with Business Combinations

Under Emerging Issues Task Force 95-3, *Recognition of Liabilities in Connection with a Business Combination,* the Company accrued certain exit costs relating to employee severance, planned exit of leased or owned excess facilities and the cancellation or settlement of contractual obligations that will not provide any future economic benefit. At June 29, 2007, the Company s accrued liability for such exit costs was $33 million, comprised primarily of remaining excess facilities obligations. During the six months ended December 28, 2007, the Company paid $9 million of the accrued exit costs and had adjustments decreasing the liability by $1 million. The Company expects the remaining costs associated with the exit of certain facilities to continue to the end of fiscal year 2012. The accrued exit costs balance is $23 million at December 28, 2007, of which $6 million is included in Accrued expenses and $17 million is included in Other non-current liabilities on the Condensed Consolidated Balance Sheet.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Acquisitions

In December 2007, the Company completed its acquisition of MetaLINCS, Inc. (MetaLINCS) in an all cash transaction valued at approximately $74 million. MetaLINCS provides enterprise level E-Discovery software that helps companies respond to litigation and regulatory issues which requires them to search large volumes of electronic data for relevant information. The purpose of the acquisition was to expand on the Company s software and services offerings. 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	$ (1)
Identifiable intangible assets	12
In-process research and development	4
Goodwill	59
Total purchase price	$ 74

Tangible net assets were valued at their respective carrying amounts as the Company believes that these amounts approximated their current fair values at the acquisition date. The fair value of identifiable intangible assets acquired reflects management s estimates based on, among other factors, use of established valuation methods. Such assets include 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 MetaLINCS in-process research and development projects as at the acquisition date, all of which was written off in the period of acquisition. Goodwill of approximately $59 million represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The MetaLINCS acquisition did not have a significant impact on the Company s results of operations for the three or six months ended December 28, 2007.

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

	Estimated Fair Value (in millions)	Weighted Average Useful Life (in years)
Existing technology	$ 7	4.0
Customer relationships	3	4.0
Trade names	1	4.0
Other	1	2.0
Total acquired identifiable intangible assets	$ 12	3.9

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Goodwill and Other Intangible Assets

Goodwill

At December 28, 2007, the Company s goodwill totaled approximately $2.4 billion, of which approximately $2.2 billion relates to the Maxtor acquisition. During the six months ended December 28, 2007 goodwill increased by approximately $85 million, primarily due to goodwill acquired in the MetaLINCS acquisition (see Note 5) and the effect of the adoption of FIN 48 (see Note 3).

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. The net carrying value of intangible assets at December 28, 2007 and June 29, 2007 was $157 million and $188 million, respectively. Accumulated amortization of intangibles was $233 million and $185 million at December 28, 2007 and June 29, 2007, respectively. The carrying value of intangible assets at December 28, 2007 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	$ 186	$ (142)	$ 44	2.4
Customer relationships	157	(68)	89	2.2
Trade names	37	(15)	22	2.5
Patents and licenses	9	(8)	1	6.4
Other	1		1	2.2
Total acquired identifiable intangible assets	$ 390	$ (233)	$ 157	2.3

In the six months ended December 28, 2007 and December 29, 2006, amortization expense for other intangible assets was $48 million and $76 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. In the three months ended December 28, 2007, the Company recorded a write-off of in-process research and development related to the acquisition of MetaLINCS in the amount of $4 million, which is included in Product development in the Condensed Consolidated Statement of Operations.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. 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 greater 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 As of December 28, 2007, there were approximately 29.5 million shares available for issuance under the Seagate Technology 2004 Stock Compensation Plan.

At the Company s 2007 Annual General Meeting on October 25, 2007, the Company s shareholders approved the issuance of 925,000 restricted shares to senior officers of the Company. Subject to continued employment, these restricted shares will vest based upon the achievement of certain earnings per share performance objectives as defined in the performance bonus agreements. The requisite service periods for these awards do not commence until fiscal year 2009. As such, no compensation expense was recognized during the three and six months ended December 28, 2007.

Stock Purchase Plan On July 31, 2007, the Company issued approximately 1.6 million common shares under its Employee Stock Purchase Plan (ESPP), with a weighted-average purchase price of $19.98. As of December 28, 2007, there were approximately 10.9 million common shares available for issuance under the ESPP.

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.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Stock-Based Compensation (continued)

The fair value of the Company s stock options granted to employees for the three and six months ended December 28, 2007 and December 29, 2006 was estimated using the following weighted-average assumptions:

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
Option Plan Shares				
Expected term (in years)	4.0	4.0	4.0	4.0
Volatility	36%	39%	36%	39%
Expected dividend rate	1.5 1.6%	1.5 1.9%	1.5 1.7%	1.4 1.9%
Risk-free interest rate	3.3%	4.4%	3.3 4.2%	4.4 4.7%
Estimated annual forfeitures	4.5%	4.5%	4.5%	4.5%
Weighted-average fair value	$7.56	$7.25	$7.44	$7.26
ESPP Plan Shares				
Expected term (in years)	0.5	0.5	0.5	0.5
Volatility	31%	34%	31%	34%
Expected dividend rate	1.7%	1.4%	1.7%	1.4%
Risk-free interest rate	5.0%	5.0%	5.0%	5.0%
Weighted-average fair value	$5.49	$5.35	$5.49	$5.35

Stock Compensation Expense

Stock Compensation Expense The Company recorded $29 million and $58 million of stock-based compensation during the three and six months ended December 28, 2007, respectively. Of the $58 million recorded in the six months ended December 28, 2007, $9 million related to stock options assumed and nonvested shares exchanged in the Maxtor acquisition. The Company recorded approximately $31 million and $69 million of stock-based compensation during the three and six months ended December 29, 2006, respectively. Of the $69 million recorded in the six months ended December 29, 2006, $21 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 recorded approximately $2 million of excess tax benefits as a financing cash inflow during the three and six months ended December 28, 2007.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Guarantees

Indemnifications of Officers and Directors

The Company has entered into indemnification agreements, a form of which is incorporated by reference in the exhibits of this report, 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.

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 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 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 December 28, 2007 and December 29, 2006 were as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(in millions)			
Balance, beginning of period	$ 442	$ 437	$ 430	$ 445
Warranties issued	67	55	127	112
Repairs and replacements	(66)	(71)	(137)	(144)
Changes in liability for pre- existing warranties, including expirations and customer compensatory claims	14	36	37	44
Balance, end of period	$ 457	$ 457	$ 457	$ 457

The Company offers extended warranties on certain of its products. Revenue on extended warranties is recognized ratably over the extended warranty period. Deferred revenue in relation to extended warranties has not been material to date.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Equity

Issuance of Common Shares

During the six months ended December 28, 2007, the Company issued approximately 9.0 million of its common shares from the exercise of stock options and approximately 1.6 million of its common shares related to the Company s employee stock purchase plan.

Repurchases of Equity Securities

During the three months ended December 28, 2007, the Company repurchased 9.3 million shares through open market repurchases at an average price of $27.00 for a total of approximately $251 million. During the six months ended December 28, 2007, the Company repurchased 19.6 million shares through open market repurchases at an average price of $25.57 for a total of approximately $500 million. As of December 28, 2007, the Company had approximately $474 million remaining under the authorized $2.5 billion stock repurchase program.

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 Issued Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised), *Business Combinations* (SFAS No. 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) 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 FAS 141(R) on its results of operations and financial condition.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS No. 160 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 SFAS No. 160 on its results of operations and financial condition.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of the pending adoption of EITF 07-3 on its results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the effect that the adoption of SFAS No. 159 will have on its results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB No. 87, 88, 106 and 132(R)* (SFAS No. 158). One provision of SFAS No. 158 requires that the funded status of defined benefit postretirement plans be recognized on a company s balance sheet, and that changes in the funded status be reflected in comprehensive income, and is effective for fiscal years ending after December 15, 2006. The Company adopted this provision of SFAS No. 158 in its fiscal year ended June 29, 2007 and the adoption did not result in a material impact on its Condensed Consolidated Statements of Operations or financial condition. SFAS No. 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for fiscal years ending after December 15, 2008. The Company expects to adopt the measurement provisions of SFAS No. 158 in its fiscal year 2010, effective July 4, 2009. The Company does not expect the adoption of the measurement provisions of SFAS No. 158 to have a significant impact on its results of operations and financial condition.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Recently Issued Accounting Pronouncements (continued)

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 FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice.
SFAS No. 157 is effective for the Company beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its results of operations and financial condition.

12. 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, and prior to October 25, 2006 when the Company s 8% Senior Notes due May 2009 (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 December 28, 2007 and June 29, 2007, the Condensed Consolidating Statements of Operations for the three and six months ended December 28, 2007 and December 29, 2006, and the Condensed Consolidating Statements of Cash Flows for the six months ended December 28, 2007 and December 29, 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. Certain intercompany balances have been reclassified to conform to the current presentation.

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 12	$	$ 1,421	$	$ 1,433
Short-term investments			317		317
Accounts receivable, net			1,600	(7)	1,593
Intercompany receivable			21	(21)	
Inventories			830		830
Other current assets			688	(4)	684
Total Current Assets	12		4,877	(32)	4,857
Property, equipment and leasehold improvements, net			2,267		2,267
Goodwill			2,385		2,385
Other intangible assets, net			157		157
Equity investment in HDD	7,221			(7,221)	
Equity investments in Non-Guarantors		6,582	263	(6,845)	
Intercompany note receivable		2,145	607	(2,752)	
Other assets, net		15	935		950
Total Assets	$ 7,233	$ 8,742	$ 11,491	$ (16,850)	$ 10,616
Accounts payable	$	$	$ 1,783	$ (7)	$ 1,776
Intercompany payable			21	(21)	
Accrued employee compensation			297		297
Accrued expenses	6	24	752		782
Accrued income taxes			6	(4)	2
Current portion of long-term debt			330		330
Total Current Liabilities	6	24	3,189	(32)	3,187
Other non-current liabilities			613		613
Intercompany note payable	2,145		607	(2,752)	
Long-term debt, less current portion		1,497	237		1,734
Liability for deficit of Maxtor			602	(602)	
Total Liabilities	2,151	1,521	5,248	(3,386)	5,534

Shareholders Equity		5,082		7,221		6,243		(13,464)		5,082
Total Liabilities and Shareholders Equity	$	7,233	$	8,742	$	11,491	$	(16,850)	$	10,616

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

June 29, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 4	$	$ 984	$	$ 988
Short-term investments			156		156
Accounts receivable, net			1,401	(18)	1,383
Intercompany receivable			30	(30)	
Inventories			794		794
Other current assets			480		480
Total Current Assets	4		3,845	(48)	3,801
Property, equipment and leasehold improvements, net			2,278		2,278
Goodwill			2,300		2,300
Other intangible assets, net			188		188
Equity investment in HDD	6,401			(6,401)	
Equity investments in Non-Guarantors		6,244	292	(6,536)	
Intercompany note receivable		1,661	541	(2,202)	
Other assets, net		17	888		905
Total Assets	$ 6,405	$ 7,922	$ 10,332	$ (15,187)	$ 9,472
Accounts payable	$	$	$ 1,319	$ (18)	$ 1,301
Intercompany payable	6		24	(30)	
Accrued employee compensation			157		157
Accrued expenses	1	25	760		786
Accrued income taxes			75		75
Current portion of long-term debt			330		330
Total Current Liabilities	7	25	2,665	(48)	2,649
Other non-current liabilities			353		353
Intercompany note payable	1,661		541	(2,202)	
Long-term debt, less current portion		1,496	237		1,733
Liability for deficit of Maxtor			543	(543)	
Total Liabilities	1,668	1,521	4,339	(2,793)	4,735

Shareholders Equity		4,737		6,401		5,993		(12,394)		4,737
Total Liabilities and Shareholders Equity	$	6,405	$	7,922	$	10,332	$	(15,187)	$	9,472

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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 December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 3,420	$	$ 3,420
Cost of revenue			2,531		2,531
Product development			262		262
Marketing and administrative			167		167
Amortization of intangibles			13		13
Restructuring and other, net			27		27
Total operating expenses			3,000		3,000
Income from operations			420		420
Interest income			29	(10)	19
Interest expense		(23)	(21)	10	(34)
Equity in income of HDD	403			(403)	
Equity in income (loss) of Non-Guarantors		426	(18)	(408)	
Other, net			18		18
Other income (expense), net	403	403	8	(811)	3
Income before income taxes	403	403	428	(811)	423
Provision for income taxes			20		20
Net income	$ 403	$ 403	$ 408	$ (811)	$ 403

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Six Months Ended December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 6,705	$	$ 6,705
Cost of revenue			5,008		5,008
Product development			504		504
Marketing and administrative	1		318		319
Amortization of intangibles			27		27
Restructuring and other, net			32		32
Total operating expenses	1		5,889		5,890
(Loss) income from operations	(1)		816		815
Interest income			55	(20)	35
Interest expense		(47)	(39)	20	(66)
Equity in income of HDD	759			(759)	
Equity in income (loss) of Non-Guarantors		806	(45)	(761)	
Other, net			14		14
Other income (expense), net	759	759	(15)	(1,520)	(17)
Income before income taxes	758	759	801	(1,520)	798
Provision for income taxes			40		40
Net income	$ 758	$ 759	$ 761	$ (1,520)	$ 758

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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

Six Months Ended December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
OPERATING ACTIVITIES					
Net income	$ 758	$ 759	$ 761	$ (1,520)	$ 758
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization			420		420
Stock-based compensation			58		58
Equity in (income) of HDD	(759)			759	
Equity in (income) loss of Non-Guarantors		(806)	45	761	
Other non-cash operating activities, net		3			3
Changes in operating assets and liabilities, net		(3)	242		239
Net cash (used in) provided by operating activities	(1)	(47)	1,526		1,478
INVESTING ACTIVITIES					
Acquisition of property, equipment and leasehold improvements			(362)		(362)
Purchase of short-term investments			(383)		(383)
Maturities and sales of short-term investments			222		222
Acquisitions, net of cash and cash equivalents acquired			(78)		(78)
Other investing activities, net			41		41
Net cash used in investing activities			(560)		(560)
FINANCING ACTIVITIES					
Loan from HDD to Parent	484	(484)			
Investment by HDD in Non-Guarantor		(2)	2		
Distribution from Non-Guarantor to HDD		533	(533)		
Proceeds from exercise of employee stock options and employee stock purchase plan	132				132
Dividends to shareholders	(107)				(107)
Repurchase of common shares	(500)				(500)
Other financing activities, net			2		2
Net cash provided by (used in) financing activities	9	47	(529)		(473)

Increase in cash and cash equivalents	8		437		445
Cash and cash equivalents at the beginning of the period	4		984		988
Cash and cash equivalents at the end of the period	$ 12	$	$ 1,421	$	$ 1,433

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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 December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 3,268	$ (272)	$ 2,996
Cost of revenue			2,722	(272)	2,450
Product development			226		226
Marketing and administrative	1		140		141
Amortization of intangibles			12		12
Restructuring			1		1
Total operating expenses	1		3,101	(272)	2,830
(Loss) income from operations	(1)		167		166
Interest income	1	9	23	(8)	25
Interest expense		(47)	(16)	8	(55)
Equity in income of HDD	140			(140)	
Equity in income (loss) of Non-Guarantors		178	(229)	51	
Other, net			9		9
Other income (expense), net	141	140	(213)	(89)	(21)
Income (loss) before income taxes	140	140	(46)	(89)	145
Provision for income taxes			5		5
Net income (loss)	$ 140	$ 140	$ (51)	$ (89)	$ 140

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Six Months Ended December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$	$ 6,651	$ (591)	$ 5,788
Cost of revenue			5,663	(591)	4,800
Product development			470		470
Marketing and administrative	2		318		320
Amortization of intangibles			23		23
Restructuring			(3)		(3)
Total operating expenses	2		6,471	(591)	5,610
(Loss) income from operations	(2)		180		178
Interest income	1	17	59	(33)	44
Interest expense	(2)	(72)	(33)	33	(74)
Equity in income of HDD	162			(162)	
Equity in income (loss) of Non-Guarantors		217	(543)	326	
Other, net			11		11
Other income (expense), net	161	162	(506)	164	(19)
Income (loss) before income taxes	159	162	(326)	164	159
(Benefit from) provision for income taxes					
Net income (loss)	$ 159	$ 162	$ (326)	$ 164	$ 159

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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

Six Months Ended December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
OPERATING ACTIVITIES					
Net income (loss)	$ 159	$ 162	$ (326)	$ 164	$ 159
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization			414		414
Stock-based compensation			69		69
Allowance for doubtful accounts receivable			42		42
Redemption of 8% Senior Notes		19			19
Equity in income of HDD	(162)			162	
Equity in (income) loss of Non-Guarantors		(217)	543	(326)	
Other non-cash operating activities, net		(1)	2		1
Changes in operating assets and liabilities, net	15	(1)	(417)		(403)
Net cash provided by (used in) operating activities	12	(38)	327		301
INVESTING ACTIVITIES					
Acquisition of property, equipment and leasehold improvements			(466)		(466)
Proceeds from sales of fixed assets			28		28
Purchase of short-term investments		(85)	(237)		(322)
Maturities and sales of short-term investments		85	602		687
Other investing activities, net			(29)		(29)
Net cash used in investing activities			(102)		(102)
FINANCING ACTIVITIES					
Net proceeds from issuance of long-term debt		1,477			1,477
Redemption of 8% Senior Notes		(400)			(400)
Redemption premium on 8% Senior Notes		(16)			(16)
Loan from HDD to Parent	1,103	(1,103)			
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	104				104

Dividends to shareholders	(104)				(104)
Repurchases of common shares and payments made under prepaid forward agreements	(1,075)				(1,075)
Other financing activities, net		1			1
Net cash provided by (used in) financing activities	28	308	(349)		(13)
Increase (decrease) in cash and cash equivalents	40	270	(124)		186
Cash and cash equivalents at the beginning of the period		1	909		910
Cash and cash equivalents at the end of the period	$ 40	$ 271	$ 785	$	$ 1,096

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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 such 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 2). The following tables present parent guarantor, subsidiary issuer and combined non-guarantors Condensed Consolidating Balance Sheets of the Company and its subsidiaries at December 28, 2007 and June 29, 2007, the Condensed Consolidating Statements of Operations for the three and six months ended December 28, 2007 and December 29, 2006, and the Condensed Consolidating Statements of Cash Flows for the six months ended December 28, 2007 and December 29, 2006. 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. Certain intercompany balances have been reclassified to conform to the current presentation.

SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 12	$ 1	$ 1,420	$	$ 1,433
Short-term investments			317		317
Accounts receivable, net			1,600	(7)	1,593
Intercompany receivable			21	(21)	
Inventories		1	829		830
Other current assets		120	568	(4)	684
Total Current Assets	12	122	4,755	(32)	4,857
Property, equipment and leasehold improvements, net		11	2,256		2,267
Goodwill			2,385		2,385
Other intangible assets, net			157		157
Equity investments in Non-Guarantors	7,221	263	6,582	(14,066)	
Intercompany note receivable			2,752	(2,752)	
Other assets, net		379	571		950
Total Assets	$ 7,233	$ 775	$ 19,458	$ (16,850)	$ 10,616
Accounts payable	$	$ 7	$ 1,776	$ (7)	$ 1,776
Intercompany payable		21		(21)	
Accrued employee compensation			297		297
Accrued expenses	6	31	745		782
Accrued income taxes		6		(4)	2
Current portion of long-term debt		330			330
Total Current Liabilities	6	395	2,818	(32)	3,187
Other non-current liabilities		198	415		613
Intercompany note payable	2,145	607		(2,752)	
Long-term debt, less current portion		177	1,557		1,734
Liability for deficit of Maxtor			602	(602)	
Total Liabilities	2,151	1,377	5,392	(3,386)	5,534

Shareholders Equity (Deficit)		5,082		(602)		14,066		(13,464)	5,082
Total Liabilities and Shareholders Equity	$	7,233	$	775	$	19,458	$	(16,850)	$ 10,616

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Balance Sheet

June 29, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	$ 4	$ 3	$ 981	$	$ 988
Short-term investments			156		156
Accounts receivable, net			1,401	(18)	1,383
Intercompany receivable			30	(30)	
Inventories		3	791		794
Other current assets		74	406		480
Total Current Assets	4	80	3,765	(48)	3,801
Property, equipment and leasehold improvements, net		17	2,261		2,278
Goodwill			2,300		2,300
Other intangible assets, net			188		188
Equity investments in Non-Guarantors	6,401	292	6,244	(12,937)	
Intercompany note receivable			2,202	(2,202)	
Other assets, net		308	597		905
Total Assets	$ 6,405	$ 697	$ 17,557	$ (15,187)	$ 9,472
Accounts payable	$	$ 18	$ 1,301	$ (18)	$ 1,301
Intercompany payable	6	24		(30)	
Accrued employee compensation			157		157
Accrued expenses	1	58	727		786
Accrued income taxes		14	61		75
Current portion of long-term debt		330			330
Total Current Liabilities	7	444	2,246	(48)	2,649
Other non-current liabilities		79	274		353
Intercompany note payable	1,661	541		(2,202)	
Long-term debt, less current portion		176	1,557		1,733
Liability for deficit of Maxtor			543	(543)	
Total Liabilities	1,668	1,240	4,620	(2,793)	4,735

Shareholders Equity (Deficit)		4,737		(543)		12,937		(12,394)		4,737
Total Liabilities and Shareholders Equity	$	6,405	$	697	$	17,557	$	(15,187)	$	9,472

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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 December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$ 1	$ 3,419	$	$ 3,420
Cost of revenue		2	2,529		2,531
Product development		2	260		262
Marketing and administrative		1	166		167
Amortization of intangibles			13		13
Restructuring and other, net			27		27
Total operating expenses		5	2,995		3,000
Income (loss) from operations		(4)	424		420
Interest income			29	(10)	19
Interest expense		(17)	(27)	10	(34)
Equity in loss of Maxtor			(20)	20	
Equity in income of Non-Guarantors	403	1	427	(831)	
Other, net			18		18
Other income (expense), net	403	(16)	427	(811)	3
Income (loss) before income taxes	403	(20)	851	(811)	423
Provision for income taxes			20		20
Net income (loss)	$ 403	$ (20)	$ 831	$ (811)	$ 403

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Six Months Ended December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$ 8	$ 6,697	$	$ 6,705
Cost of revenue		10	4,998		5,008
Product development		5	499		504
Marketing and administrative	1	5	313		319
Amortization of intangibles			27		27
Restructuring and other, net			32		32
Total operating expenses	1	20	5,869		5,890
(Loss) income from operations	(1)	(12)	828		815
Interest income			55	(20)	35
Interest expense		(34)	(52)	20	(66)
Equity in loss of Maxtor			(46)	46	
Equity in income of Non-Guarantors	759		807	(1,566)	
Other, net			14		14
Other income (expense), net	759	(34)	778	(1,520)	(17)
Income (loss) before income taxes	758	(46)	1,606	(1,520)	798
Provision for income taxes			40		40
Net income (loss)	$ 758	$ (46)	$ 1,566	$ (1,520)	$ 758

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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

Six Months Ended December 28, 2007

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
OPERATING ACTIVITES					
Net income (loss)	$ 758	$ (46)	$ 1,566	$ (1,520)	$ 758
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation and amortization		3	417		420
Stock-based compensation		8	50		58
Equity in loss of Maxtor			46	(46)	
Equity in (income) loss of Non-Guarantors	(759)		(807)	1,566	
Other non-cash operating activities, net		7	(4)		3
Changes in operating assets and liabilities, net		(50)	289		239
Net cash (used in) provided by operating activities	(1)	(78)	1,557		1,478
INVESTING ACTIVITIES					
Acquisition of property, equipment and leasehold improvements			(362)		(362)
Purchase of short-term investments			(383)		(383)
Maturities and sales of short-term investments			222		222
Acquisitions, net of cash and cash equivalents acquired			(78)		(78)
Other investing activities, net			41		41
Net cash used in investing activities			(560)		(560)
FINANCING ACTIVITIES					
Loan from Non-Guarantor to Parent	484		(484)		
Loan from Non-Guarantor to Maxtor		66	(66)		
Distribution from Non-Guarantor to HDD			(533)	533	
Distribution to HDD from Non-Guarantor			533	(533)	
Distribution from Non-Guarantor to Maxtor		10	(10)		
Proceeds from exercise of employee stock options and employee stock purchase plan	132				132
Dividends to shareholders	(107)				(107)
Repurchases of common shares	(500)				(500)
Other financing activities, net			2		2

Net cash provided by (used in) financing activities		9		76		(558)				(473)
Increase (decrease) in cash and cash equivalents		8		(2)		439				445
Cash and cash equivalents at the beginning of the period		4		3		981				988
Cash and cash equivalents at the end of the period	$	12	$	1	$	1,420	$		$	1,433

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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 December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$ 121	$ 3,147	$ (272)	$ 2,996
Cost of revenue		147	2,575	(272)	2,450
Product development		(10)	236		226
Marketing and administrative	1	(4)	144		141
Amortization of intangibles		4	8		12
Restructuring			1		1
Total operating expenses	1	137	2,964	(272)	2,830
(Loss) income from operations	(1)	(16)	183		166
Interest income	1	1	31	(8)	25
Interest expense		(15)	(48)	8	(55)
Equity in loss of Maxtor			(133)	133	
Equity in income (loss) of Non-Guarantors	140	(96)	178	(222)	
Other, net		(7)	16		9
Other income (expense), net	141	(117)	44	(89)	(21)
Income (loss) before income taxes	140	(133)	227	(89)	145
Provision for income taxes			5		5
Net income (loss)	$ 140	$ (133)	$ 222	$ (89)	$ 140

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SEAGATE TECHNOLOGY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Condensed Consolidating Financial Information (continued)

Consolidating Statement of Operations

Six Months Ended December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	$	$ 261	$ 6,390	$ (863)	$ 5,788
Cost of revenue		350	5,313	(863)	4,800
Product development		8	462		470
Marketing and administrative	2	22	296		320
Amortization of intangibles		7	16		23
Restructuring			(3)		(3)
Total operating expenses	2	387	6,084	(863)	5,610
(Loss) income from operations	(2)	(126)	306		178
Interest income	1	1	74	(32)	44
Interest expense	(2)	(32)	(72)	32	(74)
Equity in loss of Maxtor			(350)	350	
Equity in income (loss) of Non-Guarantors	162	(193)	217	(186)	
Other, net			11		11
Other income (expense), net	161	(224)	(120)	164	(19)
Income (loss) before income taxes	159	(350)	186	164	159
Benefit from income taxes					
Net income (loss)	$ 159	$ (350)	$ 186	$ 164	$ 159

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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

Six Months Ended December 29, 2006

(In millions)

	Seagate Technology Parent Company Guarantor	Maxtor Subsidiary Issuer	Combined Non-Guarantors	Eliminations	Seagate Technology Consolidated
OPERATING ACTIVITIES					
Net income (loss)	$ 159	$ (350)	$ 186	$ 164	$ 159
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization		27	387		414
Stock-based compensation		19	50		69
Allowance for doubtful accounts receivable			42		42
Redemption of 8% Senior Notes			19		19
Equity in loss of Maxtor			350	(350)	
Equity in (income) loss of Non-Guarantors	(162)	193	(217)	186	
Other non-cash operating activities, net			1		1
Changes in operating assets and liabilities, net	15	(21)	(397)		(403)
Net cash provided by (used in) operating activities	12	(132)	421		301
INVESTING ACTIVITIES					
Acquisition of property, equipment and leasehold improvements		(3)	(463)		(466)
Proceeds from sales of fixed assets			28		28
Purchase of short-term investments			(322)		(322)
Maturities and sales of short-term investments			687		687
Other investing activities, net			(29)		(29)
Net cash used in investing activities		(3)	(99)		(102)
FINANCING ACTIVITIES					
Net proceeds from issuance of long-term debt			1,477		1,477
Redemption of 8% Senior Notes			(400)		(400)
Redemption premium on 8% Senior Notes			(16)		(16)
Loan from HDD to Parent	1,103		(1,103)		
Loan from Non-Guarantor to Maxtor		427	(427)		
Loan repayment to Non-Guarantor from Maxtor		(324)	324		
Distribution from Non-Guarantor to HDD			(859)	859	
Distribution to HDD from Non-Guarantor			859	(859)	
	104				104

Proceeds from exercise of employee stock options and employee stock purchase plan					
Dividends to shareholders	(104)				(104)
Repurchases of common shares and payments made under prepaid forward agreements	(1,075)				(1,075)
Other financing activities, net			1		1
Net cash provided by (used in) financing activities	28	103	(144)		(13)
Increase (decrease) in cash and cash equivalents	40	(32)	178		186
Cash and cash equivalents at the beginning of the period		29	881		910
Cash and cash equivalents at the end of the period	$ 40	$ (3)	$ 1,059	$	$ 1,096

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations for our fiscal quarter ended December 28, 2007. Unless the context indicates otherwise, as used herein, the terms we, us, Seagate and our refer to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands, and its subsidiaries.

You should read this discussion in conjunction with the financial information and related notes included elsewhere in this quarterly report. Except as noted, reference to any fiscal year means the twelve-month period ending on the Friday closest to June 30 of that year.

Some of the statements and assumptions included in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended, including, in particular, statements about our plans, strategies and prospects and estimates of industry growth for the fiscal quarter ended March 28, 2008 and beyond. These statements identify prospective information and include words such as expects, plans, anticipates, believes, estimates, predicts, projects, and similar expressions. These forward-looking statements are based on current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ, possibly materially, from those in the forward-looking statements. These risks include, among others, risks related to price and product competition in our industry, customer demand for our products, the development and introduction of new products, the impact of technological advances, dependence on our ability to successfully qualify, manufacture and sell our disc drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disc drive products with lower cost structures; the impact of competitive product announcements; possible excess industry supply with respect to particular disc drive products; risks related to our intellectual property; the impact of potential acquisitions; negative impacts of the conditions in the global credit and financial markets on our current portfolio of cash equivalents or short-term investments; market conditions and alternative cash imperatives which could impact our ability to repurchase our common shares; and the factors listed in the Risk Factors section of Item 1A of this Quarterly Report on Form 10-Q, which we encourage you to carefully read. We undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made.

Our Company

We are the leader in the design, manufacture and marketing of rigid disc drives. Rigid disc drives, which are commonly referred to as disc 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. We produce a broad range of disc drive products addressing enterprise applications, where our products are used in enterprise servers, mainframes and workstations; desktop applications, where our products are used in desktop computers; mobile computing applications, where our products are used in notebook computers; and consumer electronics applications, where our products are used in a wide variety of devices such as digital video recorders (DVRs), gaming devices and other consumer electronic devices that require storage. In addition to manufacturing and selling disc drives and branded storage products under the Seagate and Maxtor brands, we provide data storage services for small to medium size businesses, including online backup, data protection and recovery solutions.

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We sell our disc drives primarily to major original equipment manufacturers (OEMs), and we also market to distributors under our globally recognized brand names. For the fiscal quarters ended December 28, 2007, September 28, 2007 and December 29, 2006, approximately 67%, 66% and 63%, respectively, of our disc drive revenue was from sales to OEMs, including customers such as Hewlett-Packard, Dell, EMC, IBM, and Sony. We have longstanding relationships with many of our OEM customers. We also have key relationships with major distributors, who sell our disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world. Shipments to distributors were approximately 26%, 28% and 31% of our disc drive revenue in the fiscal quarters ended December 28, 2007, September 28, 2007 and December 29, 2006, respectively. Retail sales in the fiscal quarter ended December 28, 2007, as a percentage of our disc drive revenue was 7% compared to 6% and 6% in the fiscal quarters ended September 28, 2007 and December 29, 2006, respectively. For the fiscal quarters ended December 28, 2007, September 28, 2007 and December 29, 2006, approximately 29%, 29% and 29%, respectively, of our disc drive revenue came from customers located in North America, approximately 28%, 27% and 30%, respectively, came from customers located in Europe and approximately 43%, 44% and 41%, respectively, came from customers located in the Far East. Substantially all of our revenue is denominated in U.S. dollars.

Industry Overview

Our industry is characterized by several trends that have a material impact on our strategic planning, financial condition and results of operations.

Disc Drive Industry Consolidation

Due to the significant challenges posed by the need to continually innovate and improve manufacturing efficiency and because of the increasing amounts of capital and research and development expenditure required, the disc drive industry has undergone significant consolidation as disc drive manufacturers and component suppliers merged with other companies or exited the industry. Through such combinations, disc drive manufacturers have also become increasingly vertically integrated. Our acquisition of Maxtor in May 2006 is an example of such industry consolidation. In September 2007, TDK Corporation (TDK), a disc drive head manufacturer, completed its acquisition of Alps Electric Co. Ltd. (Alps), also a disc drive head manufacturer, and in August 2007, TDK announced that it intends to acquire Magnecomp Precision, a supplier of suspension assemblies, a key disc drive component. Also, in September 2007, Western Digital completed its acquisition of one of our suppliers of recording media, Komag, Inc. (Komag). Additionally, we may in the future face indirect competition from present and potential customers who evaluate from time to time whether to manufacture their own disc drives or other information storage products. For example, Iomega Corp., one of our customers, announced in December 2007, that it intends to acquire ExcelStor Group, a Chinese maker of disc drive products. We believe consolidation is likely to continue in the disc drive industry through combinations or strategic alignment of disc drive manufacturers, component manufacturers, or both, as the technological challenges and the associated levels of required investment grow, increasing the competitive necessity of larger-scale operations.

Price Erosion

Our industry has been characterized by continuous price erosion for disc drive products with comparable capacity, performance and feature sets (i.e., like-for-like products). Price erosion for like-for-like products (price erosion) is more pronounced during periods of:

- industry consolidation in which competitors aggressively use discounted price to gain market share;

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few new product introductions when multiple competitors have comparable or alternative product offerings;

temporary imbalances between industry supply and demand; and

seasonally weaker demand which may cause excess supply.

Disc drive manufacturers typically attempt to offset price erosion with an improved mix of disc drive products characterized by higher capacity, better performance and additional feature sets and/or product cost reductions.

While the pricing environment in the second quarter of fiscal year 2008 was relatively benign, with price erosion at the low end of historical ranges we expect price erosion in our industry will continue for the foreseeable future. To remain competitive, we believe it will be necessary to continue to reduce prices as well as introduce new product offerings that utilize advanced technologies prior to that of competitors in order to take advantage of potentially higher initial profit margins and reduced cost structure on these new products.

Disc Drive Industry Demand Trends

We believe that in the December 2007 quarter, industry unit demand was most significantly affected by the increased need for storage of all types of digital content. We estimate that in the December 2007 quarter, industry shipments of disc drives for all applications grew approximately 8% and 21% from the immediately preceding and year-ago quarters, respectively.

Disc Drives for Enterprise Storage. We estimate that in the December 2007 quarter, industry shipments of disc drives for the enterprise market grew approximately 13% and 16% from the immediately preceding and year-ago quarters, respectively. The market for mission critical enterprise disc drives grew faster than originally anticipated, as server virtualization resulted in increased demand for 3.5-inch high-speed, high-capacity products in server-attached storage applications. Additionally, we believe the market for small form factor mission critical enterprise drives continued to grow as enterprises are continuing to consolidate data centers, aiming to increase speed and reliability within a smaller space, reduce network complexity and increase energy savings.

We believe that the recent strong growth in the market for high-capacity, enterprise-class serial advanced technology architecture (SATA) products continued during the December 2007 quarter. We believe that this growth is driven by digital content aggregators and distributors for use in business critical storage systems and data centers, as well as the continued adoption of disc drive based backup solutions at the expense of tape solutions. We continue to believe that this growth in demand for disc drives for use in business critical storage systems has been shifting some demand from disc drives used in traditional mission critical enterprise storage.

Recently, solid state drives (SSDs) storage applications that use flash storage technology as an alternative to disc drive storage technology have been introduced as a potential alternative to redundant system startup or boot disc drives.

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Disc Drives for Mobile Computing. We estimate that in the December 2007 quarter, industry shipments of disc drives for mobile compute applications grew approximately 10% and 48% from the immediately preceding and year-ago quarters, respectively. The mobile computing market is continuing to grow faster than the desktop market as price and performance continue to improve. In addition, because notebooks are increasingly displacing desktop computers in the home, storage capacities for mobile compute disc drives are trending higher.

Disc Drives for Desktop Computing. We estimate that in the December 2007 quarter, industry shipments of disc drives for desktop compute applications grew approximately 5% and 11% from the immediately preceding and year-ago quarters, respectively. We believe the growth was attributable to the demand for higher storage capacity products. We also believe that the industry exited the quarter with some unmet demand in capacities of 500 gigabytes (GB) and greater. We expect the growth in disc drives for desktop computing to moderate in the future.

Disc Drives for Consumer Electronics. Disc drives in the consumer electronics markets are primarily for use in DVRs and gaming consoles. We estimate that in the December 2007 quarter, industry shipments of disc drives in the consumer electronics markets grew approximately 7% and 13% from the immediately preceding and year-ago quarters, respectively. We believe the increased penetration of DVRs and gaming consoles in the home has increased the demand for disc drives used in such applications. The relative success of gaming consoles and the pronounced seasonality of consumer purchases, which typically peaks in the December quarter, may significantly affect industry demand for disc drives used in gaming applications. Although solid state or flash memory has largely replaced disc drives in handheld applications, we believe that the demand for disc drives to store, hold or back up related media content from such handheld devices, continues to grow.

Disc Drives for Branded Solutions. We believe that industry demand for storage products is increasing due to the proliferation of media-rich digital content in consumer applications and is fuelling increased consumer demand for storage. This has led to the expansion of solutions such as external storage products to provide additional storage capacity and to secure data in case of disaster or system failure, or to provide independent storage solutions for multiple users in home or small business environments. Further, branded solutions traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter.

We believe that for some of the fastest growing applications described above, the demand is increasingly focused on higher capacity disc drive products.

Product Life Cycles and Changing Technology

Our industry has been characterized by significant advances in technology, which have contributed to rapid product life cycles, the importance of either being first to market with new technology and products and quickly achieving product cost effectiveness, as well as difficulty in recovering research and development expenses. Also, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields become of increasing competitive importance.

To address the growing demand for higher capacity products, the industry has substantially transitioned to perpendicular recording technology, which is necessary to achieve continued growth in areal density. Perpendicular recording technology poses various challenges, including but not limited to a complex integration of the recording head, disc, recording channel and drive firmware as a system, and involves the use of certain precious metals, which has at times been in limited supply and expensive.

Seasonality

The disc drive industry traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year. This seasonality is driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter. In addition, corporate demand is higher during the second half of the calendar year when IT budget calendars typically provide for more spending. Consistent with historical industry seasonal patterns, we expect industry demand for the March 2008 quarter to be down by approximately 5% compared to the December 2007 quarter.

For the March 2008 quarter, we expect industry demand in the enterprise market for mission critical class drives to be flat to slightly down seasonally compared to the December 2007 quarter, while demand for high capacity SATA products are expected to be slightly higher. We expect the mobile compute and desktop compute markets to follow normal seasonal patterns and to be lower in the March 2008 quarter when compared to the December 2007 quarter. We expect the consumer electronics market for the March 2008 quarter to follow normal seasonal patterns and be approximately 15-17% lower than that of the December 2007 quarter.

Recording Media

Consistent with our expectations that the disc drive industry will continue to consolidate and integrate, Western Digital completed its acquisition of Komag, a third-party supplier of recording media. Although this transaction may limit Komag s supply of media to the disc drive industry in the long-term, we believe that there is adequate supply to meet currently identified industry demand, and that there is enough time to readjust supply chains. See Part II, Item 1A. Risk Factors Dependence on Supply of Components, Equipment and Raw Materials.

Raw Material Constraints

Perpendicular recording technology requires more layers and the use of more precious metals and scarce alloys in the sputtering process required to create such layers. As a result, products utilizing perpendicular recording technology are more sensitive to fluctuations in prices and availability of precious metals and scarce alloys. As product offerings transition to perpendicular recording technology, companies may be required to maintain an increased inventory of these precious metals and scarce alloys.

Industry Supply Balance

Finally, to the extent that the disc drive industry builds product based on expectations of demand that do not materialize, the distribution channel may experience an oversupply of products that could lead to increased price erosion. The industry, excluding Seagate, exited the December 2007 quarter with what we believe to be less than 5 weeks of distribution inventory in the desktop channel.

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Seagate Overview

We are the leader in the disc drive industry with products that address the enterprise, desktop, mobile computing, consumer electronics and branded solutions storage markets. Sales of our 3.5-inch and 2.5-inch disc drive units used in our branded storage products are reported as part of our desktop and mobile application revenues, respectively. We maintain a highly integrated approach to our business by designing and manufacturing a significant portion of the components we view as critical to our products, such as read/write heads and recording media. We believe that our control of these key technologies, combined with our platform design and manufacturing, enable us to maintain our product leadership, including time-to-market, product performance, quality, cost and manufacturing flexibility. These strengths allow us to respond to customer and market opportunities by introducing new products in core markets and developing additional value streams in new and emerging markets. Our technology ownership, combined with our integrated design and manufacturing approach, has allowed us to effectively leverage our leadership in traditional computing to enter new markets with only incremental product development and manufacturing costs.

During fiscal year 2007, we completed our integration of Maxtor. Our year-ago quarter and six-month periods ended December 2006 included Maxtor s operating losses as we transitioned Maxtor products to Seagate products and recognized significant acquisition and integration related charges. We expect to continue to incur charges, the most significant of which are expected to be the amortization of acquired intangible assets.

Operating Performance

Revenue Revenue for the December 2007 quarter was approximately $3.4 billion, up 4% from approximately $3.3 billion in the immediately preceding quarter. The revenue increase from the immediately preceding quarter was primarily driven by a 5% seasonal increase in the number of disc drives shipped. The pricing environment was relatively benign during the December 2007 quarter, as price erosion was at the low end of historical ranges.

Revenue for the December 2007 quarter was up 14% from approximately $3.0 billion in the year-ago quarter. The increase in revenue from the year-ago quarter is primarily due to a 20% unit shipment growth from increased demand for storage driven by the continued growth in digital content, particularly in the mobile, enterprise and desktop compute markets as well as an improved mix of products shipped. The increase in shipments and improved mix of products shipped were partially offset by price erosion.

Revenue for the first half of fiscal year 2008 was approximately $6.7 billion, up 16% from approximately $5.8 billion in the corresponding period of the prior year due to the same reason as noted above. The growth was driven by increased market share in enterprise and desktop compute markets as well as an improved mix of products shipped. The increase in shipments and improved mix of products shipped were partially offset by price erosion.

Our overall average sales price per unit (ASP) for our products in the December 2007 quarter was $69, compared to $70 and $72 in the immediately preceding and year-ago quarters, respectively.

Enterprise We maintained our leadership position in the enterprise market. We shipped 5.3 million units in the December 2007 quarter, an increase of 15% and 27% from the immediately preceding and year-ago quarters, respectively. Increases in unit shipments compared to the immediately preceding and year-ago quarters were driven by market demand for mission critical enterprise disc drives as server virtualization resulted in increased demand for 3.5-inch high-speed, high-capacity products in server-attached storage applications. Additionally, our sales of small form factor mission critical enterprise drives of 1.7 million units during the December 2007 quarter increased significantly from the year-ago quarter.

Mobile We shipped 6.4 million units in the December 2007 quarter, a decrease of 18% from the immediately preceding quarter and an increase of 46% from the year-ago quarter. The decrease in unit shipments from the immediately preceding quarter were primarily driven by a delay in the release of our 250GB notebook product and a decision to optimize our 2.5-inch manufacturing capacity between our products for gaming and mobile applications. The increase in unit shipments from the year-ago quarter was driven by what we believe to be a continuing trend of notebooks increasingly replacing desktop computers and the increased use of our mobile products in branded storage products, all of which were partially off-set by a slight decrease in our share in the mobile market as compared to the year-ago quarter. In addition, the storage capacities for our mobile compute disc drive shipments are trending higher as notebooks are increasingly displacing desktop computers in the home.

Desktop In the December 2007 quarter, we believe we maintained our market leadership position with shipments of 29.9 million units, an increase of 3% and 16% from the immediately preceding and year-ago quarters, respectively. The increase from the immediately preceding and year-ago quarters was mainly from increased demand for our desktop products, driven by the continued growth in digital content and the resulting increase in overall demand for desktop storage products and the use of our desktop disc drives in our branded storage products. During the December 2007 quarter, we continued to experience a strong shift to higher capacities for our 3.5-inch desktop products. Also, we exited the December 2007 quarter with some unmet demand for disc drives with capacities of 500GB and greater. In the global distribution channel, we exited the December 2007 quarter with distribution channel inventory for desktop products at approximately four weeks.

Consumer Electronics In the December 2007 quarter, we shipped a total of 8.1 million disc drives in the consumer electronics market, an increase of 41% and 14% from the immediately preceding and year-ago quarters, respectively. We believe the increased penetration of DVRs and gaming consoles in the home has increased the demand for our disc drives used in such applications. The relative success of gaming consoles and the pronounced seasonality of consumer purchases, which typically peaks in the December quarter, may significantly affect our demand for disc drives used in gaming applications. Although solid state or flash memory has largely replaced disc drives in handheld applications we believe that the demand for disc drives to store, hold or back up related media content from such handheld devices, continues to grow.

Other factors affecting operating income In the December 2007 quarter, our operating results included an expense of $77 million related to variable performance-based compensation, as compared to $69 million in the immediately preceding quarter and $19 million in the year-ago quarter. Our variable performance-based compensation is dependent on our results of operation to date, as well as our current expectations of our future results of operations. We expect there will likely be significant additional variable performance-based compensation expense in each of the remaining quarters of fiscal year 2008 compared to the corresponding year-ago periods.

In the December 2007 quarter, we recorded restructuring costs of approximately $27 million, primarily related to the planned closure of our Limavady, Northern Ireland operations as part of our ongoing focus on cost efficiencies in all areas of our business. We currently expect to complete the closure of our Limavady facility by the end of our first quarter of fiscal year 2009, with additional restructuring charges of approximately $25 million to $30 million to be recorded over the next three quarters with respect to this planned closure, resulting in aggregate restructuring charges of approximately $50 million to $55 million.

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Seasonality

Historically, we have generally exhibited seasonally lower unit demand during the second half of each fiscal year. Consistent with these patterns, we expect unit demand in the March 2008 quarter to decrease by approximately 5% from the December 2007 quarter. We continue to see demand trends shifting toward high-capacity storage, which we believe is driven by the increase in volume of digital content requiring storage in both the consumer and commercial markets.

Recording Media

The percentage of our requirements for recording media that we produce internally varies from quarter to quarter. Our long-term strategy is to externally purchase no more than 15% of total recording media requirements.

Currently, we purchase approximately 70% of our aluminum substrates for recording media production from third parties. We also purchase all of our glass substrates from third parties (mainly in Japan), which are used to manufacture our disc drives for mobile and small form factor consumer electronics products.

Until recently, substantially all of our purchases of recording media and a significant portion of our aluminum substrates from third-party suppliers have been sourced from Komag, which was recently acquired by Western Digital. Following the closing of its acquisition by Western Digital, Komag notified us that, after a contractual notice period expires, it would terminate supply arrangements with us. We are continuing to expand our media production facilities in Singapore and are in the process of adding an aluminum substrate manufacturing facility in Johor, Malaysia, which we intend will allow us to decrease our purchases of aluminum substrates. We expect these facilities to be operational during the fourth quarter of fiscal year 2008. In addition to the new facilities in Singapore and Asia, we are in the process of developing alternative sources of supply for recording media and aluminum substrates from third parties. We believe that there is adequate supply to meet currently identified demand, and that there is enough time to readjust supply chains. See Part II, Item 1A. Risk Factors Dependence on Supply of Components, Equipment, and Raw Materials.

Raw Materials

We have substantially completed our transition to perpendicular technology based products during the December 2007 quarter. Our products based on perpendicular technology require increased quantities of precious metals, which has led to an increase (that is likely to continue) in the inventory levels for these raw materials. The price of these precious metals has been and may continue to be volatile. Also, these precious metals have at times been difficult to acquire. We believe we have adequate supply plans in place to support our expected product requirements.

Investments

For fiscal year 2008, we expect approximately $900 million in capital investment will be required to continue to proceed with our planned media and substrate capacity expansions in Asia and to align capacity additions with current levels of customer demand, while we continue to improve our utilization of capital equipment.

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Results of Operations

During fiscal year 2007, we completed our integration of Maxtor. Our year-ago quarter and six-month periods ended December 2006 included Maxtor s operating losses as we transitioned Maxtor products to Seagate products and recognized significant acquisition and integration related charges

We list in the tables below the historical Condensed Consolidated Statements of Operations in dollars and as a percentage of revenue for the periods indicated.

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(in millions)		(in millions)	
Revenue	$ 3,420	$ 2,996	$ 6,705	$ 5,788
Cost of revenue	2,531	2,450	5,008	4,800
Gross margin	889	546	1,697	988
Product development	262	226	504	470
Marketing and administrative	167	141	319	320
Amortization of intangibles	13	12	27	23
Restructuring and other, net	27	1	32	(3)
Income from operations	420	166	815	178
Other income (expense), net	3	(21)	(17)	(19)
Income before income taxes	423	145	798	159
Provision for income taxes	20	5	40	
Net income	$ 403	$ 140	$ 758	$ 159

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(as a percentage of revenue)		(as a percentage of revenue)	
Revenue	100%	100%	100%	100%
Cost of revenue	74	82	75	83
Gross margin	26	18	25	17
Product development	8	7	8	8
Marketing and administrative	5	5	5	6
Amortization of intangibles				
Restructuring and other, net	1			
Income from operations	12	6	12	3
Other income (expense), net		(1)		
Income before income taxes	12	5	12	3
Provision for income taxes			1	
Net income	12%	5%	11%	3%

Revenue. Revenue for the December 2007 quarter was approximately $3.4 billion, up 4% from approximately $3.3 billion in the immediately preceding quarter. The revenue increase from the immediately preceding quarter was primarily driven by a 5% seasonal increase in the number of disc drives shipped. The pricing environment was relatively benign during the December 2007 quarter, as price erosion was at the low end of historical ranges.

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Revenue for the December 2007 quarter was up 14% from approximately $3.0 billion in the year-ago quarter. The increase in revenue from the year-ago quarter is primarily due to a 20% unit shipment growth from increased demand for storage driven by the continued growth in digital content, particularly in the mobile, enterprise and desktop compute markets as well as an improved mix of products shipped. The increase in shipments and improved mix of products shipped were partially offset by price erosion.

Revenue for the first half of fiscal year 2008 of $6.7 billion was up 16% from approximately $5.8 billion in the corresponding period of the prior year due to the same reason as noted above. The growth was driven by increased unit shipments across markets, as well as an improved mix of products shipped. The increase in shipments and improved mix of products shipped were partially offset by price erosion.

Unit shipments for our products in the December 28, 2007 were as follows:

Enterprise 5.3 million, up from 4.6 million and 4.1 million units in the immediately preceding and year-ago quarters, respectively.

Mobile 6.4 million, down from 7.9 million in the immediately preceding quarter and up from 4.4 million units in the year-ago quarter.

Desktop 29.9 million, up from 29.0 million and 25.7 million units in the immediately preceding and year-ago quarters, respectively.

Consumer Electronics 8.1 million, up from 5.7 million and 7.1 million in the immediately preceding and year-ago quarters, respectively.

We maintain various sales programs aimed at increasing customer demand. We exercise judgment in formulating the underlying estimates related to distributor inventory levels, sales program participation and customer claims submittals in determining the provision for such programs. Sales programs recorded as contra-revenue, as a percentage of our gross disc drive revenue was approximately 8% for the December 2007 quarter as compared to 9% and 8% in the immediately preceding and year-ago quarters, respectively. The decrease in sales programs as a percentage of gross disc drive revenue from the immediately preceding quarter was primarily the result of a more favorable pricing environment and a higher mix of OEM sales, which generally require lower program support than distribution and retail sales.

Cost of Revenue. Cost of revenue for the December 2007 quarter was approximately $2.5 billion, which slightly increased from the immediately preceding quarter. Gross margin as a percentage of revenue for the December 2007 quarter was 26% as compared to 25% from the immediately preceding quarter. The increase in gross margin as a percentage of revenue from the immediately preceding quarter was primarily due to a shift to lower cost products and improved utilization of our manufacturing capacity, partially offset by the impact of variable performance-based compensation and a 1% lower ASP as compared to the immediately preceding quarter.

Cost of revenue for the December 2007 quarter of approximately $2.5 billion also increased slightly from the year-ago quarter. The increase in gross margin as a percentage of revenue from 18% in the year-ago quarter to 26% in the December 2007 quarter was due to significantly improved utilization of our manufacturing capacity as a result of increased demand, the completed integration of Maxtor, transitions to lower cost products, and the elimination of lower margin Maxtor designed products. These increases were partially offset by higher variable performance-based compensation and a 4% lower ASP as compared to the year-ago quarter.

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Cost of revenue for the first half of fiscal year 2008 of $5.0 billion was up 4% from approximately $4.8 billion in the first half of the prior fiscal year. The improvement in gross margin as a percentage of revenue for the first half of fiscal year 2008 of 25% as compared to 17% in the corresponding prior year period was due to significantly improved utilization of our manufacturing capacity as a result of increased demand and the completed integration of Maxtor, transitions to lower cost products, and the elimination of lower margin Maxtor designed products. These increases were partially offset by higher variable performance-based compensation and a 4% lower ASP as compared to the corresponding prior year period.

Product Development Expense. Product development expense for the December 2007 quarter increased by $20 million, or 8%, when compared with the immediately preceding quarter. The increase in product development expense from the immediately preceding quarter was primarily due to increases of $14 million in operating costs associated with the final phase of launching new high capacity desktop and notebook drives and $9 million in payroll expense resulting from increased headcount and annual wage increases.

Product development expense for the December 2007 quarter increased by $36 million, or 16%, when compared with the year-ago quarter. The increase in product development expense from the year-ago quarter was primarily due to increases of $21 million in operating costs associated with the final phase of launching new high capacity desktop and notebook drives, $18 million in variable performance-based compensation and $4 million in payroll expense resulting from increased headcount and annual wage increases, partially offset by a decrease of $6 million in costs associated with the Maxtor acquisition.

Product development expense for the first half of fiscal year 2008 increased by $34 million, or 7%, when compared with the year-ago six-month period. The increase in product development expense from the year-ago six-month period was primarily due to increases of $37 million in variable performance-based compensation, $22 million in operating costs associated with the final phase of launching new high capacity desktop and notebook drives and $15 million in payroll expense resulting from increased headcount and annual wage increases, partially offset by a decrease of $31 million in costs associated with the Maxtor acquisition.

Marketing and Administrative Expense. Marketing and administrative expense for the December 2007 quarter increased by $14 million, or 9%, when compared with the immediately preceding quarter. The increase in marketing and administrative expense from the immediately preceding quarter was primarily due to increases of $8 million in legal expense resulting from the progression of on-going litigation and $5 million in payroll expense resulting from increased headcount and annual wage increases.

Marketing and administrative expense for the December 2007 quarter increased by $26 million, or 18%, when compared with the year-ago quarter. The increase from the year-ago quarter was primarily due to increases of $10 million in variable performance-based compensation, $10 million in legal expense resulting from the progression of on-going litigation, $8 million in payroll expense resulting from increased headcount and annual wage increases, partially offset by a decrease of $10 million in costs associated with the Maxtor acquisition

Marketing and administrative expense for the first half of fiscal year 2008 was relatively flat when compared with the year-ago six-month period primarily due to increases of $26 million in payroll expense resulting from increased headcount and annual wage increases, $22 million in variable performance-based compensation and $12 million in legal expense resulting from the progression of on-going litigation, substantially offset by decreases of $40 million in the provision of doubtful accounts receivable related to eSys Technologies Pte. Ltd. and its related affiliate entities and $31 million in costs associated with the Maxtor acquisition.

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Amortization of Intangibles. Amortization of intangibles was flat when compared to the immediately preceding quarter and increased from both the three and six month year-ago periods as a result of intangibles acquired in the EVault acquisition.

Restructuring and Other. In the December 2007 quarter, we recorded restructuring costs of approximately $27 million, primarily related to the planned closure of our Limavady, Northern Ireland operations as part of our ongoing focus on cost efficiencies in all areas of our business. We currently expect to complete the closure of our Limavady facility by the end of our first quarter of fiscal year 2009, with additional restructuring charges of approximately $25 million to $30 million to be recorded over the next three quarters with respect to this planned closure, resulting in aggregate restructuring charges of approximately $50 million to $55 million.

Net Other Income (Expense). Net other expense changed by $24 million from net other expense of $21 million in the immediately preceding quarter to net other income of $3 million in the quarter ended December 28, 2007. This change from the immediately preceding quarter was primarily due to a gain on the sale of certain assets of approximately $15 million.

Net other expense changed by $24 million from net other expense of $21 million in the year-ago quarter to net other income of $3 million in the quarter ended December 28, 2007. This change in net other expense from the year-ago quarter was primarily due to a gain on the sale of certain assets of approximately $15 million and a decrease in interest expense which in the year-ago quarter included $19 million in costs associated with the early retirement of our 8% Senior Notes due May 2009. These changes were partially offset by a decrease of $6 million in interest income due to lower cash balances.

Net other expense decreased by $2 million when compared to the year-ago six-month period primarily due to a gain on the sale of certain assets of approximately $15 million substantially offset by a decrease in the value of the deferred compensation plan assets of $10 million and a foreign exchange loss of $3 million.

Income Taxes. We are a foreign holding company incorporated in the Cayman Islands with foreign and U.S. subsidiaries that operate in multiple taxing jurisdictions. As a result, our worldwide operating income either is subject to varying rates of tax or is exempt from tax due to tax holidays or tax incentive programs we operate under 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.

Our provision for income taxes recorded for the three and six months ended December 28, 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) a decrease in our valuation allowance for U.S. deferred tax assets, and (iii) the tax expense related to intercompany transactions. Our benefit for income taxes recorded for the three and six months ended December 29, 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) an increase in our valuation allowance for certain U.S. deferred tax assets, and (iii) foreign tax benefits recorded during the quarter relating to reductions in previously accrued taxes and reductions in valuation allowances for certain foreign deferred tax assets.

Based on our foreign ownership structure and subject to (i) potential future increases in our valuation allowance for deferred tax assets and (ii) limitations imposed by Internal Revenue Code Section 382 on usage of certain tax attributes (further described below), we anticipate that our effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from our 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 our foreign parent holding company.

As of December 28, 2007, we recorded net deferred tax assets of $888 million. The realization of $796 million of these deferred tax assets is primarily dependent on our ability to generate sufficient U.S. and certain foreign taxable income in future periods. Although realization is not assured, we believe 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 we reevaluate our estimates of future taxable income.

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 of these attributes may be accelerated into the first five years following the acquisition pursuant to IRC Sec. 382 and published notices.

On January 3, 2005, we underwent a change in ownership under IRC Sec. 382 due to the sale of common shares to the public by our 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 we believe 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.

Effective at the beginning of the first quarter of 2008, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes   An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of FIN 48, we increased our liability for net unrecognized tax benefits at the date of adoption. We accounted for the increase primarily as a cumulative effect of a change in accounting principle that resulted in a decrease in retained earnings of $3 million and an increase in goodwill of $25 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $385 million excluding interest and penalties. Of these unrecognized tax benefits, $63 million would reduce the effective tax rate upon recognition. During the six months ended December 28, 2007, our unrecognized tax benefits increased by $5 million for tax positions taken in prior periods and by $6 million for tax positions taken during the current period.

During the 12 months beginning December 29, 2007, we expect to reduce our unrecognized tax benefits by approximately $12 million as a result of the expiration of certain statutes of limitation. We do not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, we note that the resolution and/or closure of open audits is highly uncertain as to when and if these events may occur.

We file U.S. federal, U.S. state, and foreign tax returns. The statutes of limitation for U.S. Federal returns are open for fiscal years 2003 and forward. The Internal Revenue Service (IRS) has completed its examination of fiscal years ending in 2003 and 2004. For state and foreign tax returns, we are generally no longer subject to tax examinations for years prior to fiscal year 2001.

Our policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the Condensed Consolidated Statements of Operations did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, we had accrued approximately $19 million for the payment of interest and penalties relating to unrecognized tax benefits. This accrual increased by $3 million to approximately $22 million as of December 28, 2007.

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Liquidity and Capital Resources

The following is a discussion of our principal liquidity requirements and capital resources.

We had approximately $1.8 billion in cash, cash equivalents and short-term investments at December 28, 2007, which included $1.4 billion of cash and cash equivalents. Cash and cash equivalents increased by $445 million during the six months ended December 28, 2007, up from $988 million at June 29, 2007. This increase in cash and cash equivalents was primarily due to cash provided by operating activities and cash provided by employee stock option exercises and employee stock purchases, offset by capital additions, acquisitions, the repurchase of common shares and dividends paid to shareholders.

Until required for other purposes, our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk. We mitigate default risk by maintaining portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository. We maintain a highly liquid portfolio by investing only in marketable securities with active secondary or resale markets. At December 28, 2007, our exposure to sub-prime mortgage securities was not significant. As of the date of this filing, we are not aware of any downgrades, losses, failed auctions or other significant deterioration in the fair value of our cash equivalents or short-term investments since December 28, 2007. As such, we do not believe the fair value of our short-term investments has significantly changed from the values reported as of December 28, 2007.

Cash Provided by Operating Activities

Cash provided by operating activities for the six months ended December 28, 2007 was approximately $1.5 billion and consisted primarily of net income adjusted for non-cash items including depreciation, amortization and stock-based compensation and an increase in accounts payable, offset by an increase in accounts receivable.

Cash Used in Investing Activities

During the six months ended December 28, 2007, we used $560 million for net cash investing activities, which was primarily attributable to expenditures for property, equipment and leasehold improvements of approximately $362 million, purchases of short-term investments in excess of maturities and sales of $161 million and $78 million for acquisitions, net of cash acquired. The approximately $362 million we invested in property, equipment and leasehold improvements was primarily comprised of:

- $49 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the United States and the Far East;
- $83 million to upgrade the capabilities of our thin-film media operations in the United States, Malaysia and Singapore;
- $226 million for manufacturing facilities and equipment for our recording head operations in the United States, the Far East and Northern Ireland; and

For fiscal year 2008, we expect approximately $900 million in capital investment will be required to continue to proceed with our planned media and substrate capacity expansions in Asia and to align capacity additions with current levels of customer demand, while we continue to improve our utilization of capital equipment.

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Cash Used in Financing Activities

Net cash used in financing activities of $473 million for the six months ended December 28, 2007 was primarily attributable to the repurchases of our common shares totaling approximately $500 million and approximately $107 million in dividends paid to our shareholders, partially offset by approximately $132 million in cash provided by employee stock option exercises and employee stock purchases.

Liquidity Sources and Cash Requirements and Commitments

Our principal sources of liquidity as of December 28, 2007, consisted of: (1) approximately $1.8 billion in cash, cash equivalents, and short-term investments, (2) cash we expect to generate from operations and (3) a $500 million revolving credit facility.

Our $500 million revolving credit facility matures in September 2011. 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, we had utilized $47 million for outstanding letters of credit and bankers guarantees as of December 28, 2007, leaving $453 million for additional borrowings, subject to compliance with financial covenants and other customary conditions to borrowing.

The credit agreement that governs our revolving credit facility contains covenants that we must satisfy in order to remain in compliance with the agreement. This 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 December 28, 2007, we are in compliance with all covenants, including the financial ratios that we are required to maintain.

Our principal liquidity requirements are primarily to meet our working capital, research and development, capital expenditure needs, and to service our debt. In addition, since the second half of fiscal year 2002 and through the December 2007 quarter, we have paid dividends to our shareholders.

On November 16, 2007, we paid dividends aggregating approximately $53 million, or $0.10 per share, to our common shareholders of record as of November 2, 2007. On January 17, 2008, we declared a quarterly dividend of $0.10 per share that will be paid on or before February 15, 2008 to our common shareholders of record as of February 1, 2008. In deciding whether or not to declare quarterly dividends, our directors will take into account such factors as general business conditions within the disc drive industry, our financial results, our capital requirements, contractual and legal restrictions on the payment of dividends by our subsidiaries to us or by us to our shareholders, the impact of paying dividends on our credit ratings and such other factors as our board of directors may deem relevant.

We currently expect to complete the closure of our Limavady facility by the end of our first quarter of fiscal year 2009, with additional cash restructuring charges of approximately $25 million to $30 million to be recorded over the next three quarters with respect to this planned closure, resulting in aggregate restructuring charges of approximately $50 million to $55 million.

Because we had current earnings and profits in excess of distributions for our taxable year ended June 29, 2007, distributions on our common shares to U.S. shareholders during this period were treated as dividend income for U.S. federal income tax purposes. We anticipate that we will have earnings and profits in excess of distributions in fiscal year 2008. Therefore, distributions to U.S. shareholders in fiscal year 2008 are anticipated to be treated as dividend income for U.S. federal income tax purposes. Non-U.S. shareholders should consult with a tax advisor to determine appropriate tax treatment.

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As a result of the acquisition of Maxtor, we assumed all of Maxtor s outstanding debts, including, without limitation, its outstanding convertible senior notes. Maxtor s 2.375% Convertible Senior Notes due August 2012 (the 2.375% Notes), of which $326 million were outstanding as of December 28, 2007, contain a cash conversion feature that will require Seagate to deliver to the holders, upon any conversion of the 2.375% Notes, cash in an amount equal to the lesser of (a) the principal amount of the 2.375% Notes converted and (b) the as-converted value of the 2.375% Notes. To the extent holders of the 2.375% Notes choose to convert their notes, Seagate will require additional amounts of cash to meet this obligation. The payment of dividends to holders of our common shares may in certain future quarters result in upward adjustments to the conversion rate of the 2.375% Notes.

On August 8, 2006, we announced that our board of directors had authorized the use of up to $2.5 billion for the repurchase of our outstanding common shares over a two-year period. During the six months ended December 28, 2007, we repurchased approximately 19.6 million shares through open market repurchases at an average price of $25.57 for a total of approximately $500 million. The repurchased shares were cancelled and are no longer outstanding. As of December 28, 2007, we had approximately $474 million remaining under the authorized $2.5 billion stock repurchase program, all of which we expect to utilize during the March 2008 quarter, subject to market conditions and alternative cash imperatives which could impact our decision to repurchase our stock. See Part II, Item 2: Unregistered Sales of Equity Securities and Use of Proceeds Repurchases of Equity Securities.

As part of our strategy, we may selectively pursue strategic alliances, acquisitions and investments that are complementary to our business. Any material future acquisitions, alliances or investments will likely require additional capital. We may enter into more of these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all. We will require substantial amounts of cash to fund scheduled payments of principal and interest on our indebtedness, future capital expenditures, any increased working capital requirements and share repurchases. If we are unable to meet our cash requirements out of existing cash or cash flow from operations, we cannot assure you that we will be able to obtain alternative financing on terms acceptable to us, if at all.

We believe that our sources of cash will be sufficient to fund our operations and meet our cash requirements for at least the next 12 months. Our ability to fund these requirements and comply with the financial covenants under our debt agreements will depend on our future operations, performance and cash flow and is subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

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Contractual Obligations and Commitments

Our contractual cash obligations and commitments as of December 28, 2007 have been summarized in the table below:

			Fiscal Year(s)		
	Total	2008	2009-2010 (in millions)	2011-2012	Thereafter
Contractual Cash Obligations:					
Long term debt(1)	$ 2,072	$ 330	$ 507	$ 635	$ 600
Interest payments on long-term debt	633	60	227	158	188
Capital expenditures	276	235	41		
Operating leases(2)	288	21	74	61	132
Purchase obligations(3)	3,519	1,547	1,972		
Subtotal	6,788	2,193	2,821	854	920
Commitments:					
Letters of credit or bank guarantees	68	49	19		
Total	$ 6,856	$ 2,242	$ 2,840	$ 854	$ 920

(1) Included in long term debt for fiscal year 2008 is the principal amount of $326 million related to our 2.375% Notes which is payable upon the conversion of the 2.375% Notes, which are currently convertible as our share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the second quarter of fiscal year 2008. Unless earlier converted, the 2.375% Notes must be redeemed in August 2012.

(2) Includes total future minimum rent expense under non-cancelable leases for both occupied and abandoned facilities (rent expense is shown net of sublease income).

(3) Purchase obligations are defined as contractual obligations for purchase of goods or services, which are enforceable and legally binding on us, and that specify all significant terms.

As a result of the adoption of FIN 48, we reclassified unrecognized tax benefits to long-term income taxes payable. As of December 28, 2007, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling $232 million, none of which is expected to be paid within one year. We are unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

Off-Balance Sheet Arrangements

As of December 28, 2007, we did not have any material off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be appropriate in the circumstances. However, actual future results may vary from our estimates.

Since our fiscal year ended June 29, 2007, there have been no significant changes in our critical accounting policies and estimates other than the adoption of FIN 48 (see Results of Operations *Income Taxes*). Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 29, 2007, as filed with the SEC on August 27, 2007, for a discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

See Note 11 of the Notes to Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

In July 2007, the FASB agreed to issue for comment a proposed FASB Staff Position (FSP) addressing convertible instruments that may be settled in cash upon conversion, including those that may require partial cash settlement. The proposed FSP would require the issuer to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interests. The proposed FSP would require bifurcation of a component of the debt, classification of that component in equity, with the accretion of the discount on the debt resulting in the economic interest cost being reflected in the statement of operations through higher interest expense. The proposed FSP if issued would be effective for fiscal years beginning after December 15, 2007, and would be applied retrospectively to all periods presented pursuant to the guidance of SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). Our accounting for the 2.375% Notes acquired from Maxtor and therefore our financial position and results of operations may be impacted by the proposed FSP. We will evaluate the impact of the final FSP on our results of operations and financial condition when issued.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt. We currently do not use derivative financial instruments in either our investment portfolio or to hedge debt.

As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk. We mitigate default risk by maintaining portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository. We maintain a highly liquid portfolio by investing only in marketable securities with active secondary or resale markets. At December 28, 2007, our exposure to sub-prime mortgage securities was not significant. As of the date of this filing, we are not aware of any downgrades, losses, failed auctions or other significant deterioration in the fair value of our cash equivalents or short-term investments since December 28, 2007. As such, we do not believe the fair value of our short-term investments has significantly changed from the values reported as of December 28, 2007.

We have both fixed and variable rate debt obligations. We enter into debt obligations to support general corporate purposes including capital expenditures and working capital needs. We currently do not use interest rate derivatives to hedge our interest rate exposure.

At December 28, 2007, we had no marketable securities that had been in a continuous unrealized loss position for a period greater than 12 months.

The table below presents principal (or notional) amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations as of December 28, 2007. All investments mature in three years or less. Included in long term debt for fiscal year 2008, is the principal amount of $326 million related to our 2.375% Notes which is payable upon the conversion of the 2.375% Notes, which are currently convertible, as our share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the second quarter of fiscal year 2008. Unless earlier converted, the 2.375% Notes must be redeemed in August 2012.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value December 28, 2007
				(in millions, except percentages)				
Assets								
Cash equivalents:								
Fixed rate	$ 1,332	$	$	$	$	$	$ 1,332	$ 1,330
Average interest rate	4.86%						4.86%	
Short-term investments:								
Fixed rate	$ 74	$ 61	$ 16	$	$	$	$ 151	$ 152
Average interest rate	4.65%	4.75%	5.33%				4.76%	
Variable rate	$ 165	$	$	$	$	$	$ 165	$ 165
Average interest rate	6.38%						6.38%	
Total investment securities	$ 1,571	$ 61	$ 16	$	$	$	$ 1,648	$ 1,647
Average interest rate	5.01%	4.75%	5.33%				5.01%	
Long-Term Debt								
Fixed rate	$ 330	$ 5	$ 142	$ 5	$ 630	$ 600	$ 1,712	$ 1,934
Average interest rate	2.43%	5.75%	6.76%	5.75%	6.35%	6.80%	5.78%	
Variable rate		$ 30	$ 330				$ 360	$ 355
Average interest rate		5.81%	6.08%				6.06%	

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Foreign Currency Exchange Risk. We transact business in various foreign countries. Our primary foreign currency cash flows are in countries where we have a manufacturing presence. We have established a foreign currency hedging program to protect against the increase in value of foreign currency cash flows resulting from operating and capital expenditures over the next year. We hedge portions of our forecasted expenses denominated in foreign currencies with forward exchange contracts. When the U.S. dollar weakens significantly against the foreign currencies, the increase in the value of the future foreign currency expenditure is offset by gains in the value of the forward contracts designated as hedges. Conversely, as the U.S. dollar strengthens, the decrease in value of the future foreign currency cash flows is offset by losses in the value of the forward contracts. These forward foreign exchange contracts, carried at fair value, may have maturities of up to 12 months. Additionally, in the first quarter of fiscal year 2008, we entered into forward contracts to hedge the capital expense costs associated with a new manufacturing facility under construction in Malaysia.

We evaluate hedging effectiveness prospectively and retrospectively and record any ineffective portion of the hedging instruments in other income (expense) on the statement of operations. We did not have any net gains (losses) recognized in other income (expense) for cash flow hedges due to hedge ineffectiveness in the six months ended December 28, 2007.

As of December 28, 2007, our notional fair values of foreign exchange forward contracts totaled $412 million. We do not believe that these derivatives present significant credit risks, because the counterparties to the derivatives consist of major financial institutions, and we manage the notional amount of contracts entered into with any one counterparty. We maintain settlement and revaluation limits as well as maximum tenure of contracts based on the credit rating of the financial institutions. We do not enter derivative financial instruments for speculative or trading purposes. The table below provides information as of December 28, 2007 about our derivative financial instruments, comprised of foreign currency forward exchange contracts. The table is provided in U.S. dollar equivalent amounts and presents the notional amounts (at the contract exchange rates) and the weighted average contractual foreign currency exchange rates.

(In millions, except average contract rate)	**Notional Amount**	**Average Contract Rate**	**Estimated Fair Value (1)**
Foreign currency forward exchange contracts:			
British Pound	$ 32	1.98	$
Singapore Dollar	102	1.45	1
Thai Baht	236	33.72	1
Malaysian Ringgit	42	3.33	
	$ 412		$ 2

(1) Equivalent to the unrealized net gain on existing contracts.

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ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that, as of December 28, 2007, our disclosure controls and procedures were effective. During the quarter ended December 28, 2007, there were no changes in our internal control over financial reporting that materially affected, or were reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In accordance with SFAS No. 5, *Accounting for Contingencies*, we assess the probability of an unfavorable outcome of all our 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, we establish an accrual for the litigation, claim or assessment. Litigation is inherently uncertain and may result in adverse rulings or decisions. Additionally, we may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on our results of operations. Accordingly, actual results could differ materially.

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. We declined Convolve s offer of a license in late 1999. On July 13, 2000, Convolve and MIT filed suit against Compaq Computer Corporation and us in the U.S. District Court for the Southern District of New York, alleging patent infringement, 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 our 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. We 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 we own any intellectual property based on the information that we 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 we 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 our 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 to Convolve. Convolve filed an amended complaint on January 16, 2002, alleging defendants infringement of this patent, and we answered and filed counterclaims on February 8, 2002. On July 26, 2002, we 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 our 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). We believe 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 us 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 have indicated that they will dismiss claims regarding U.S. Patent No. 5,638,267 from the case. The claims construction hearing on U.S. Patent Nos. 4,916,635 and 6,314,473 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 our motion for summary judgment on a trade secret issue, 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 reexamination of the patents. The court denied our motion to stay the case pending patent reexamination. In initial office actions, the USPTO Examiner rejected all claims of both patents as unpatentable. No trial date has been set. We believe the claims are without merit, and we intend to defend against them vigorously.

Shao Tong, et al. v. Seagate International (Wuxi) Co., Ltd. In July 2002, we were sued in the People s Court of Nanjing City, China, by an individual, Shao Tong, and a private Chinese company, Nanjing Yisike Network Safety Technique Co., Ltd. The complaint alleged that two of our personal storage disc drive products infringe Chinese patent number ZL94111461.9, which prevents the corruption of systems data stored on disc drives. The suit, which sought to stop us from manufacturing the two products and claimed immaterial monetary damages, was dismissed by the court on procedural grounds on November 29, 2002. On December 3, 2002, the plaintiffs served us with notice that they had refiled the lawsuit. The new complaint contains identical infringement claims against the same disc drive products, claims immaterial monetary damages and attorney s fees and requests injunctive relief and a recall of the products from the Chinese market. Manufacture of the accused products ceased in May 2003. At a hearing on March 10, 2003, the court referred the matter to an independent technical advisory board for a report on the application of the patent claims to the two products. On June 10, 2003, we presented our non-infringement case to the technical panel. The panel issued a technical advisory report to the court finding no infringement. The court heard oral arguments on the technical advisory report in September 2003, issued an order that our products do not infringe the patent and rejected plaintiffs lawsuit. Plaintiffs filed an appeal with the Jiangsu High Court, and we filed our opposition brief on January 21, 2004. The PRC Patent Reexamination Board declared patent ZL94111461.9 invalid on March 28, 2004. The Jiangsu High Court stayed the appeal on the infringement case pending a final judgment on patent invalidity. On June 22, 2004, Shao Tong filed a lawsuit in the Beijing Intermediate People s Court against the PRC PRB challenging its patent invalidity decision. On November 29, 2004, the court affirmed the decision of patent invalidity. In December 2004, Shao Tong appealed the decision to the Beijing High People s court, the highest appellate court, and a hearing was held June 22, 2005. The court scheduled a rehearing on December 8, 2005, and subsequently reversed the lower court and PRB decisions due to a procedural error. The case was remanded to the PRB for further action to correct the procedural error. A new PRB panel was appointed and the procedural error was corrected. The invalidity case was reargued at a hearing on May 9, 2006. In 2006, we filed a second invalidity proceeding with the PRB. On June 14, 2007, the PRB issued an order holding the patent invalid based on the first invalidity request. The second invalidity request was stayed as a result of the ruling on the first request. Shao Tong again filed a lawsuit against the PRC PRB and the court affirmed the invalidity decision in December 2007. In January 2008, Shao Tong appealed this decision to the Beijing High People s Court. We believe the claims are without merit, and we 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. We 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. Trial is scheduled to begin November 11, 2008. We believe the claims are without merit, and we intend to defend against them vigorously.

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, 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 disc drive companies are 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. We served an answer to the complaint on April 13, 2007, denying all material allegations and asserting affirmative defenses. Trial is scheduled to begin March 4, 2009. We believe the claims are without merit, and we intend to defend against them vigorously.

Reiber, et al. v. Western Digital, et al. On September 15, 2007, Steven F. and Mary L. Reiber filed a complaint with the International Trade Commission (ITC) against Certain Hard Disk Drives, Components Thereof, and Products Containing the Same, requesting an investigation of Western Digital Corporation, Seagate Technology, Toshiba America Information Systems, Inc., Hewlett-Packard Company, and Dell, Inc. The complaint alleges that the Reibers are inventors on three patents: U.S. Patent Nos. 6,354,479 (the 479 patent), 6,651,864 (the 864 patent), and 6,935,548 (the 548) that generally relate to dissipative bonding tips used to form electrical connections, and methods of using such tips in producing disk drives. The ITC complaint seeks to enjoin defendants from importing hard disk drives and certain products containing hard disk drives into the United States. Simultaneously, the Reibers filed a case in the U.S. District Court for the Eastern District of California, Sacramento Division, alleging infringement of the same three patents against the same defendants and seeking damages. On October 9, 2007, the ITC initiated an investigation. Trial is set to begin on July 14, 2008. We believe the claims are without merit, and we intend to defend against them vigorously.

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Environmental Matters

Our operations inside and outside the United States are subject to laws and regulations relating to protection of the environment, including those governing the discharge of pollutants into the air, soil and water, the management and disposal of hazardous substances and wastes and clean-up of contaminated sites. Contaminants have been detected at some of our current and former sites, principally in connection with historical operations. In addition, we have been named as a potentially responsible party at several superfund sites. Investigative activities have taken place at all sites of known contamination. One former site is under a Consent Order by the U.S. Environmental Protection Agency. The extent of the contamination at this site has been investigated and defined and remediation is underway. We are indemnified by a third party for a portion of the costs it may incur in the clean up of contamination at most sites. In the opinion of management, the probability is remote that the losses arising from these environmental matters would be material to our financial position, cash flows or results of operations.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products. For example, the European Union (EU) has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), which prohibits the use of certain substances, including lead, in certain products, including hard drives, put on the market after July 1, 2006 as well as the Waste Electrical and Electronic Equipment (WEEE) directive, which makes producers of electrical goods, including disc drives, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan. We will need to ensure compliance with such laws and regulations as they are enacted, and that our component suppliers also timely comply with such laws and regulations. If we fail to timely comply with the legislation, our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and results of operations.

Other Matters

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

ITEM 1A. RISK FACTORS
Risks Related to Our Business

Competition Our industry is highly competitive and our products have experienced and will continue to experience significant price erosion and market share variability.

Even during periods when demand is strong, the disc drive industry is intensely competitive and vendors typically experience substantial price erosion over the life of a product. Our competitors have historically offered existing products at lower prices as part of a strategy to gain or retain market share and customers, and we expect these practices to continue. We will need to continually reduce our prices to retain our market share, which could adversely affect our results of operations.

We believe this basic industry condition of continuing price erosion and market share variability will continue, as our competitors engage in aggressive pricing actions targeted to encourage shifting of customer demand. While the pricing environment in the second fiscal quarter of 2008 was better than we had initially expected, we expect continuous price erosion for the remainder of fiscal year 2008 as our competitors continue these efforts.

Our ability to offset the effect of price erosion through new product introductions at higher average prices is diminished to the extent product life cycles lengthen for particular products and competitors have more time to enter the market for particular products. The growth of sales to distributors that serve producers of non-branded products in the personal storage sector may also contribute to increased price erosion. These customers generally have limited product qualification programs, which increases the number of competing products available to satisfy their demand. As a result, purchasing decisions for these customers are based largely on price and terms. Any increase in our average price erosion would have an adverse effect on our result of operations.

Additionally, a significant portion of our success in the past has been a result of increasing our market share at the expense of our competitors, particularly in the notebook and small form factor enterprise markets. Our market share for our products can be negatively affected by our customers diversifying their sources of supply as our competitors enter the market for particular products, as well as by our ability to ramp volume production of new product offerings. When our competitors successfully introduce product offerings, which are competitive with our recently introduced products, our customers may quickly diversify their sources of supply. Any significant decline in our market share in any of our principal market applications would adversely affect our results of operations.

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***Principal Competitors** We compete with both independent manufacturers, whose primary focus is producing technologically advanced disc drives, and captive manufacturers, who do not depend solely on sales of disc drives to maintain their profitability.*

We have experienced and expect to continue to experience intense competition from a number of domestic and foreign companies, including other independent disc drive manufacturers and large captive manufacturers such as:

Independent Manufacturers	**Captive Manufacturers**
Western Digital Corporation	Fujitsu Limited
GS Magicstor Inc.	Hitachi Global Storage Technologies
	Samsung Electronics Incorporated
	Toshiba Corporation

The term independent in this context refers to manufacturers that primarily produce disc drives as a stand-alone product, and the term captive refers to disc drive manufacturers who themselves or through affiliated entities produce complete computer or other systems that contain disc drives or other information storage products. Captive manufacturers are formidable competitors because they have the ability to determine pricing for complete systems without regard to the margins on individual components. Because components other than disc drives generally contribute a greater portion of the operating margin on a complete computer system than do disc drives, captive manufacturers do not necessarily need to realize a profit on the disc drives included in a complete computer system and, as a result, may be willing to sell disc drives to third parties at very low margins. In addition, captive manufacturers are also formidable competitors because they have more substantial resources than we do. Samsung and Hitachi (together with affiliated entities) also sell other products to our customers, including critical components like flash memory, ASICs and flat panel displays, and may be willing to sell their disc drives at a lower margin to advance their overall business strategy. This may improve their ability to compete with us. To the extent we are not successful competing with captive or independent disc drive manufacturers, our results of operations will be adversely affected.

In response to customer demand for high-quality, high-volume and low-cost disc drives, manufacturers of disc drives have had to develop large, in some cases global, production facilities with highly developed technological capabilities and internal controls. The development of large production facilities and industry consolidation can contribute to the intensification of competition.

We face indirect competition from present and potential customers who evaluate from time to time whether to manufacture their own disc drives or other information storage products. This may have been a factor when Iomega Corp, one of our customers, announced in December 2007 that it intends to acquire ExcelStor Group, a Chinese maker of disc drive products.

We have also experienced competition from other companies that produce alternative storage technologies like flash memory, where increased capacity, improving cost, lower power consumption and performance ruggedness have resulted in competition with our lower capacity, smaller form factor disc drives in handheld applications. While this competition has traditionally been in the markets for handheld consumer electronics applications like personal media players, these competitors have recently announced SSD products for notebook and enterprise compute applications. Some of these companies, like Samsung, also sell disc drives.

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Volatility of Quarterly Results Our quarterly operating results fluctuate, sometimes significantly, from period to period, and this may cause our share prices to decline.

In the past, our quarterly revenue and operating results have fluctuated, sometimes significantly, from period to period. These fluctuations, which we expect to continue, may be occasioned by a variety of factors, including:

- competitive pressures resulting in lower selling prices by our competitors targeted to encourage shifting of customer demand;
- delays or problems in the introduction of our new products, particularly new disc drives with lower cost structures due to inability to achieve high production yields, delays in customer qualification or initial product quality issues;
- changes in purchasing patterns by our distributor customers;
- adverse changes in the level of economic activity in the United States and other major regions in which we do business;
- increased costs or adverse changes in availability of supplies of raw materials or components, especially in light recent consolidation among component suppliers;
- the impact of corporate restructuring activities that we may engage in;
- changes in the demand for the computer systems, storage subsystems and consumer electronics that contain our disc drives, due to seasonality and other factors;
- changes in purchases from period to period by our primary customers, particularly as our competitors are able to introduce and produce in volume competing disc drive solutions or alternative storage technology solutions, such as flash memory or SSDs;
- shifting trends in customer demand which, when combined with overproduction of particular products, particularly when the industry is served by multiple suppliers, results in supply/demand imbalances;
- our high proportion of fixed costs, including research and development expenses; and
- announcements of new products, services or technological innovations by us or our competitors.

As a result, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful, and that these comparisons may not be an accurate indicator of our future performance. Our operating results in one or more future quarters may fail to meet the expectations of investment research analysts or investors, which could cause an immediate and significant decline in the trading price of our common shares.

New Product Offerings   Market acceptance of new product introductions cannot be accurately predicted, and our results of operations will suffer if there is less demand for our new products than is anticipated.

We are continually developing new products with the goal that we will be able to introduce technologically advanced and lower cost disc drives into the marketplace ahead of our competitors. We are particularly depending on the successful introduction, qualification and volume sales of new lower cost products for our results in the next few quarters.

The success of our new product introductions is dependent on a number of factors, including market acceptance, our ability to manage the risks associated with product transitions, the effective management of inventory levels in line with anticipated product demand, and the risk that our new products will have quality problems or other defects in the early stages of introduction that were not anticipated in the design of those products. Accordingly, we cannot accurately determine the ultimate effect that our new products will have on our results of operations.

In addition, the success of our new product introductions is dependent upon our ability to qualify as a primary source of supply with our OEM customers. In order for our products to be considered by our customers for qualification, we must be among the leaders in time-to-market with those new products. Once a product is accepted for qualification testing, any failure or delay in the qualification process or a requirement that we requalify can result in our losing sales to that customer until new products are introduced. The limited number of high-volume OEMs magnifies the effect of missing a product qualification opportunity. These risks are further magnified because we expect competitive pressures to result in declining sales and declining gross margins on our current generation products. We cannot assure you that we will be among the leaders in time-to-market with new products or that we will be able to successfully qualify new products with our customers in the future. For example, the delay in the release of our 250GB notebook product caused unit shipments in our mobile sector to decline in the second quarter of fiscal year 2008 compared to the year-ago quarter. If we cannot successfully deliver competitive products, such as a 250GB notebook product, our future results of operations may be adversely affected.

Smaller Form Factor Disc Drives   If we do not continue to successfully market smaller form factor disc drives, our business may suffer.

The disc drive industry is experiencing significant increases in sales of smaller form factor disc drives for an expanding number of applications, in particular notebook computers and consumer electronics devices, but also including personal computers and enterprise storage applications. Much of our recent revenue growth is derived from the sale of drives for small form factor drives for notebook and enterprise applications.

We have experienced competition from other companies that produce alternative storage technologies like solid state or flash memory, where increased capacity, improving cost, lower power consumption and performance ruggedness have resulted in flash memory largely replacing disc drives in handheld applications. We do however believe that the demand for disc drives to store, hold or back up related media content from such handheld devices, continues to grow. While this competition has traditionally been in the markets for handheld consumer electronics applications like digital music players and personal media players, these competitors are also attempting to introduce SSD products for notebook and enterprise compute applications.

If we do not suitably adapt our product offerings to successfully introduce additional smaller form factor disc drives or alternative storage products based on flash storage technology, or if our competitors are successful in achieving customer acceptance of SSD products for notebook and enterprise compute applications, customers may decrease the amounts of our products that they purchase which would adversely affect our results of operations.

Perpendicular Recording Technology If products based on this technology suffer unanticipated or atypical reliability or operability problems, our operating results will be adversely impacted. In addition, products based on perpendicular technology require increased quantities of precious metals and scarce alloys like platinum and ruthenium which increases risk of higher costs and production delays that could adversely impact our operating results.

We have substantially completed the transition of our products to perpendicular technology. Perpendicular recording technology poses various technological challenges including a complex integration of the recording head, disc, recording channel and drive firmware as a system.

If these perpendicular technology based products suffer unanticipated or atypical failures that were not anticipated in the design of those products, our service and warranty costs may materially increase which would adversely impact our operating results.

Perpendicular recording technology also requires recording media with more layers and the use of more precious metals and scarce alloys like platinum and ruthenium to create such layers. These precious metals and scarce alloys have recently become increasingly expensive and at times difficult to acquire. Accordingly, we will be exposed to increased risks that higher costs or reduced availability of these precious metals and scarce alloys could adversely impact our operating results.

Seasonality Because we experience seasonality in the sales of our products, our results of operations will generally be adversely impacted during the second half of our fiscal year.

Sales of computer systems, storage subsystems and consumer electronics tend to be seasonal, and therefore we expect to continue to experience seasonality in our business as we respond to variations in our customers demand for disc drives. In particular, we anticipate that sales of our products will continue to be lower during the second half of our fiscal year. In the mobile compute, desktop compute and consumer electronics sectors of our business, this seasonality is partially attributable to our customers increased sales of personal computers and consumer electronics during the winter holiday season. In the enterprise sector of our business, our sales are seasonal because of the capital budgeting and purchasing cycles of our end users. Since our working capital needs peak during periods in which we are increasing production in anticipation of orders that have not yet been received, our operating results will fluctuate seasonally even if the forecasted demand for our products proves accurate.

Furthermore, it is difficult for us to evaluate the degree to which this seasonality may affect our business in future periods because of the rate and unpredictability of product transitions and new product introductions, particularly in the consumer electronics market.

Difficulty in Predicting Quarterly Demand If we fail to predict demand accurately for our products in any quarter, we may not be able to recapture the cost of our investments.

The disc drive industry operates on quarterly purchasing cycles, with much of the order flow in any given quarter coming at the end of that quarter. Our manufacturing process requires us to make significant product-specific investments in inventory in each quarter for that quarter s production. Since we typically receive the bulk of our orders late in a quarter after we have made our investments, there is a risk that our orders will not be sufficient to allow us to recapture the costs of our investment before the products resulting from that investment have become obsolete. We cannot assure you that we will be able to accurately predict demand in the future.

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Other factors that may negatively impact our ability to recapture the cost of investments in any given quarter include:

- the impact of variable demand and an aggressive pricing environment for disc drives;
- the impact of competitive product announcements and possible excess industry supply both with respect to particular disc drive products (particularly now that there are no material limitations on disc drive component supply for our competitors), and with respect to competing alternative storage technology solutions such as SSDs in notebook and enterprise applications;
- our inability to reduce our fixed costs to match sales in any quarter because of our vertical manufacturing strategy, which means that we make more capital investments than we would if we were not vertically integrated;
- dependence on our ability to successfully qualify, manufacture and sell in increasing volumes on a cost-effective basis and with acceptable quality our disc drive products, particularly the new disc drive products with lower cost structures;
- uncertainty in the amount of purchases from our distributor customers who from time to time constitute a large portion of our total sales;
- our product mix and the related margins of the various products;
- accelerated reduction in the price of our disc drives due to technological advances and/or an oversupply of disc drives in the market, a condition that is exacerbated when the industry is served by multiple suppliers and shifting trends in demand which can create supply demand imbalances;
- manufacturing delays or interruptions, particularly at our major manufacturing facilities in China, Malaysia, Singapore or Thailand;
- variations in the cost of components for our products;
- limited access to components that we obtain from a single or a limited number of suppliers;
- the impact of changes in foreign currency exchange rates on the cost of producing our products and the effective price of our products to foreign consumers; and
- operational issues arising out of the increasingly automated nature of our manufacturing processes.

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Dependence on Sales of Disc Drives in Consumer Electronics Applications Our sales of disc drives for consumer electronics applications which have contributed significant revenues to our results, can experience significant volatility due to seasonal and other factors which could materially adversely impact our future results of operations.

Our sales of disc drives for consumer electronics applications have contributed significant revenues to our results for the past several years. The growth rate in consumer electronics products has recently begun to moderate and show more seasonal demand variability. The demand for consumer electronics products can be even more volatile and unpredictable than the demand for compute products. In some cases, our products manufactured for consumer electronics applications are uniquely configured for a single customer s applications, which creates a risk of exposure if the anticipated volumes are not realized. This potential for unpredictable volatility is increased by the possibility of competing alternative storage technologies like flash memory, meeting the customers cost and capacity metrics, resulting in a rapid shift in demand from our products and disc drive technology, generally, to alternative storage technologies. Unpredictable fluctuations in demand for our products or rapid shifts in demand from our products to alternative storage technologies in new consumer electronics applications could materially adversely impact our future results of operations.

Dependence on Supply of Components, Equipment, and Raw Materials If we experience shortages or delays in the receipt of critical components, equipment or raw materials necessary to manufacture our products, we may suffer lower operating margins, production delays and other material adverse effects.

The cost, quality and availability of components, certain equipment and raw materials used to manufacture disc drives and key components like recording media and heads are critical to our success. The equipment we use to manufacture our products and components is frequently custom made and comes from a few suppliers and the lead times required to obtain manufacturing equipment can be significant. Particularly important components for disc drives include read/write heads, aluminum or glass substrates for recording media, ASICs, spindle motors, printed circuit boards and suspension assemblies. We rely on sole suppliers or a limited number of suppliers for some of these components, including recording media and aluminum and glass substrates that we do not manufacture, ASICs, spindle motors, printed circuit boards and suspension assemblies. Until recently, substantially all of our purchases of recording media and a significant portion of our aluminum substrates from third-party suppliers have been sourced from Komag, which was recently acquired by Western Digital. Following the closing of its acquisition by Western Digital, Komag notified us that, after a contractual notice period, it will terminate supply arrangements with us. While we are in the process of developing alternative sources of supply for recording media and aluminum substrates, there is no guarantee that those sources will be able to deliver recording media and substrates in sufficient quantities and with satisfactory quality on a timely basis. If these new vendors are unable to meet our requirements, we could experience a shortage in supply of recording media or aluminum substrates which would adversely affect our results of operations.

We also recently concluded arrangements to completely outsource our printed circuit board assembly requirements to third parties. While we expect there to be no interruption in the supply of circuit boards, such an interruption would adversely affect our results of operations.

In the past, we have experienced increased costs and production delays when we were unable to obtain the necessary equipment or sufficient quantities of some components and/or have been forced to pay higher prices or make volume purchase commitments or advance deposits for some components, equipment or raw materials that were in short supply in the industry in general.

Historically, the technology sector specifically, and the economy generally have experienced economic pressure, which has resulted in consolidation among component manufacturers and may result in some component manufacturers exiting the industry or not making sufficient investments in research to develop new components.

If there is a shortage of, or delay in supplying us with, critical components, equipment or raw materials, then:

- it is likely that our suppliers would raise their prices and, if we could not pass these price increases to our customers, our operating margin would decline;
- we might have to reengineer some products, which would likely cause production and shipment delays, make the reengineered products more costly and provide us with a lower rate of return on these products;
- we would likely have to allocate the components we receive to certain of our products and ship less of others, which could reduce our revenues and could cause us to lose sales to customers who could purchase more of their required products from manufacturers that either did not experience these shortages or delays or that made different allocations; and
- we might be late in shipping products, causing potential customers to make purchases from our competitors, thus causing our revenue and operating margin to decline.

We cannot assure you that we will be able to obtain critical components in a timely and economic manner, or at all.

Importance of Reducing Operating Costs If we do not reduce our operating expenses, we will not be able to compete effectively in our industry.

Our strategy involves, to a substantial degree, increasing revenue and product volume while at the same time reducing operating expenses. In the past, these activities have included closures and transfers of facilities, significant personnel reductions and efforts to increase automation. Moreover, the reduction of personnel and closure of facilities may adversely affect our ability to manufacture our products in required volumes to meet customer demand and may result in other disruptions that affect our products and customer service. In addition, the transfer of manufacturing capacity of a product to a different facility frequently requires qualification of the new facility by some of our OEM customers. We cannot assure you that these activities and transfers will be implemented on a cost-effective basis without delays or disruption in our production and without adversely affecting our customer relationships and results of operations.

Industry Demand Changes in demand for computer systems and storage subsystems has caused and may cause in the future a decline in demand for our products.

Our disc drives are components in computers, computer systems, storage subsystems and consumer electronics devices. The demand for these products has been volatile. In a weak economy, consumer spending tends to decline and retail demand for personal computers and consumer electronics devices tends to decrease, as does enterprise demand for computer systems and storage subsystems. Unexpected slowdowns in demand for computer systems, storage subsystems or consumer electronic devices generally cause sharp declines in demand for disc drive products.

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Additional causes of declines in demand for our products in the past have included announcements or introductions of major new operating systems or semiconductor improvements or changes in consumer preferences, such as the shift from desktop to notebook computers. We believe these announcements and introductions have from time to time caused consumers to defer their purchases and made inventory obsolete. Whenever an oversupply of disc drives causes participants in our industry to have higher than anticipated inventory levels, we experience even more intense price competition from other disc drive manufacturers than usual.

Dependence on Distributors We are dependent on sales to distributors, which may increase price erosion and the volatility of our sales.

A substantial portion of our sales has been to distributors of desktop disc drive products. Product qualification programs in this distribution channel are limited, which increases the number of competing products that are available to satisfy demand, particularly in times of lengthening product cycles. As a result, purchasing decisions in this channel are based largely on price, terms and product availability. Sales volumes through this channel are also less predictable and subject to greater volatility than sales to our OEM customers.

To the extent that distributors reduce their purchases of our products or prices decline significantly in the distribution channel, and to the extent that our distributor relationships are terminated, our revenues and results of operations would be adversely affected.

Importance of Time-to-Market Our operating results may depend on our being among the first-to-market and achieving sufficient production volume with our new products.

To achieve consistent success with our OEM customers, it is important that we be an early provider of new types of disc drives featuring leading, high-quality technology and lower per gigabyte storage cost. Historically, our operating results have substantially depended upon our ability to be among the first-to-market with new product offerings. Our market share and operating results in the future may be adversely affected if we fail to:

- consistently maintain our time-to-market performance with our new products;
- produce these products in sufficient volume;
- qualify these products with key customers on a timely basis by meeting our customers performance and quality specifications; or
- achieve acceptable manufacturing yields, quality and costs with these products.

If delivery of our products is delayed, our OEM customers may use our competitors products to meet their production requirements. If the delay of our products causes delivery of those OEMs computer systems into which our products are integrated to be delayed, consumers and businesses may purchase comparable products from the OEMs competitors. For example, the delay in the release of our 250GB notebook product caused unit shipments in our mobile sector to decline in the second fiscal quarter of 2008 compared to the year-ago period.

Moreover, we face the related risk that consumers and businesses may wait to make their purchases if they want to buy a new product that has been shipped or announced but not yet released. If this were to occur, we may be unable to sell our existing inventory of products that may have become less efficient and cost effective compared to new products. As a result, even if we are among the first-to-market with a given product, subsequent introductions or announcements by our competitors of new products could cause us to lose revenue and not achieve a positive return on our investment in existing products and inventory.

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Accounting Charges Related to Acquisition of Maxtor ***We expect the acquisition of Maxtor will continue to result in additional accounting charges, that may continue to have an adverse effect on our fiscal year 2008 operating results.***

We expect that, as a result of the acquisition of Maxtor, our fiscal year 2008 results of operations will continue to be adversely affected by non-cash accounting charges, the most significant of which relates to the amortization of acquired intangible assets.

Dependence on Key Customers ***We may be adversely affected by the loss of, or reduced, delayed or cancelled purchases by, one or more of our larger customers.***

Some of our key customers, including Hewlett-Packard, Dell, EMC, IBM and Sony, account for a large portion of our disc drive revenue. We have longstanding relationships with many of our customers, however, if any of our key customers were to significantly reduce their purchases from us, our results of operations would be adversely affected. While sales to major customers may vary from period to period, a major customer that permanently discontinues or significantly reduces its relationship with us could be difficult to replace. In line with industry practice, new customers usually require that we pass a lengthy and rigorous qualification process at the customer s cost. Accordingly, it may be difficult or costly for us to attract new major customers. Additionally, mergers, acquisitions, consolidations or other significant transactions involving our customers generally entail risks to our business. If a significant transaction involving any of our key customers results in the loss of or reduction in purchases by these key customers, it could have a materially adverse effect on our business, results of operations, financial condition and prospects.

Impact of Technological Change ***Increases in the areal density of disc drives may outpace customers demand for storage capacity.***

The rate of increase in areal density, or storage capacity per square inch on a disc, may be greater than the increase in our customers demand for aggregate storage capacity, particularly in certain market applications like commercial desktop compute. As a result, our customers storage capacity needs may be satisfied with lower priced, low capacity disc drives. These factors could decrease our sales, especially when combined with continued price erosion, which could adversely affect our results of operations.

Changes in Information Storage Products ***Future changes in the nature of information storage products may reduce demand for traditional disc drive products.***

We expect that in the future, new personal computing devices and products will be developed, some of which, such as Internet appliances, may not contain a disc drive. While we are investing development resources in designing disc drives for new applications, it is too early to assess the impact of these new applications on future demand for disc drive products. Products using alternative technologies, such as flash memory, optical storage and other storage technologies could become a significant source of competition to particular applications of our products, which could adversely affect our results of operations.

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New Product Development and Technological Change If we do not develop products in time to keep pace with technological changes, our operating results will be adversely affected.

Our customers have demanded new generations of disc drive products as advances in computer hardware and software have created the need for improved storage products, with features such as increased storage capacity, improved performance and reliability and lower cost. We, and our competitors, have developed improved products, and we will need to continue to do so in the future. Such product development requires significant investments in research and development. We cannot assure you that we will be able to successfully complete the design or introduction of new products in a timely manner, that we will be able to manufacture new products in sufficient volumes with acceptable manufacturing yields, that we will be able to successfully market these new products or that these products will perform to specifications on a long-term basis. In addition, the impact of slowing areal density growth may adversely impact our ability to be successful.

When we develop new products with higher capacity and more advanced technology, our operating results may decline because the increased difficulty and complexity associated with producing these products increases the likelihood of reliability, quality or operability problems. If our products suffer increases in failures, are of low quality or are not reliable, customers may reduce their purchases of our products and our manufacturing rework and scrap costs and service and warranty costs may increase. In addition, a decline in the reliability of our products may make us less competitive as compared with other disc drive manufacturers.

Risks Associated with Future Strategic Alliances, Joint Ventures or Investments We may not be able to identify suitable strategic alliances, acquisitions, joint ventures or investment opportunities, or successfully acquire and integrate companies that provide complementary products or technologies.

Our growth strategy may involve pursuing strategic alliances with, and making acquisitions of, forming joint ventures with, or investments in, other companies that are complementary to our business. There is substantial competition for attractive strategic alliance, acquisition, joint venture and investment candidates. We may not be able to identify suitable acquisition, joint venture, investment or strategic partnership candidates. Even if we were able to identify them, we cannot assure you that we will be able to partner with, acquire or invest in suitable candidates, or integrate acquired technologies or operations successfully into our existing technologies and operations. Our ability to finance potential strategic alliances, acquisitions, joint ventures or investments will be limited by our high degree of leverage, the covenants contained in the indentures that govern our outstanding indebtedness, the credit agreement that governs our senior secured credit facilities and any agreements governing any other debt we may incur.

If we are successful in forming strategic alliances or acquiring, forming joint ventures or making investments in other companies, any of these transactions may have an adverse effect on our operating results, particularly while the operations of an acquired business are being integrated. It is also likely that integration of acquired companies would lead to the loss of key employees from those companies or the loss of customers of those companies. In addition, the integration of any acquired companies would require substantial attention from our senior management, which may limit the amount of time available to be devoted to our day-to-day operations or to the execution of our strategy. Growth by strategic alliance, acquisition, joint venture or investment involves an even higher degree of risk to the extent we combine new product offerings and enter new markets in which we have limited experience, and no assurance can be given that acquisitions of entities with new or alternative business models, such as our recent acquisition of MetaLINCS, will be successfully integrated or achieve their stated objectives. Furthermore, the expansion of our business involves the risk that we might not manage our growth effectively, that we would incur additional debt to finance these acquisitions or investments, that we may have impairment of goodwill associated with these acquisitions and that we would incur substantial charges relating to the write-off of in-process research and development, similar to that which we incurred in connection with several of our prior acquisitions. Each of these items could have a material adverse effect on our financial position and results of operations.

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In addition, we could issue additional common shares in connection with future strategic alliances, acquisitions, joint ventures or investments. Issuing shares in connection with such transactions would have the effect of diluting your ownership percentage of the common shares and could cause the price of our common shares to decline.

Risk of Intellectual Property Litigation Our products may infringe the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

We cannot be certain that our products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the United States and some foreign countries have not been publicly disclosed until the patent is issued, and we may not be aware of currently filed patent applications that relate to our products or technology. If patents are later issued on these applications, we may be liable for infringement. We may be subject to legal proceedings and claims, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us, or our customers in connection with their use of our products.

We are currently subject to lawsuits involving intellectual property claims which could cause us to incur significant additional costs or prevent us from selling our products, and which could adversely effect our results of operations and financial condition: actions brought in the United States by Convolve, Inc. and the Massachusetts Institute of Technology, Siemens AG, StorMedia Texas LLC, and Steven F. and Mary L. Reiber; and an action in Nanjing, China brought by Shao Tong.

Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management s attention from operating our business. In addition, intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot assure you that we will be successful in defending ourselves against intellectual property claims. Moreover, patent litigation has increased due to the current uncertainty of the law and the increasing competition and overlap of product functionality in the field. If we were to discover that our products infringe the intellectual property rights of others, we would need to obtain licenses from these parties or substantially reengineer our products in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to reengineer our products successfully. Moreover, if we are sued for patent infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products which could adversely affect our results of operations and financial condition. See Part II, Item I: Legal Proceedings Intellectual Property Litigation for a description of pending intellectual property proceedings.

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Dependence on Key Personnel   The loss of some key executive officers and employees could negatively impact our business prospects.

Our future performance depends to a significant degree upon the continued service of key members of management as well as marketing, sales and product development personnel. The loss of one or more of our key personnel may have a material adverse effect on our business, operating results and financial condition. We believe our future success will also depend in large part upon our ability to attract, retain and further motivate highly skilled management, marketing, sales and product development personnel. We have experienced intense competition for personnel, and we cannot assure you that we will be able to retain our key employees or that we will be successful in attracting, assimilating and retaining personnel in the future.

Substantial Leverage   Our substantial leverage may place us at a competitive disadvantage in our industry.

We are leveraged and have significant debt service obligations. Our significant debt and debt service requirements could adversely affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities. For example, our high level of debt presents the following risks:

- we are required to use a substantial portion of our cash flow from operations to pay principal and interest on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances and other general corporate requirements;

- our interest expense could increase if prevailing interest rates increase, because a substantial portion of our debt bears interest at floating rates;

- our substantial leverage increases our vulnerability to economic downturns and adverse competitive and industry conditions and could place us at a competitive disadvantage compared to those of our competitors that are less leveraged;

- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and our industry and could limit our ability to pursue other business opportunities, borrow more money for operations or capital in the future and implement our business strategies;

- our level of debt may restrict us from raising additional financing on satisfactory terms to fund working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances, and other general corporate requirements; and

- covenants in our debt instruments limit our ability to pay dividends or make other restricted payments and investments.

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Significant Debt Service Requirements ***Servicing our debt requires a significant amount of cash and our ability to generate cash may be affected by factors beyond our control.***

Our business may not generate cash flow in an amount sufficient to enable us to pay the principal of, or interest on, our indebtedness or to fund our other liquidity needs, including working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances, and other general corporate requirements.

Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that:

- our business will generate sufficient cash flow from operations;
- we will continue to realize the cost savings, revenue growth and operating improvements that resulted from the execution of our long-term strategic plan; or
- future sources of funding will be available to us in amounts sufficient to enable us to fund our liquidity needs.

If we cannot fund our liquidity needs, we will have to take actions such as reducing or delaying capital expenditures, product development efforts, strategic acquisitions, investments and alliances, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be affected on commercially reasonable terms, or at all. In addition, our existing debt instruments permit us to incur a significant amount of additional debt. If we incur additional debt above the levels now in effect, the risks associated with our substantial leverage, including the risk that we will be unable to service our debt or generate enough cash flow to fund our liquidity needs, could intensify.

Restrictions Imposed by Debt Covenants ***Restrictions imposed by our existing credit facility may limit our ability to finance future operations or capital needs or engage in other business activities that may be in our interest.***

Our existing credit facility imposes, and the terms of any future debt may impose, operating and other restrictions on us. Our existing credit facility may also limit, among other things, our ability to:

- pay dividends or make distributions in respect of our shares;
- redeem or repurchase shares;
- make investments or other restricted payments;
- sell assets;
- issue or sell shares of restricted subsidiaries;
- enter into transactions with affiliates;

create liens; and

effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions, including exceptions that permit us to make significant dividends.

Our credit facility also requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

A breach of any of the covenants described above or our inability to comply with the required financial ratios could result in a default under our credit facility. If a default occurs, the Administrative Agent of the credit facility may elect to declare all of our outstanding obligations under the credit facility, together with accrued interest and other fees, to be immediately due and payable. If our outstanding indebtedness were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that debt and any potential future indebtedness, which would cause the market price of our common shares to decline significantly.

System Failures System failures caused by events beyond our control could adversely affect computer equipment and electronic data on which our operations depend.

Our operations are dependent upon our ability to protect our computer equipment and the information stored in our databases from damage by, among other things, earthquake, fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events. As our operations become more automated and increasingly interdependent, our exposure to the risks posed by these types of events will increase. While we have disaster recovery plans, there can be no assurance that they are sufficient to prevent system failures and other interruptions in our operations that could have a material adverse effect on our business, results of operations and financial condition.

Economic Risks Associated with International Operations Our international operations subject us to risks related to currency exchange fluctuations, longer payment cycles for sales in foreign countries, seasonality and disruptions in foreign markets, tariffs and duties, price controls, potential adverse tax consequences, increased costs, our customers credit and access to capital and health-related risks.

We have significant operations in foreign countries, including manufacturing facilities, sales personnel and customer support operations. We have manufacturing facilities in China, Malaysia, Northern Ireland, Singapore and Thailand, in addition to those in the United States. A substantial portion of our desktop disc drive assembly occurs in our facility in China.

Our international operations are subject to economic risks inherent in doing business in foreign countries, including the following:

- *Disruptions in Foreign Markets.* Disruptions in financial markets and the deterioration of the underlying economic conditions in the past in some countries, including those in Asia, have had an impact on our sales to customers located in, or whose end-user customers are located in, these countries.

- *Fluctuations in Currency Exchange Rates.* Prices for our products are denominated predominately in U.S. dollars, even when sold to customers that are located outside the United States. Currency instability in Asia and other geographic markets may make our products more expensive than products sold by other manufacturers that are priced in the local currency. Moreover, many of the costs associated with our operations located outside the United States are denominated in local currencies. As a consequence, the increased strength of local currencies against the U.S. dollar in countries where we have foreign operations would result in higher effective operating costs and, potentially, reduced earnings. From time to time, fluctuations in foreign exchange rates have negatively affected our operations and profitability and there can be no assurance that these fluctuations will not adversely affect our operations and profitability in the future.

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Longer Payment Cycles. Our customers outside of the United States are often allowed longer time periods for payment than our U.S. customers. This increases the risk of nonpayment due to the possibility that the financial condition of particular customers may worsen during the course of the payment period.

Seasonality. Seasonal reductions in the business activities of our customers during the summer months, particularly in Europe, typically result in lower earnings during those periods.

Tariffs, Duties, Limitations on Trade and Price Controls. Our international operations are affected by limitations on imports, currency exchange control regulations, transfer pricing regulations, price controls and other restraints on trade. In addition, the governments of many countries, including China, Malaysia, Singapore and Thailand, in which we have significant operating assets, have exercised and continue to exercise significant influence over many aspects of their domestic economies and international trade.

Potential Adverse Tax Consequences. Our international operations create a risk of potential adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries.

Increased Costs. The shipping and transportation costs associated with our international operations are typically higher than those associated with our U.S. operations, resulting in decreased operating margins in some foreign countries.

Credit and Access to Capital Risks. Our international customers could have reduced access to working capital due to higher interest rates, reduced bank lending resulting from contractions in the money supply or the deterioration in the customer s or its bank s financial condition, or the inability to access other financing.

Political Risks Associated with International Operations Our international operations subject us to risks related to political unrest and terrorism.

We have manufacturing facilities in parts of the world that periodically experience political unrest, with Thailand being a recent example. This could disrupt our ability to manufacture important components as well as cause interruptions and/or delays in our ability to ship components to other locations for continued manufacture and assembly. Any such delays or interruptions could result in delays in our ability to fill orders and have an adverse effect on our results of operation and financial condition. U.S. and international responses to the ongoing hostilities in Afghanistan and Iraq and the risk of terrorist attacks or hostilities elsewhere in the world could exacerbate these risks.

Legal and Operational Risks Associated with International Operations Our international operations subject us to risks related to staffing and management, legal and regulatory requirements and the protection of intellectual property.

Operating outside of the United States creates difficulties associated with staffing and managing our international manufacturing facilities, complying with local legal and regulatory requirements and protecting our intellectual property. We cannot assure you that we will continue to be found to be operating in compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject. We also cannot assure you that these laws will not be modified.

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SOX 404 Compliance While we believe that we currently have adequate internal control procedures in place, we are still exposed to future risks of non-compliance and will continue to incur costs associated with Section 404 of the Sarbanes-Oxley Act of 2002.

We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Although our assessment, testing, and evaluation resulted in our conclusion that as of June 29, 2007, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. If our internal controls are ineffective in future periods, our financial results or the market price of our shares could be adversely affected. We will incur additional expenses and commitment of management s time in connection with further evaluations.

Volatile Public Markets The price of our common shares may be volatile and could decline significantly.

The stock market in general, and the market for technology stocks in particular, has recently experienced volatility that has often been unrelated to the operating performance of companies. If these market or industry-based fluctuations continue, the trading price of our common shares could decline significantly independent of our actual operating performance, and you could lose all or a substantial part of your investment. The market price of our common shares could fluctuate significantly in response to several factors, including among others:

- actual or anticipated variations in our results of operations;
- announcements of innovations, new products or significant price reductions by us or our competitors, including those competitors who offer alternative storage technology solutions;
- our failure to meet the performance estimates of investment research analysts;
- the timing of announcements by us or our competitors of significant contracts or acquisitions;
- general stock market conditions;
- the occurrence of major catastrophic events;
- changes in financial estimates by investment research analysts; and
- the sale of our common shares held by certain equity investors or members of management.

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Failure to Pay Quarterly Dividends Our failure to pay quarterly dividends to our common shareholders could cause the market price of our common shares to decline significantly.

On January 17, 2008, we declared a quarterly dividend of $0.10 per share that will be paid on or before February 15, 2008 to our common shareholders of record as of February 1, 2008.

Our ability to pay quarterly dividends will be subject to, among other things, general business conditions within the disc drive industry, our financial results, the impact of paying dividends on our credit ratings, and legal and contractual restrictions on the payment of dividends by our subsidiaries to us or by us to our common shareholders, including restrictions imposed by the credit agreement governing our revolving credit facility. Any reduction or discontinuation of quarterly dividends could cause the market price of our common shares to decline significantly. Our payment of dividends to holders of our common shares may in certain future quarters result in upward adjustments to the conversion rate of the 2.375% Convertible Senior Notes due August 2012. Moreover, in the event our payment of quarterly dividends is reduced or discontinued, our failure or inability to resume paying dividends at historical levels could result in a persistently low market valuation of our common shares.

Potential Governmental Action Governmental action against companies located in offshore jurisdictions may lead to a reduction in the demand for our common shares.

Recent federal and state legislation has been proposed, and additional legislation may be proposed in the future which, if enacted, could have an adverse tax impact on either Seagate or its shareholders. For example, the eligibility for favorable tax treatment of taxable distributions paid to U.S. shareholders of Seagate as qualified dividends could be eliminated.

Securities Litigation Significant fluctuations in the market price of our common shares could result in securities class action claims against us.

Significant price and value fluctuations have occurred with respect to the publicly traded securities of disc drive companies and technology companies generally. The price of our common shares is likely to be volatile in the future. In the past, following periods of decline in the market price of a company s securities, class action lawsuits have often been pursued against that company. If similar litigation were pursued against us, it could result in substantial costs and a diversion of management s attention and resources, which could materially adversely affect our results of operations, financial condition and liquidity.

Current global credit and financial market conditions could negatively impact the value of our current portfolio of cash equivalents or short-term investments and our ability to meet our financing objectives.

Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. While as of the date of this filing, we are not aware of any downgrades, losses, failed auctions or other significant deterioration in the fair value of our cash equivalents or short-term investments since December 28, 2007, no assurance can be given that further deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or short-term investments or our ability to meet our financing objectives.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Recent Sales of Unregistered Securities

We did not sell any securities during the three months ended December 28, 2007 that were not registered under the Securities Act of 1933, as amended.

Repurchases of Equity Securities

On August 8, 2006, we announced that our board of directors authorized the use of up to $2.5 billion for the repurchase of our outstanding common shares over a two-year period.

From the date of authorization of this repurchase program through December 28, 2007, we repurchased approximately 81.5 million shares, all of which were cancelled and are no longer outstanding.

During the three months ended December 28, 2007, we repurchased approximately 9.3 million shares through open market repurchases at an average price of $27.00 for a total of approximately $251 million.

As of December 28, 2007, we had approximately $474 million remaining under the authorized $2.5 billion stock repurchase program. Share repurchases during the three months ended December 28, 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)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in millions)
Total Through 1st Quarter of Fiscal Year 2008	72.2	$ 24.57	72.2	$ 725
October 2007	3.7	$ 26.89	75.9	$ 624
November 2007	5.6	$ 27.07	81.5	$ 474
December 2007			81.5	$ 474
Total Through 2nd Quarter of Fiscal Year 2008	81.5	$ 24.85	81.5	$ 474

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our 2007 Annual Meeting of Shareholders was held on October 25, 2007. The following is a brief description of each matter voted upon at the meeting and a statement of the number of votes cast for or against and the number of abstentions with respect to each matter.

1) The shareholders elected the following directors to serve for the ensuing year or until their successors are elected:

	For	Against	Abstain
Frank J. Biondi Jr.	470,846,854	10,661,140	360,830
William W. Bradley	473,475,658	8,030,159	363,007
James A. Davidson	445,148,045	35,714,473	1,006,306
Donald E. Kiernan	473,700,211	7,809,233	359,380
Stephen J. Luczo	445,678,036	35,901,883	288,905
David F. Marquardt	364,784,960	111,748,120	5,335,744
Lydia M. Marshall	473,742,799	7,817,048	308,977
C.S. Park	288,037,933	192,358,335	1,472,556
Gregorio Reyes	472,381,123	8,427,844	1,059,857
John W Thompson	472,831,526	8,660,724	376,547
William D. Watkins	447,356,214	34,230,634	281,976

2) The shareholders approved amendments to Seagate Technology s 2004 Stock Compensation Plan.

For	Against	Abstain
375,611,017	105,609,336	648,471

3) The shareholders ratified the appointment of Ernst & Young LLP to serve as independent registered accounting firm of Seagate Technology for the fiscal year ending June 27, 2008.

For	Against	Abstain
480,611,314	1,008,195	249,315

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated as of March 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc. and Seagate Software Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.2	Agreement and Plan of Merger and Reorganization, dated as of March 29, 2000, by and among VERITAS Software Corporation, Victory Merger Sub, Inc. and Seagate Technology, Inc. (incorporated by reference to Exhibit 2.2 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.3	Indemnification Agreement, dated as of March 29, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and Suez Acquisition Company (Cayman) Limited (incorporated by reference to Exhibit 2.3 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.4	Joinder Agreement to the Indemnification Agreement, dated as of November 22, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and the SAC Indemnitors listed therein (incorporated by reference to Exhibit 2.4 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.5	Consolidated Amendment to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of August 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.5 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.6	Consolidated Amendment No. 2 to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of October 18, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.7	Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOtech Corporation (incorporated by reference to Exhibit 2.8 to amendment no. 6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)
2.8	Amendment No. 1, dated as of October 31, 2002, to the Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOtech Corporation (incorporated by reference to Exhibit 2.9 to amendment no. 6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)
2.9	Agreement and Plan of Merger, dated as of December 20, 2005, by and among Seagate Technology, MD Merger Corporation and Maxtor Corporation (incorporated by reference to Exhibit 2.1 to the registrant s current report on Form 8-K (file no. 001-31560) filed with the SEC on December 22, 2005)
3.1	Third Amended and Restated Memorandum of Association of Seagate Technology (formerly known as Seagate Technology Holdings) (incorporated by reference to Exhibit 3.1 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on October 29, 2004)

3.2	Third Amended and Restated Articles of Association of Seagate Technology (formerly known as Seagate Technology Holdings) (incorporated by reference to Exhibit 3.2 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on October 29, 2004)
4.1	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.4 to amendment no. 1 to the registrant s registration statement on Form S-1 (reg. no. 333-100513) filed with the SEC on November 8, 2002)
4.2	Shareholders Agreement by and among Seagate Technology Holdings, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners, L.L.C., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the Shareholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.5 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 10, 2003)
4.3	Amendment, dated as of April 23, 2004, to the Shareholders Agreement dated as of December 6, 2002, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto (incorporated by reference to Exhibit 4.6 to the registrant s registration statement on Form S-3 (reg. no. 333-117517) filed with the SEC on July 20, 2004)
4.4	Second Amendment, dated as of September 2, 2004, to the Shareholders Agreement dated as of December 6, 2002, as amended by the first Amendment to the Shareholders Agreement dated as of April 23, 2004, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto (incorporated by reference to Exhibit 4.7 to the registrant s annual report on Form 10-K/A (file no. 001-31560) filed with the SEC on September 3, 2004)
4.5	Indenture dated September 20, 2006 among Seagate Technology, Seagate Technology HDD Holdings and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the registrant s current report on Form 8-K (file no. 001-31560) filed with the SEC on September 21, 2006)
4.6	Forms of Global Note for the Floating Rate Senior Notes due 2009, Senior Notes due 2011 and Senior Notes due 2016 of Seagate Technology HDD Holdings issued pursuant to the Indenture (contained in Exhibit 4.5)
10.1	Credit Agreement, dated as of September 19, 2006, by and among Seagate Technology, Seagate Technology HDD Holdings, the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, Morgan Stanley Senior Funding, Inc., as syndication agent, and BNP Paribas, Keybank National Association, Wachovia Bank, National Association and the Bank of Nova Scotia, as co-documentation agents (incorporated by reference to Exhibit 10.1 to the registrant s registration current report on Form 8-K (file no. 001-31560) filed with the SEC on September 21, 2006)
10.2(a)+	Form of Employment Agreement by and between Seagate Technology (US) Holdings, Inc. and the Executive listed therein (incorporated by reference to Exhibit 10.2(a) to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)

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10.2(b)+	Employment Agreement, dated as of February 2, 2001, by and between Seagate Technology (US) Holdings, Inc. and William D. Watkins (incorporated by reference to Exhibit 10.2(c) to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.2(c)+	Agreement, dated as of October 26, 2006, by and between Seagate Technology and Stephen J. Luczo (incorporated by reference to Exhibit 10.2(d) to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 2, 2007)
10.3(a)	New SAC 2000 Restricted Share Plan (incorporated by reference to Exhibit 10.7(a) to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.3(b)	New SAC 2000 Restricted Share Plan (incorporated by reference to Exhibit 10.7(b) to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.4+	Seagate Technology Holdings 2001 Share Option Plan (incorporated by reference to Exhibit 10.9 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.5	Shareholders Agreement, dated as of November 22, 2000, by and among New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., Chase Equity Associates, L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed therein (incorporated by reference to Exhibit 10.10 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.6	Management Shareholders Agreement, dated as of November 22, 2000, by and among New SAC and the Management Shareholders listed therein (incorporated by reference to Exhibit 10.11 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.7	Disc Drive Research and Development Cost Sharing Agreement, dated as of June 29, 1996, by and among Seagate Technology, Inc., Seagate Technology International, Seagate Technology (Ireland), Seagate Technology (Clonmel), Seagate Technology International (Wuxi) Co., Ltd., Seagate Microelectronics Limited and Seagate Peripherals, Inc. (incorporated by reference to Exhibit 10.12 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.8	World-Wide Services Agreement, dated as of July 1, 1993, by and among Seagate Technology, Inc. and Seagate Technology International (incorporated by reference to Exhibit 10.13 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.9+	Form of Indemnification Agreement between Seagate Technology Holdings and the director or officer named therein (incorporated by reference to Exhibit 10.17 to amendment no. 1 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on July 5, 2002)
10.10+	Reimbursement Agreement, dated as of July 1, 2002, by and among New SAC and its subsidiaries party thereto (incorporated by reference to Exhibit 10.19 to the registrant s registration statement on Form S-1 (reg. no. 333-100513) filed with the SEC on October 11, 2002)
10.11+	Seagate Technology Annual Incentive Bonus Plan (incorporated by reference to Exhibit 10.23 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on May 3, 2004)
10.12+	Form of Amended 2004 Stock Compensation Plan (incorporated by reference to Appendix A to the registrant s definitive proxy statement filed with the SEC on September 21, 2007)
10.13+	Seagate Technology 2004 Stock Compensation Plan Form of Option Agreement (For Outside Directors) (incorporated by reference to Exhibit 10.25 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on October 29, 2004)

10.14+	Seagate Technology 2004 Stock Compensation Plan Form of Option Agreement (For Officers and Non-Officer employees) (incorporated by reference to Exhibit 99.3 to the registrant s registration statement on Form S-8 (file no. 333-128654) filed with the SEC on September 28, 2005)
10.15+	Seagate Technology 2004 Stock Compensation Plan Form of Restricted Stock Bonus Agreement (incorporated by reference to Exhibit 99.2 to the registrant s registration statement on Form S-8 (file no. 333-128654) filed with the SEC on September 28, 2005)
10.17+	Summary description of Seagate Technology s compensation policy for non-management members of the board of directors (incorporated by reference to Exhibit 10.17 to the registrant s quarterly report on Form 10-Q filed with the SEC on October 29, 2007)
10.18	Indenture between Maxtor Corporation and U.S. Bank National Association, dated as of August 15, 2005 (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed with the SEC on May 25, 2006)
10.19	First Supplemental Indenture, dated as of May 19, 2006, among Seagate Technology, Maxtor Corporation and U.S. Bank National Association, amending and supplementing the Indenture dated as of August 15, 2005 (incorporated by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed with the SEC on May 25, 2006)
10.20	Indenture between Maxtor Corporation and U.S. Bank National Association, dated as of May 7, 2003 (incorporated by reference to Exhibit 10.3 to the registrant s current report on Form 8-K filed with the SEC on May 25, 2006)
10.21	First Supplemental Indenture, dated as of May 19, 2006, among Seagate Technology, Maxtor Corporation and U.S. Bank National Association, amending and supplementing the Indenture dated as of May 7, 2003 (incorporated by reference to Exhibit 10.4 to the registrant s current report on Form 8-K filed with the SEC on May 25, 2006)
10.22	Registration Rights Agreement among Maxtor Corporation, Citigroup Global Markets Inc., Merrill Lynch, Pierce Fenner & Smith Incorporated and Goldman Sachs and Co., dated August 15, 2005 (incorporated by reference to Exhibit 10.5 to the registrant s current report on Form 8-K filed with the SEC on May 25, 2006)
10.23+	Seagate Technology 2004 Stock Compensation Plan Form of Performance Share Bonus Agreement (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed with the SEC on September 18, 2007)
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the registrant s current report on Form 8-K (file no. 001-31560) filed with the SEC on May 3, 2006)
31.1*	Certification of the Chief Executive Officer pursuant to rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

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SIGNATURES

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

SEAGATE TECHNOLOGY

DATE: January 30, 2008	BY: /s/ William D. Watkins William D. Watkins Chief Executive Officer and Director (Principal Executive Officer)
DATE: January 30, 2008	BY: /s/ Charles C. Pope Charles C. Pope Executive Vice President, Finance and Chief Financial Officer (Principal Financial Officer)