Seagate Technology plc
Form 10-Q
February 01, 2012
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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 30, 2011

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

For the transition period from: to

Commission File Number 001-31560

SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland	**98-0648577**

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

38/39 Fitzwilliam Square

Dublin 2, Ireland

(Address of principal executive offices)

Telephone: (353) (1) 234-3136

(Registrant s telephone number, including area code)

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

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

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

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

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

As of January 25, 2012, 448,725,600 shares of the registrant s ordinary shares, par value $0.00001 per share, were issued and outstanding.

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SEAGATE TECHNOLOGY PLC

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	December 30, 2011	July 1, 2011(a)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,825	$ 2,677
Short-term investments	407	474
Restricted cash and investments	93	102
Accounts receivable, net	1,627	1,495
Inventories	827	872
Deferred income taxes	99	99
Other current assets	522	706
Total current assets	5,400	6,425
Property, equipment and leasehold improvements, net	2,210	2,245
Goodwill	468	31
Other intangible assets	576	1
Deferred income taxes	376	374
Other assets, net	141	149
Total Assets	$ 9,171	$ 9,225
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,461	$ 2,063
Accrued employee compensation	255	199
Accrued warranty	218	189
Accrued expenses	438	452
Current portion of long-term debt		560
Total current liabilities	2,372	3,463
Long-term accrued warranty	183	159
Long-term accrued income taxes	75	67
Other non-current liabilities	151	121
Long-term debt, less current portion	2,925	2,952
Total Liabilities	5,706	6,762
Commitments and contingencies (See Notes 11 and 13)		

Shareholders equity:				
Ordinary shares and additional paid-in capital		4,628		3,980
Accumulated other comprehensive loss		(13)		(6)
Accumulated deficit		(1,150)		(1,511)
Total Shareholders Equity		3,465		2,463
Total Liabilities and Shareholders Equity	$	9,171	$	9,225

(a) The information in this column was derived from the Company s audited Consolidated Balance Sheet as of July 1, 2011.

See Notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
Revenue	$ 3,195	$ 2,719	$ 6,007	$ 5,417
Cost of revenue	2,185	2,190	4,448	4,338
Product development	259	213	467	422
Marketing and administrative	141	102	245	206
Amortization of intangibles	2	1	3	2
Restructuring and other, net	3	7	3	11
Total operating expenses	2,590	2,513	5,166	4,979
Income from operations	605	206	841	438
Interest income	2	2	3	4
Interest expense	(58)	(46)	(127)	(92)
Other, net	9	13	(8)	(22)
Other expense, net	(47)	(31)	(132)	(110)
Income before income taxes	558	175	709	328
Provision for (benefit from) income taxes	(5)	25	6	29
Net income	$ 563	$ 150	$ 703	$ 299
Net income per share:				
Basic	$ 1.32	$ 0.32	$ 1.66	$ 0.64
Diluted	1.28	0.31	1.61	0.61
Number of shares used in per share calculations:				
Basic	427	469	424	470
Diluted	439	486	436	487
Cash dividends declared per share	$ 0.18	$	$ 0.36	$

See Notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Six Months Ended December 30, 2011	For the Six Months Ended December 31, 2010
OPERATING ACTIVITIES		
Net income	$ 703	$ 299
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	373	379
Share-based compensation	26	26
Loss on redemption of debt	5	24
(Gain) loss on sale of property and equipment	(14)	(3)
Deferred income taxes	(4)	27
Other non-cash operating activities, net	10	(6)
Changes in operating assets and liabilities:		
Accounts receivable, net	(130)	9
Inventories	181	(51)
Accounts payable	(500)	243
Accrued employee compensation	56	(134)
Accrued expenses, income taxes and warranty	(34)	20
Other assets and liabilities	207	(81)
Net cash provided by operating activities	879	752
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(361)	(560)
Purchases of short-term investments	(309)	(145)
Sales of short-term investments	260	96
Maturities of short-term investments	115	13
Change in restricted cash and investments	9	17
Cash used in acquisition of Samsung HDD assets and liabilities	(561)	
Other investing activities, net	4	(1)
Net cash used in investing activities	(843)	(580)
FINANCING ACTIVITIES		
Repayments of long-term debt and capital lease obligations	(594)	(362)
Net proceeds from issuance of long-term debt		736
Repurchases of ordinary shares	(191)	(305)
Proceeds from issuance of ordinary shares under employee stock plans	51	24
Dividends to shareholders	(154)	
Net cash (used in) provided by financing activities	(888)	93
(Decrease) increase in cash and cash equivalents	(852)	265
Cash and cash equivalents at the beginning of the period	2,677	2,263
Cash and cash equivalents at the end of the period	$ 1,825	$ 2,528

See Notes to Condensed Consolidated Financial Statements.

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SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Six Months Ended December 30, 2011

(In millions)

(Unaudited)

	Number of Ordinary Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at July 1, 2011	425	$	$ 3,980	$ (6)	$ (1,511)	$ 2,463
Comprehensive income, net of tax:						
Change in unrealized loss on cash flow hedges, net				(7)		(7)
Change in unrealized loss on marketable securities, net				(1)		(1)
Change in unrealized loss on post-retirement plan costs				1		1
Net income					703	703
Comprehensive income						696
Issuance of ordinary shares under employee stock plans	8		51			51
Issuance of ordinary shares, in connection with the acquisition of Samsung HDD assets and liabilities	45		569			569
Tax benefit from exercise of stock options			2			2
Repurchases of ordinary shares	(13)				(191)	(191)
Dividends to shareholders					(151)	(151)
Share-based compensation			26			26
Balance at December 30, 2011	465	$	$ 4,628	$ (13)	$ (1,150)	$ 3,465

See Notes to Condensed Consolidated Financial Statements.

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1. Basis of Presentation and Summary of Significant Accounting Policies

Organization

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

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries, after elimination of intercompany transactions and balances. The preparation of financial statements in accordance with accounting principles generally accepted in the United States also requires management to make estimates and assumptions that affect the amounts reported in the Company s consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements. The consolidated financial statements reflect, in the opinion of management, all material adjustments necessary to present fairly the consolidated financial position, results of operations, cash flows and shareholders equity for the periods presented. Such adjustments are of a normal and recurring nature. The Company s Consolidated Financial Statements for the fiscal year ended July 1, 2011 are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on August 17, 2011. The Company believes that the disclosures included in the unaudited Condensed Consolidated Financial Statements, when read in conjunction with its Consolidated Financial Statements as of July 1, 2011 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 30, 2011, are not necessarily indicative of the results of operations to be expected for any subsequent interim period in the Company s fiscal year ending June 29, 2012The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The three and six months ended December 30, 2011 and December 31, 2010 consisted of 13 weeks and 26 weeks, respectively. Fiscal year 2012 will be comprised of 52 weeks and will end on June 29, 2012.

Summary of Significant Accounting Policies

Since the Company s fiscal year ended July 1, 2011, there have been no significant changes in the Company s significant accounting policies other than the policy for testing impairment of goodwill discussed below. Please refer to Note 1 of Financial Statements and Supplementary Data contained in Part II, Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended July 1, 2011, as filed with the SEC on

August 17, 2011, for a discussion of the Company s other significant accounting policies.

Impairment of Goodwill and Other Long-lived Assets In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other (ASC Topic 350) Testing Goodwill for Impairment.* The ASU allows companies the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Based on the qualitative assessment, if the fair value of a reporting unit is not less than its carrying amount then the Company is not required to perform the two-step goodwill impairment test. The Company has early adopted the ASU in the first quarter of fiscal year 2012. As required by the new ASU, the Company tests goodwill of its reporting units for impairment whenever events occur or circumstances change, such as an adverse change in business climate or a decline in the overall industry, that would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill.

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Newly Adopted and Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (ASC Topic 210) Disclosures about Offsetting Assets and Liabilities.* The ASU requires enhanced disclosures on offsetting, including disclosing gross and net information about instruments and transactions eligible for offset and instruments and transactions subject to an agreement similar to a master netting agreement. The ASU is effective for the Company s first quarter of fiscal year 2014 and requires the enhanced disclosures for all comparative periods presented. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on the Company s consolidated financial statements.

2. Balance Sheet Information

Investments

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

As of December 30, 2011, the Company s restricted cash and investments consisted of $75 million in cash equivalents and investments held in trust for payment of its non-qualified deferred compensation plan liabilities and $18 million in cash and investments held as collateral at banks for various performance obligations. As of July 1, 2011, the Company s restricted cash and investments consisted of $84 million in cash equivalents and investments held in trust for payment of its non-qualified deferred compensation plan liabilities and $18 million in cash and investments held as collateral at banks for various performance obligations.

The following table summarizes, by major type, the fair value and amortized cost of the Company s investments as of December 30, 2011:

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities:			
Money market funds	$ 1,310	$	$ 1,310
Commercial paper	346		346
Corporate bonds	209	(1)	208
U.S. treasuries and agency bonds	91		91
Auction rate securities	17	(2)	15
Other debt securities	133	1	134
	2,106	(2)	2,104
Trading securities	79	(4)	75

Total	$	2,185	$	(6)	$	2,179
Included in Cash and cash equivalents					$	1,664
Included in Short-term investments						407
Included in Restricted cash and investments						93
Included in Other assets, net						15
Total					$	2,179

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The Company s available-for-sale securities include investments in auction rate securities. Beginning in fiscal year 2008, the Company s auction rate securities failed to settle at auction and have continued to fail through December 30, 2011. Since the Company continues to earn interest on its auction rate securities at the maximum contractual rate, there have been no payment defaults with respect to such securities, and they are all collateralized, the Company expects to recover the entire amortized cost basis of these auction rate securities. The Company does not intend to sell these securities and has concluded it is not more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis. Given the uncertainty as to when the liquidity issues associated with these securities will improve, these securities are classified within Other assets, net in the Company s Condensed Consolidated Balance Sheets.

As of December 30, 2011, with the exception of the Company s auction rate securities, the Company had no available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. The Company determined no available-for-sale securities were other-than-temporarily impaired as of December 30, 2011.

The fair value and amortized cost of the Company s investments in debt securities classified as available-for-sale at December 30, 2011 by remaining contractual maturity were as follows:

(Dollars in millions)	Amortized Cost	Fair Value
Due in less than 1 year	$ 1,766	$ 1,766
Due in 1 to 3 years	323	323
Thereafter	17	15
Total	$ 2,106	$ 2,104

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

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities:			
Commercial paper	$ 1,729	$	$ 1,729
Money market funds	815		815
U.S. treasuries and agency bonds	190		190
Certificates of deposit	136		136
Corporate bonds	116		116
Auction rate securities	18	(2)	16
Other debt securities	96		96
	3,100	(2)	3,098
Trading securities	80	4	84
Total	$ 3,180	$ 2	$ 3,182
Included in Cash and cash equivalents			$ 2,590
Included in Short-term investments			474
Included in Restricted cash and investments			102
Included in Other assets, net			16
Total			$ 3,182

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

Inventories

(Dollars in millions)	December 30, 2011	July 1, 2011
Raw materials and components	$ 408	$ 286
Work-in-process	162	201
Finished goods	257	385
	$ 827	$ 872

Other Current Assets

(Dollars in millions)	December 30, 2011	July 1, 2011
Vendor non-trade receivables	$ 385	$ 519
Other	137	187
	$ 522	$ 706

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

Property, Equipment and Leasehold Improvements, net

(Dollars in millions)	December 30, 2011	July 1, 2011
Property, equipment and leasehold improvements	$ 7,672	$ 7,383
Accumulated depreciation and amortization	(5,462)	(5,138)
	$ 2,210	$ 2,245

3. Debt

Short-Term Borrowings

On January 18, 2011, the Company and its subsidiary, Seagate HDD Cayman (the Borrower), entered into a credit agreement which provides for a $350 million senior secured revolving credit facility. Seagate Technology plc and certain of its material subsidiaries fully and unconditionally guarantee, on a senior secured basis, the revolving credit facility. The revolving credit facility matures in January 2015. The $350 million revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to a sub-limit of $75 million. As of December 30, 2011, no borrowings have been drawn under the revolving credit facility, and $4 million had been utilized for letters of credit.

Long-Term Debt

$600 Million Aggregate Principal Amount of 6.375% Senior Notes due October 2011 (the 2011 Notes). The 2011 Notes matured on October 1, 2011 and the Company repaid the entire outstanding principal amount of $559 million, plus accrued and unpaid interest on October 3, 2011.

$430 Million Aggregate Principal Amount of 10.00% Senior Secured Second-Priority Notes due May 2014 (the 2014 Notes). The interest on the 2014 Notes is payable semi-annually on May 1 and November 1 of each year. The issuer under the 2014 Notes is Seagate Technology International, and the obligations under the 2014 Notes are unconditionally guaranteed by the Company and certain of its significant subsidiaries. In addition, the obligations under the 2014 Notes are secured by a second-priority lien on substantially all of the Company s tangible and intangible assets. The indenture governing the 2014 Notes contains covenants that limit the Company s ability, and

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the ability of certain of its subsidiaries, (subject to certain exceptions) to: incur additional debt or issue certain preferred shares, create liens, enter into mergers, pay dividends, redeem or repurchase debt or shares, and enter into certain transactions with the Company s shareholders or affiliates. In the first six months of fiscal year 2012, the Company repurchased $30 million aggregate principal amount of its 2014 Notes for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the redemption of approximately $5 million, which is included in Other, net in the Company s Condensed Consolidated Statements of Operations for the six months ended December 30, 2011. The 2014 Notes are included in Long-term debt, less current portion in the Condensed Consolidated Balance Sheet at December 30, 2011.

$600 Million Aggregate Principal Amount of 6.8% Senior Notes due October 2016 (the 2016 Notes). The interest on the 2016 Notes is payable semi-annually on April 1 and October 1 of each year. The issuer under the 2016 Notes is Seagate Technology HDD Cayman, and the obligations under the 2016 Notes are unconditionally guaranteed by certain of the Company s significant subsidiaries. The 2016 Notes are included in Long-term debt, less current portion in the Condensed Consolidated Balance Sheet at December 30, 2011.

$750 Million Aggregate Principal Amount of 7.75% Senior Notes due December 2018 (the 2018 Notes). The interest on the 2018 Notes is payable semi-annually on June 15 and December 15 of each year. The issuer under the 2018 Notes is Seagate Technology HDD Cayman and the obligations under the 2018 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by certain of the Company s significant subsidiaries. The 2018 Notes are included in Long-term debt, less current portion in the Condensed Consolidated Balance Sheet at December 30, 2011.

$600 Million Aggregate Principal Amount of 6.875% Senior Notes due May 2020 (the 2020 Notes). The interest on the 2020 Notes is payable semi-annually on May 1 and November 1 of each year. The issuer under the 2020 Notes is Seagate Technology HDD Cayman, and the obligations under the 2020 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The 2020 Notes are included in Long-term debt, less current portion in the Condensed Consolidated Balance Sheet at December 30, 2011.

$600 Million Aggregate Principal Amount of 7.00% Senior Notes due November 2021 (the 2021 Notes). The interest on the 2021 Notes is payable semi-annually on January 1 and July 1 of each year. The issuer under the 2018 Notes is Seagate Technology HDD Cayman and the obligations under the 2021 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by certain of the Company s significant subsidiaries. The 2021 Notes are included in Long-term debt, less current portion in the Condensed Consolidated Balance Sheet at December 30, 2011.

At December 30, 2011, future principal payments on long-term debt were as follows (in millions):

Fiscal Year		
2012	$	
2013		
2014		385
2015		
2016		
Thereafter		2,550
	$	2,935

4. Income Taxes

The income tax benefit of $5 million recorded for the three months ended December 30, 2011 included $7 million of tax benefit from the reversal of a portion of the U.S. valuation allowance recorded in prior periods. The income tax provision of $6 million recorded for the six months ended December 30, 2011 included approximately $10 million of discrete tax benefits from the reversal of a portion of the U.S. valuation allowance recorded in prior periods and the release of tax reserves associated with the expiration of certain statutes of limitation.

The Company s income tax benefit and provision recorded for the three and six months ended December 30, 2011 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes, primarily due to the net effect of (i) tax benefits related to non-U.S. earnings

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generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, (ii) a decrease in valuation allowance for certain U.S. deferred tax assets, (iii) the release of tax reserves as a result of the expiration of statutes of limitation, and (iv) tax expense related to intercompany transactions.

The Company recorded an income tax provision of $25 million and $29 million for the three and six months ended December 31, 2010, respectively. The income tax provision for the three and six months ended December 31, 2010 included approximately $1 million and $11 million of discrete tax benefits, respectively, primarily from the release of tax reserves associated with the expiration of certain statutes of limitations. In addition, $11 million of discrete income tax benefits from the loss recognized on the redemption of debt was offset by a corresponding increase in the valuation allowance for U.S. deferred tax assets.

The Company s provision for income taxes recorded for the three and six months ended December 31, 2010 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes primarily due to the net effect of (i) tax benefits related to non-U.S. earnings generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, (ii) an increase in valuation allowance for U.S. deferred tax assets, (iii) tax expense related to intercompany transactions, and (iv) the release of tax reserves as a result of the expiration of statutes of limitation.

On December 17, 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Relief Act) was enacted. The 2010 Tax Relief Act includes business incentives to invest in machinery and equipment, and retroactively reinstated the R&D tax credit through December 31, 2011 from December 31, 2009. These business incentives had no immediate impact on the Company s income tax provision due to the existing valuation allowances for certain U.S. deferred tax assets.

5. Acquisitions

On December 19, 2011, the Company completed the acquisition of Samsung Electronics Co., Ltd s (Samsung) hard disk drive (HDD) business pursuant to an Asset Purchase Agreement (APA) by which the Company acquired certain assets and liabilities of Samsung relating to the research and development, manufacture and sale of hard-disk drives. The transaction and related agreements are expected to improve the Company s position as a supplier of 2.5-inch products; position the Company to better address rapidly evolving opportunities in markets including, but not limited to, mobile computing, cloud computing and solid state storage; expand the Company s customer access in China and Southeast Asia; and accelerate time to market for new products.

The acquisition-date fair value of the consideration transferred totaled $1,140 million, which consisted of $571 million of cash, $10 million of which was paid as a deposit upon signing the APA in the fourth quarter of fiscal year 2011, and 45.2 million ordinary shares with a fair value of $569 million. The fair value of the ordinary shares issued was determined based on the closing market price of the Company s ordinary shares on the acquisition date, less a 16.5% discount for lack of marketability as the shares issued are subject to a restriction that limits their trade or transfer for approximately a one year period.

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The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Inventories	$	141
Equipment		73
Intangible assets		580
Other assets		21
Total identifiable assets acquired		815
Warranty liability		(69)
Other liabilities		(43)
Total liabilities assumed		(112)
Net identifiable assets acquired		703
Goodwill		437
Net assets acquired	$	1,140

The amount noted above for warranty is provisional, being an estimate calculated on the basis of projected product failure rates and timing of product returns during the warranty period. Seagate assumed product warranty obligations from Samsung on products sold prior to the acquisition. These products are warranted for up to three years from the original shipment date. The estimate of the warranty liability is subject to a significant degree of subjectivity since the Company does not have experience with Samsung products. If actual return rates differ materially from the Company s estimate, or if there is an epidemic failure of drives for which Seagate assumed warranty obligations, the fair value of the warranty liability may need to be reestimated during the measurement period, which may be up to one year following the acquisition date.

The Company received a patent portfolio that may have value apart from being an enabling technology that is included within the fair value of Intangible assets Existing technology. However, the Company has not received all information regarding these patents that is necessary for the completion of a review to determine the extent of encumbrances and the scope of their application. Therefore, provisionally, no separately identifiable value has been recognized for the patent portfolio.

As part of the acquisition, the Company assumed certain vendor-related and other obligations and contingent liabilities. Due to the nature of these obligations and contingent liabilities, the Company has not received sufficient information needed to determine the fair value of these obligations.

The following table shows the fair value of the separately identifiable intangible assets at the time of acquisition and the period over which each intangible asset will be amortized:

(Dollars in millions)		**Fair Value**	**Weighted-Average Amortization Period**
Existing technology	$	137	2.0 years
Customer relationships		399	5.8 years
Total amortizable intangible assets acquired		536	4.8 years
In-process research and development		44	

Total acquired identifiable intangible assets	$	580

The $437 million of goodwill recognized is attributable primarily to the benefits the Company expects to derive from enhanced scale and efficiency to better serve its markets and expanded customer presence in China and Southeast Asia. Except for approximately $4 million of goodwill relating to assembled workforce in Korea, none of the goodwill is expected to be deductible for income tax purposes. As of December 30, 2011, there were no changes in the recognized amounts of goodwill resulting from the acquisition of Samsung s HDD business.

The Company incurred $17 million and $29 million of expenses related to the acquisition of Samsung for the three and six months ended December 30, 2011, which are included within marketing and administrative expense on the Condensed Consolidated Statement of Operations.

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The amounts of revenue and earnings of the acquired assets of Samsung s HDD business included in the Company s Condensed Consolidated Statement of Operations from the acquisition date during the three and six months ended December 30, 2011 were as follows:

(Dollars in millions)	For the Three Months Ended	For the Six Months Ended
Revenue	$ 36	$ 36
Net loss	(5)	(5)

The unaudited pro forma financial results presented below for the three and six months ended December 30, 2011 and December 31, 2010 include the effects of pro forma adjustments as if the acquisition date occurred as of the beginning of the prior fiscal year on July 3, 2010. The pro forma results combine the historical results of the Company for the three and six months periods ended December 30, 2011 and December 31, 2010, respectively, and the historical results of the acquired assets and liabilities of Samsung s HDD business, and include the effects of certain fair value adjustments and the elimination of certain activities excluded from the transaction. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

	For the Three Months Ended		For the Six Months Ended	
(Dollars in millions)	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
Revenue	$ 3,800	$ 3,490	$ 7,217	$ 6,959
Net income	526	137	597	270

The pro forma results for the three and six months ended December 30, 2011 include adjustments of $33 million and $65 million, respectively, to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on July 3, 2010. The pro forma results for the three and six months ended December 31, 2010, include adjustments of $29 million and $56 million, respectively, to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on July 3, 2010.

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended December 30, 2011 are as follows:

(Dollars in millions)	
Balance as of July 1, 2011	$ 31
Goodwill acquired	437
Balance as of December 30, 2011	$ 468

The carrying value of other intangible assets subject to amortization as of December 30, 2011 is set forth in the following table:

(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Amortizable other intangible assets:				
Existing technology	$ 137	$ (2)	$ 135	2.0 years
Customer relationships	399	(2)	397	5.7 years
Total amortizable other intangible assets	$ 536	$ (4)	$ 532	4.8 years

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The carrying value of other intangible assets subject to amortization as of July 1, 2011 is set forth in the following table:

(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	$ 3	$ (2)	$ 1	0.5 year

The carrying value of In-process research and development was $44 million and $0 as of December 30, 2011and July 1, 2011, respectively.

For the three and six months ended December 30, 2011, amortization expense of other intangible assets was $5 million and $5 million, respectively. For the three and six months ended December 31, 2010, amortization expense of other intangible assets was $2 million and $5 million, respectively. As of December 30, 2011, expected amortization expense for other intangible assets for each of the next five years and thereafter is as follows:

(Dollars in millions)	
Remainder of 2012	$ 69
2013	139
2014	103
2015	71
2016	64
Thereafter	86
	$ 532

7. Derivative Financial Instruments

The Company is exposed to foreign currency exchange rate, interest rate, and to a lesser extent, equity price risks relating to its ongoing business operations. The Company enters into foreign currency forward exchange contracts to manage the foreign currency exchange rate risk on forecasted expenses denominated in foreign currencies and to mitigate the remeasurement risk of certain foreign currency denominated liabilities. The Company s accounting policies for these instruments are based on whether the instruments are classified as designated or non-designated hedging instruments. The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The changes in the fair values of the effective portions of designated cash flow hedges are recorded in Accumulated other comprehensive loss until the hedged item is recognized in earnings. Derivatives that are not designated as hedging instruments and the ineffective portions of cash flow hedges are adjusted to fair value through earnings. As of December 30, 2011 and July 1, 2011, the Company had a net unrealized loss and a net unrealized gain on cash flow hedges of approximately $5 million and $2 million, respectively.

The Company dedesignates its cash flow hedges when the forecasted hedged transactions are realized or it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in Accumulated other comprehensive loss are reclassified immediately into earnings and any subsequent changes in the fair value of such derivative instruments are immediately reflected in earnings. The Company did not recognize any material net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three and six months ended December 30, 2011 and December 31, 2010. As of December 30, 2011, the Company s existing foreign currency forward exchange contracts mature within 12 months. The deferred amount currently recorded in Accumulated other comprehensive loss and expected to be recognized into earnings over the next 12 months is a net loss of $5 million.

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The following tables show the total notional value of the Company s outstanding foreign currency forward exchange contracts as of December 30, 2011 and July 1, 2011:

	As of December 30, 2011			
(Dollars in millions)		Contracts Designated as Hedges		Contracts Not Designated as Hedges
Thai baht	$		$	210
Singapore dollars		117		9
Chinese Renminbi		35		
Czech koruna				11
	$	152	$	230

	As of July 1, 2011			
(Dollars in millions)		Contracts Designated as Hedges		Contracts Not Designated as Hedges
Thai baht	$	98	$	235
Singapore dollars		212		9
Chinese Renminbi		78		
Czech koruna				11
	$	388	$	255

The following table shows the Company s derivative instruments measured at fair value as reflected in the Condensed Consolidated Balance Sheet as of December 30, 2011:

Fair Values of Derivative Instruments as of December 30, 2011

	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments:						
Foreign currency forward exchange contracts	Other current assets	$		Accrued expenses	$	(5)
Derivatives not designated as hedging instruments:						
Foreign currency forward exchange contracts	Other current assets		1	Accrued expenses		(4)
Total derivatives		$	1		$	(9)

The following table shows the Company s derivative instruments measured at fair value as reflected in the Condensed Consolidated Balance Sheet as of July 1, 2011:

Fair Values of Derivative Instruments as of July 1, 2011

(Dollars in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	$ 4	Accrued expenses	$ (2)
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	1	Accrued expenses	(4)
Total derivatives		$ 5		$ (6)

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The following tables show the effect of the Company s derivative instruments on Other comprehensive income (OCI) and the Condensed Consolidated Statement of Operations for the three and six months ended December 30, 2011:

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Three Months	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Six Months	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Three Months	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Six Months	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Three Months	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Six Months
Foreign currency forward exchange contracts	$ 3	$ (11)	Cost of revenue	$ (4)	$ (4)	Cost of revenue	$	$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative For the Three Months	Amount of Gain or (Loss) Recognized in Income on Derivative For the Six Months
Foreign currency forward exchange contracts	Other, net	$	$ (4)

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relations and $0 related to the amount excluded from the assessment of hedge effectiveness, for the three and six months ended December 30, 2011, respectively.

The following tables show the effect of the Company s derivative instruments on Other comprehensive income (OCI) and the Condensed Consolidated Statement of Operations for the three and six months ended December 31, 2010:

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Three Months	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Six Months	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Three Months	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Six Months	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Three Months	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a) For the Six Months
Foreign currency forward exchange contracts	$ 4	$ 36	Cost of revenue	$ 16	$ 21	Cost of revenue	$ 1	$ 1

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative For the Three Months	Amount of Gain or (Loss) Recognized in Income on Derivative For the Six Months
Foreign currency forward exchange contracts	Other, net	$ 4	$ 20
Total return swap	Operating expenses	6	14

	$	10	$	34

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relations and $1 million related to the amount excluded from the assessment of hedge effectiveness, for the three and six months ended December 31, 2010, respectively.

8. Fair Value

Measurement of Fair Value

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

Fair Value Hierarchy

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

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

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

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

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

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company s assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of December 30, 2011:

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**
Assets:				
Commercial paper	$	$ 346	$	$ 346
Money market funds	1,293			1,293
U.S. treasuries and agency bonds		91		91
Corporate bonds		208		208
Other debt securities		133		133
Total cash equivalents and short-term investments	1,293	778		2,071
Restricted cash and investments:				
Mutual funds	67			67
Other debt securities	25	1		26
Auction rate securities			15	15
Derivative assets		1		1
Total assets	$ 1,385	$ 780	$ 15	$ 2,180
Liabilities:				
Derivative liabilities	$	$ (9)	$	$ (9)
Total liabilities	$	$ (9)	$	$ (9)

	Fair Value Measurements at Reporting Date Using	
	Quoted Prices	**Significant Other**

(Dollars in millions)	in Active Markets for Identical Instruments (Level 1)		Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Balance	
Assets:								
Cash and cash equivalents	$	1,293	$	371	$		$	1,664
Short-term investments				407				407
Restricted cash and investments		92		1				93
Other current assets				1				1
Other assets, net						15		15
Total assets	$	1,385	$	780	$	15	$	2,180
Liabilities:								
Accrued expenses	$		$	(9)	$		$	(9)
Total liabilities	$		$	(9)	$		$	(9)

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

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Commercial paper	$	$ 1,729	$	$ 1,729
Money market funds	800			800
U.S. treasuries and agency bonds		190		190
Certificates of deposit		133		133
Corporate bonds		116		116
Other debt securities		96		96
Total cash equivalents and short-term investments	800	2,264		3,064
Restricted cash and investments:				
Mutual funds	81			81
Other debt securities	19	2		21
Auction rate securities			16	16
Derivative assets		5		5
Total assets	$ 900	$ 2,271	$ 16	$ 3,187
Liabilities:				
Derivative liabilities	$	$ (6)	$	$ (6)
Total liabilities	$	$ (6)	$	$ (6)

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Cash and cash equivalents	$ 800	$ 1,790	$	$ 2,590
Short-term investments		474		474
Restricted cash and investments	100	2		102
Other current assets		5		5
Other assets, net			16	16
Total assets	$ 900	$ 2,271	$ 16	$ 3,187
Liabilities:				
Accrued expenses	$	$ (6)	$	$ (6)
Total liabilities	$	$ (6)	$	$ (6)

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

The Company classifies items in Level 2 if the financial asset or liability is valued using observable inputs. The Company uses observable inputs including quoted prices in active markets for similar assets or liabilities. Level 2 assets include: agency bonds, corporate bonds, commercial paper, municipal bonds, certificates of deposit, international government securities, asset backed securities, mortgage backed securities and U.S. Treasuries. These debt investments are priced using observable inputs and valuation models which vary by asset class. The Company uses a pricing service to assist in determining the fair values of all of its cash equivalents and short-term investments. For the cash equivalents and short-term investments in the Company s portfolio, multiple pricing sources are generally available. The pricing service uses inputs from multiple industry standard data providers or other third party sources and various methodologies, such as weighting and models, to determine the appropriate price at the measurement date. The Company corroborates the prices obtained from the pricing service against other independent sources and, as of December 30, 2011, has not found it necessary to make any adjustments to the prices obtained. The Company s derivative financial instruments are also classified within Level 2. The Company s derivative financial instruments consist of foreign currency forward exchange contracts. The Company recognizes derivative financial instruments in its condensed consolidated financial statements at fair value. The Company determines the fair value of these instruments by considering the estimated amount it would pay or receive to terminate these agreements at the reporting date.

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The Company s Level 3 assets consist of auction rate securities with a par value of approximately $17 million, all of which are collateralized by student loans guaranteed by the Federal Family Education Loan Program. Beginning in fiscal year 2008, these securities failed to settle at auction and have continued to fail through December 30, 2011. Since there is no active market for these securities, the Company valued them using a discounted cash flow model. The valuation model is based on the income approach and reflects both observable and significant unobservable inputs.

The table below presents a reconciliation of assets measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the six months ended December 30, 2011:

(Dollars in millions)		Auction Rate Securities
Balance at July 1, 2011	$	16
Total net gains (losses) (realized and unrealized):		
Realized gains (losses)(1)		
Unrealized gains (losses)(2)		
Sales and Settlements		(1)
Balance at December 30, 2011	$	15

(1) Realized gains (losses) on auction rate securities are recorded in Other, net in the Condensed Consolidated Statements of Operations.

(2) Unrealized gains (losses) on auction rate securities are recorded as a separate component of Other comprehensive income (loss) in Accumulated other comprehensive income (loss), which is a component of Shareholders Equity.

Items Measured at Fair Value on a Non-Recurring Basis

	Fair Value Measurements Using							
(Dollars in millions)		Quoted Prices in Active Markets for Identical Instruments (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Balance
Assets:								
Equity investment	$		$		$	5	$	5

The Company enters into certain strategic investments for the promotion of business and strategic objectives. Strategic investments are included in Other assets, net in the Condensed Consolidated Balance Sheets, are recorded at cost and are periodically analyzed to determine whether or not there are indicators of impairment. The carrying value of the Company s strategic investments at December 30, 2011 and July 1, 2011 totaled $26 million and $27 million, respectively.

There were no impairment charges recognized for the three months ended December 30, 2011. During the first quarter of fiscal year 2012, the Company determined that an equity investment accounted for under the cost method was other-than-temporarily impaired, and recognized a charge of $7 million, in order to write down the carrying amount of the investment to its estimated fair value. The amount was recorded in Other, net in the Condensed Consolidated Statements of Operations. There were no impairment charges recognized for the three and six months ended December 31, 2010. Since there was no active market for the equity securities of the investee, the Company estimated fair value of the investee by using the market approach which was then used to estimate the Company s applicable portion of the fair value of its underlying intellectual property assets at the end of the second quarter of fiscal 2012.

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Other Fair Value Disclosures

The Company s debt is carried at amortized cost. The fair value of the Company s debt is derived from quoted prices in active markets. The following table presents the fair value and amortized cost of the Company s debt and capital lease in order of priority:

	December 30, 2011		July 1, 2011	
(Dollars in millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Capital Lease	$	$	$ 1	$ 1
6.375% Senior Notes due October 2011			559	561
10.0% Senior Secured Second-Priority Notes due May 2014	376	446	403	481
6.8% Senior Notes due October 2016	599	646	599	647
7.75% Senior Notes due December 2018	750	803	750	780
6.875% Senior Notes due May 2020	600	625	600	591
7.00% Senior Notes due November 2021	600	617	600	598
	2,925	3,137	3,512	3,659
Less short-term borrowings and current portion of long-term debt			(560)	(562)
Long-term debt, less current portion	$ 2,925	$ 3,137	$ 2,952	$ 3,097

9. Shareholders Equity

Share Capital

The Company s authorized share capital is $13,500 and consists of 1,250,000,000 ordinary shares, par value $0.00001, of which 464,862,182 shares were outstanding as of December 30, 2011, and 100,000,000 preferred shares, par value $0.00001, of which none were issued or outstanding as of December 30, 2011.

Ordinary shares Holders of ordinary shares are entitled to receive dividends when and as declared by the Company s board of directors (the Board of Directors). Upon any liquidation, dissolution, or winding up of the Company, after required payments are made to holders of preferred shares, any remaining assets of the Company will be distributed ratably to holders of the preferred and ordinary shares. Holders of shares are entitled to one vote per share on all matters upon which the ordinary shares are entitled to vote, including the election of directors.

Preferred shares The Company may issue preferred shares in one or more series, up to the authorized amount, without shareholder approval. The Board of Directors is authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. The Board of Directors can also increase or decrease the number of shares of a series, but not below the number of shares of that series then outstanding, without any further vote or action by the shareholders.

The Board of Directors may authorize the issuance of preferred shares with voting or conversion rights that could harm the voting power or other rights of the holders of the ordinary shares. The issuance of preferred shares, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of the Company and might harm the market price of its ordinary shares and the voting and other rights of the holders of ordinary shares. As of December 30, 2011, there were no preferred shares outstanding.

Issuance of Ordinary Shares

During the three months ended December 30, 2011, the Company issued approximately 3.7 million of its ordinary shares from the exercise of stock options, release of restricted units and performance shares and approximately 45.2 million of its ordinary shares in connection with the Samsung acquisition.

Repurchases of Equity Securities

On January 27, 2010, our Board of Directors authorized an Anti-Dilution Share Repurchase Program. The Company s share repurchase program authorizes the Company to repurchase its ordinary shares to offset increases in diluted shares, such as those caused by employee stock plans, used in the determination of diluted net income per share. The timing and number of shares to be repurchased by the Company will be dependent on general business and market conditions, cash flows generated by future operations, the price of its ordinary shares, cash requirements for other investing and financing activities, and maintaining compliance with its debt covenants. Additionally, there is no minimum or maximum number of shares to be repurchased under the programs and the authority for the share repurchase program will continue until terminated by the Company s Board of Directors.

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On November 29, 2010, our Board of Directors authorized repurchases up to an additional $2 billion of our outstanding ordinary shares.

The following tables set forth information with respect to repurchases of the Company s shares made during the current fiscal year for each of the Company s repurchase programs:

January 2010 Anti-Dilution Share Repurchase Program

(In millions)	Number of Shares Repurchased		Dollar Value of Shares Repurchased
Cumulative repurchased through July 1, 2011	53.1	$	889
Repurchased in the first fiscal quarter 2012			
Repurchased in the second fiscal quarter 2012			
Cumulative repurchased through December 30, 2011	53.1		889

November 2010 Share Repurchase Program

(In millions)	Number of Shares Repurchased		Dollar Value of Shares Repurchased
Cumulative repurchased through July 1, 2011	36.2	$	517
Repurchased in the first fiscal quarter 2012	9.1		128
Repurchased in the second fiscal quarter 2012	3.9		63
Cumulative repurchased through December 30, 2011	49.2	$	708

10. Compensation

The Company recorded approximately $14 million and $26 million of stock-based compensation during the three and six months ended December 30, 2011, respectively. The Company recorded approximately $13 million and $26 million of stock-based compensation during the three and six months ended December 31, 2010, respectively.

Seagate Technology plc 2012 Equity Incentive Plan (the EIP). On October 26, 2011, the shareholders approved the EIP and authorized the issuance of up to a total of 27,000,000 ordinary shares, par value $0.0001 per share, plus any shares remaining available for grant under the SCP as of the effective date of the EIP (which was equal to 11,041,148 ordinary shares as of the effective date of the EIP and which will increase by such additional number of shares as will be returned to the share reserve in respect of awards previously granted under the SCP) (together, the Share Reserve). Any shares that are subject to options or share appreciation rights granted under the EIP will be counted against the Share Reserve as one share for every one share granted, and any shares that are subject to restricted share bonus awards, restricted share units, performance share bonus awards or performance share units (collectively, Full-Value Share Awards) will generally be counted against the Share Reserve as two and one-tenth shares for every one share granted. As of December 30, 2011, there were approximately 37.8 million ordinary shares available for issuance under the EIP.

Shares that are subject to Full-Value Share Awards will generally vest over a period of three to four years. Options will generally vest as follows: 25% of the options will vest on the first anniversary of the vesting commencement date and the remaining 75% will vest ratably each month thereafter over the next 36 months. Options granted under the EIP have an exercise price equal to the closing price of the Company s ordinary shares on date of grant.

Seagate Technology plc 2004 Share Compensation Plan (the SCP). On November 4, 2011, the Company filed Post-Effective Amendment No. 1 to deregister 11,041,148 ordinary shares that remained available for grant as of October 27, 2011 under the SCP and no shares have been granted from the SCP subsequent to that date.

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11. Guarantees

Indemnifications to Officers and Directors

On May 4, 2009, the Company entered into a new form of indemnification agreement (the Revised Indemnification Agreement) with its officers and directors of the Company and its subsidiaries (each, an Indemnitee). The Revised Indemnification Agreement provides indemnification in addition to any of Indemnitee s indemnification rights under the Company s Articles of Association, applicable law or otherwise, and indemnifies an Indemnitee for certain expenses (including attorneys fees), judgments, fines and settlement amounts actually and reasonably incurred by him or her in any action or proceeding, including any action by or in the right of the Company or any of its subsidiaries, arising out of his or her service as a director, officer, employee or agent of the Company or any of its subsidiaries or of any other entity to which he or she provides services at the Company s request. However, an Indemnitee shall not be indemnified under the Revised Indemnification Agreement for (i) any fraud or dishonesty in the performance of Indemnitee s duty to the Company or the applicable subsidiary of the Company or (ii) Indemnitee s conscious, intentional or willful failure to act honestly, lawfully and in good faith with a view to the best interests of the Company or the applicable subsidiary of the Company. In addition, the Revised Indemnification Agreement provides that the Company will advance expenses incurred by an Indemnitee in connection with enforcement of the Revised Indemnification Agreement or with the investigation, settlement or appeal of any action or proceeding against him or her as to which he or she could be indemnified. A subsidiary of the Company has also entered into a deed of indemnity on similar terms to the Revised Indemnification Agreement with certain of its officers and directors. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay on behalf of its officers and directors. 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.

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 consolidated financial statements with respect to these indemnification obligations.

Product Warranty

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of one to five years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine its warranty obligation. In addition, estimated settlements for customer compensatory claims relating to product quality issues, if any, are accrued as warranty expense. Changes in the Company s product warranty liability during the three months ended December 30, 2011 and December 31, 2010 were as follows:

(Dollars in millions)	For the Three Months Ended December 30, 2011	December 31, 2010	For the Six Months Ended December 30, 2011	December 31, 2010
Balance, beginning of period	$ 334	$ 353	$ 348	$ 372
Warranties issued	42	53	85	102
Repairs and replacements	(67)	(51)	(125)	(99)
Changes in liability for pre-existing warranties, including expirations	23	12	24	(8)
Warranty liability assumed from Samsung HDD business	69		69	
Balance, end of period	$ 401	$ 367	$ 401	$ 367

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12. Earnings Per Share

Basic earnings per share is computed by dividing income available to shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed by dividing income available to shareholders by the weighted-average number of shares outstanding during the period and the number of additional shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding options, shares to be purchased under the ESPP, and unvested restricted stock units. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in fair market value of the Company s share price can result in a greater dilutive effect from potentially dilutive securities.

The following table sets forth the computation of basic and diluted net income per share:

	For the Three Months Ended		For the Six Months Ended	
(Dollars in millions, except per share data)	**December 30, 2011**	**December 31, 2010**	**December 30, 2011**	**December 31, 2010**
Numerator:				
Net income	$ 563	$ 150	$ 703	$ 299
Number of shares used in per share calculations:				
Total shares for purpose of calculating basic net income per share	427	469	424	470
Weighted-average effect of dilutive securities:				
Employee equity award plans	12	17	12	17
Dilutive potential shares:	12	17	12	17
Total shares for purpose of calculating diluted net income per share	439	486	436	487
Net income per share:				
Basic net income per share	$ 1.32	$ 0.32	$ 1.66	$ 0.64
Diluted net income per share	$ 1.28	$ 0.31	$ 1.61	$ 0.61

The following potential 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	
(In millions)	**December 30, 2011**	**December 31, 2010**	**December 30, 2011**	**December 31, 2010**
Employee equity award plans	9	14	13	19

13. Legal, Environmental and Other Contingencies

The Company assesses the probability of an unfavorable outcome of all its material litigation, claims, or assessments to determine whether a liability had been incurred and whether it is probable that one or more future events will occur confirming the fact of the loss. In the event that an unfavorable outcome is determined to be probable and the amount of the loss can be reasonably estimated, the Company establishes an accrual for the litigation, claim or assessment. In addition, in the event an unfavorable outcome is determined to be less than probable, but reasonably possible, the Company will disclose an estimate of the possible loss or range of such loss; however, when a reasonable estimate cannot be made, the Company will provide disclosure to that effect. Litigation is inherently uncertain and may result in adverse rulings or decisions. Additionally, the Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on its results of operations. Accordingly, actual results could differ materially.

Intellectual Property Litigation

Convolve, Inc. (Convolve) and Massachusetts Institute of Technology (MIT) v. Seagate Technology LLC, et al. On July 13, 2000, Convolve and MIT filed suit against Compaq Computer Corporation and Seagate Technology LLC in the U.S. District Court for the Southern District of New York, alleging infringement of U.S. Patent Nos. 4,916,635, Shaping Command Inputs to Minimize Unwanted Dynamics (the 635 patent) and U.S. Patent No. 5,638,267, Method and Apparatus for Minimizing Unwanted Dynamics in a Physical System (the 267

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patent), misappropriation of trade secrets, breach of contract, tortious interference with contract and fraud relating to Convolve and MIT s Input Shaping® and Convolve s Quick and Quiet technology. The plaintiffs claimed their technology is incorporated in the Company s sound barrier technology, which was publicly announced on June 6, 2000. The complaint seeks injunctive relief, $800 million in compensatory damages and unspecified punitive damages, including for willful infringement and willful and malicious misappropriation. On November 6, 2001, the U.S. Patent and Trademark Office (USPTO) issued to Convolve US Patent No. 6,314,473, System for Removing Selected Unwanted Frequencies in Accordance with Altered Settings in a User Interface of a Data Storage Device, (the 473 patent). Convolve filed an amended complaint on January 16, 2002, alleging defendants infringe this patent. The 635 patent expired on September 12, 2008. The court ruled in 2010 that the 267 patent was out of the case.

On August 16, 2011, the court granted in part and denied in part the Company s motion for summary judgment. The court granted summary judgment in favor of the Company on all patent infringement claims and on 11 of the 15 remaining alleged trade secrets at issue. The court also denied Convolve s request for enhanced damages as moot and dismissed Convolve s request for injunctive relief. Following this ruling, the parties entered into a stipulation to conditionally dismiss without prejudice the remaining claims in order to facilitate an appeal of the August 16, 2011 order by Convolve to the U.S. Court of Appeals for the Federal Circuit. Pursuant to this stipulation, the court entered a final judgment on October 4, 2011. Convolve filed its notice of appeal to the U.S. Court of Appeals for the Federal Circuit on November 3, 2011. In view of the court s August 16, 2011 ruling and the uncertainty regarding the amount of damages, if any, that could be awarded Convolve in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

Siemens, AG v. Seagate Technology (Ireland) On December 2, 2008, Siemens served Seagate Technology (Ireland), an indirect wholly-owned subsidiary of Seagate Technology, with a writ of summons alleging infringement of European Patent (UK) No. 0 674 769 (the EU '769 patent), which is the European counterpart to U.S. Patent No. 5,686,838 upon which Siemens had sued Seagate Technology in the U.S. The suit was filed in the High Court of Justice in Northern Ireland, Chancery Division. Siemens alleges that giant magnetoresistive (GMR), tunnel magnetoresistive (TMR), and tunnel giant magnetoresistive (TGMR) products designed and manufactured by Seagate Technology (Ireland) infringe the EU '769 patent. On January 30, 2012, the parties entered into a confidential settlement to resolve this matter.

Alexander Shukh v. Seagate Technology Former Seagate engineer Alexander Shukh filed a complaint and an amended complaint against the Company in Minnesota federal court, alleging, among other things, employment discrimination based on his Belarusian national origin and wrongful failure to name him as an inventor on several patents and patent applications. Mr. Shukh s employment was terminated as part of a company-wide reduction in force in fiscal year 2009. He seeks damages in excess of $75 million. The Company believes the claims are without merit and intends to vigorously defend this case. Trial is scheduled to begin April 1, 2013. In view of the uncertainty regarding the amount of damages, if any, that could be awarded in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

Siemens GmbH v. Seagate Technology (Germany) On March 26, 2010, Siemens commenced proceedings against Seagate Technology GmbH, the Netherlands branch office of Seagate Technology International, and Seagate Technology LLC in the Dusseldorf District Court in Germany. The complaint alleges infringement of European Patent Number 0 674 769 (the "EU '769 Patent"), which corresponds to the patent in suit in the U.S. and Northern Ireland Siemens' litigations. Siemens seeks a declaration that the EU '769 Patent is infringed by GMR and TMR products, removal of all infringing inventory, damages in an unstated amount, and costs. On January 30, 2012, the parties entered into a confidential settlement to resolve this matter.

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Rembrandt Data Storage, LP v. Seagate Technology LLC On November 10, 2010, Rembrandt Data Storage, LP filed suit against Seagate Technology LLC in the U.S. District Court for the Western District of Wisconsin alleging infringement of U.S. Patent No. 5,995,342 C1, Thin Film Heads Having Solenoid Coils, and U.S. Patent No. 6,195,232, Low-Noise Toroidal Thin Film Head With Solenoidal Coil. The complaint seeks unspecified compensatory damages, enhanced damages, injunctive relief, and attorneys fees and costs. The Company intends to vigorously defend this case. Trial is scheduled to begin June 4, 2012. Rembrandt has not stated the amount of damages it would seek at trial. In view of the uncertainty regarding the amount of damages, if any, that could be established at trial and in light of Rembrandt not having stated an amount of damages it may seek in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible loss or possible range of loss related to this matter.

Rambus, Inc. ITC Investigation re Certain Semiconductor Chips and Products Containing the Same On December 1, 2010, Rambus, Inc. filed a complaint with the International Trade Commission seeking an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended. The complaint names Seagate Technology LLC and numerous other defendants, including LSI, Inc. and ST Microelectronics, Inc., alleging that Seagate products incorporate semiconductor products made by LSI and STMicroelectronics that infringe various patents owned by Rambus. The ITC initiated an investigation on December 29, 2010. Rambus seeks an order to exclude entry of infringing products into the U.S. and a cease and desist order. The Company is responding to the investigation. The hearing before the Administrative Law Judge was held on October 12-20, 2011. The Administrative Law Judge s initial determination is expected in March 2012. In light of the current status of this matter and the nature of the relief sought, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible loss or range of loss, or other possible adverse result, if any, that may be incurred with respect to this matter.

Environmental Matters

The Company s operations are subject to U.S. and foreign laws and regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Some of the Company s operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities.

The Company has established environmental management systems and continually updates its environmental policies and standard operating procedures for its operations worldwide. The Company believes that its operations are in material compliance with applicable environmental laws, regulations and permits. The Company budgets for operating and capital costs on an ongoing basis to comply with environmental laws. If additional or more stringent requirements are imposed on the Company in the future, it could incur additional operating costs and capital expenditures.

Some environmental laws, such as the Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended, the Superfund law) and its state equivalents, can impose liability for the cost of cleanup of contaminated sites upon any of the current or former site owners or operators or upon parties who sent waste to these sites, regardless of whether the owner or operator owned the site at the time of the release of hazardous substances or the lawfulness of the original disposal activity. The Company has been identified as a potentially responsible party at several sites. At each of these sites, the Company has an assigned portion of the financial liability based on the type and amount of hazardous substances disposed of by each party at the site and the number of financially viable parties. The Company has fulfilled its responsibilities at some of these sites and remains involved in only a few at this time.

While the Company s ultimate costs in connection with these sites is difficult to predict with complete accuracy, based on its current estimates of cleanup costs and its expected allocation of these costs, the Company does not expect costs in connection with these sites to be material.

The Company 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) enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which prohibits the use of certain substances, including lead, in certain products, including disk drives, put on the market after July 1, 2006. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, Taiwan, China, Japan and others. The European Union REACH Directive (Registration, Evaluation, Authorization, and Restriction of Chemicals, EC 1907/2006) also restricts substances of very high concern (SVHCs) in products. If the Company or its suppliers fails to comply

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with the substance restrictions, recycle requirements or other environmental requirements as they are enacted worldwide, it could have a materially adverse effect on the Company s business.

Other Matters

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

14. Subsequent Events

Dividends

On January 25, 2012, the Board of Directors declared a quarterly cash dividend of $0.25 per share. The dividend is payable on March 1, 2012 to shareholders of record as of the close of business on February 15, 2012.

Share Repurchases

On January 25, 2012, the Board of Directors authorized the Company to repurchase an additional $1 billion of its outstanding ordinary shares.

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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 quarters ended December 30, 2011, September 30, 2011 and December 31, 2010 referred to herein as the December 2011 quarter , the September 2011 quarter and the December 2010 quarter , respectively. Unless the context indicates otherwise, as used herein, the terms we, us, Seagate, the Company and our refer to Seagate Technology plc, an Irish public limited company, and its subsidiaries. References to $ are to United States dollars.

You should read this discussion in conjunction with financial information and related notes included elsewhere in this report. We operate and report financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The December 2011, June 2011, and December 2010 quarters were all 13 weeks. Except as noted, references to any fiscal year mean 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 ending December 30, 2011 (the December 2011 quarter) 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 information available to us as of the date of this report. Current expectations, forecasts and assumptions involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated by these forward-looking statements. Such risks, uncertainties and other factors may be beyond our control. In particular, the uncertainty in global economic conditions continues to pose a risk to our operating and financial performance as consumers and businesses may defer purchases in response to tighter credit and negative financial news. Such risks and uncertainties also include, but are not limited to, the impact of the variable demand and the adverse pricing environment for disk drives, particularly in view of current business and economic conditions; dependence on our ability to successfully qualify, manufacture and sell our disk drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disk drive products with lower cost structures; the impact of competitive product announcements and possible excess industry supply with respect to particular disk drive products; our ability to achieve projected cost savings in connection with restructuring plans; the risk that we will incur significant incremental costs in connection with the implementation of our recently executed transactions with Samsung or that we will not achieve the benefits expected from such transactions (see Transaction with Samsung below); and significant disruption to the industry supply chain due to the severe flooding throughout parts of Thailand (see Severe Flooding in Thailand below) and the industry s ability to recover from such disruption, which may pose a risk to the Company s operating and financial condition. We also encourage you to read our Annual Report on Form 10-K for the year ended July 1, 2011, which contains information concerning risks, uncertainties and other factors that could cause results to differ materially from those projected in the forward-looking statements and this Form 10-Q. These forward-looking statements should not be relied upon as representing our views as of any subsequent date and we undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made.

Our Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying condensed consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. Our MD&A is organized as follows:

- *Our Company.* Overview of our business.
- *Overview of the December 2011 quarter.* The December 2011 quarter summary and trends.
- *Results of Operations.* An analysis of our financial results comparing the December 2011 quarter to the September 2011 quarter and the December 2010 quarter.

- *Liquidity and Capital Resources.* An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition including the credit quality of our investment portfolio and potential sources of liquidity.
- *Critical Accounting Policies.* Accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results.

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Our Company

We are the world s leading provider of hard disk drives based on revenue. We design, manufacture, market and sell hard disk drives. Hard disk drives, commonly referred to as disk drives, hard drives or HDDs, are devices that store digitally encoded data on rapidly rotating disks with magnetic surfaces. The performance attributes of disk drives, including their cost effectiveness and high storage capacities, have resulted in disk drives being used as the primary medium for storing electronic data.

We produce a broad range of disk drive products addressing enterprise applications, where our products are designed for enterprise servers, mainframes and workstations; client compute applications, where our products are designed for desktop and notebook computers; and client non-compute applications, where our products are designed for a wide variety of end user devices such as digital video recorders (DVRs), personal data backup systems, portable external storage systems and digital media systems. In addition to manufacturing and selling disk drives, we provide data storage services for small- to medium-sized businesses, including online backup, data protection and recovery solutions.

Overview of the December 2011 Quarter

Our operating performance during the December 2011 quarter was significantly impacted by the disruptions to our industry s supply chain due to the severe flooding throughout many parts of Thailand in October of 2011. Given the resulting significantly constrained supply of HDDs, the sales pricing environment was favorable and resulted in an overall increase in our average selling price (ASP) to $67 in the December 2011 quarter, up from $55 in the September 2011 quarter. We shipped 46.9 million units during the quarter, generating $3.2 billion in revenue and $719 million in operating cash flow. Additionally, we completed our acquisition of the hard disk drive (HDD) business of Samsung Electronics Co., Ltd (Samsung).

Severe Flooding in Thailand

In early October 2011, dike breakages north of Bangkok, Thailand resulted in severe flooding. Floodwaters inundated many manufacturing industrial parks that contained a number of the factories supporting the HDD industry s supply chain. The HDD industry had concentrated a large portion of its supply chain participants within these industrial parks in an effort to reduce cost and improve logistics. As a result, the inundation of floodwaters into these industrial parks had caused the closure or suspension of production within the HDD supply chain.

Even though the HDD supply chain was significantly impacted by the severe flooding, our component and drive assembly factories in Thailand were not directly affected by the flood, and continue to be fully operational. However, seven of our ten largest component suppliers had some of their factories inundated which lead to shortages of some critical components. As such, in the December 2011 quarter, we shipped 46.9 million units, which is less than our installed manufacturing capacity, and we believe total shipments in the industry were 119 million units, which was significantly less than unconstrained demand.

Industry Supply Balance

From time to time the disk drive industry has experienced periods of imbalance between supply and demand. To the extent that the disk drive industry builds capacity based on expectations of demand that do not materialize, price erosion may become more pronounced. Conversely, during periods where demand exceeds supply, price erosion is generally muted. During the December 2011 quarter, due to the severe flooding in Thailand, we believe demand far exceeded supply resulting in price increases across many of our products.

As a result of structural damage to the supply chain, there is a substantial and growing shortfall in unmet exabyte demand. We believe that pre-flood exabyte demand was growing at 40% per year, while areal density growth and disk capacity was increasing at less than 25% per year. We continue to expect that calendar year 2012 unit demand will exceed supply and the exabyte shortage will be more pronounced than the unit shortage.

Transaction with Samsung

On December 19, 2011, we completed the acquisition of Samsung s HDD business pursuant to an asset purchase agreement (APA) entered into on April 19, 2011, by which the Company acquired certain assets and

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liabilities of Samsung relating to the research and development, manufacture and sale of HDD s. The transaction and related agreements are expected to improve our position as a supplier of 2.5-inch products; position us to better address rapidly evolving opportunities in markets including, but not limited to, mobile computing, cloud computing and solid state storage; expand our customer access in China and Southeast Asia; and accelerate time to market for new products.

The December 19, 2011 acquisition-date fair value of the consideration transferred to Samsung totaled $1.1 billion, which consisted of 45.2 million of our ordinary shares and the remaining balance settled in cash.

Upon the closing of the transactions contemplated by the APA, the Shareholder Agreement entered into with Samsung, as previously described in our Current Report on Form 8-K filed on April 19, 2011, and filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended July 1, 2011 filed on August 17, 2011, became effective. Amongst other things, the Shareholder Agreement provides that Samsung shall have the right to appoint one representative to our Board of Directors so long as Samsung and its affiliates continue to hold at least 7% of our outstanding ordinary shares.

In addition, we agreed, subject to certain exceptions set forth in the Shareholder Agreement, to file a registration statement on or prior to one year following the date of acquisition in order to register the ordinary shares issued to Samsung.

The acquisition is expected to increase our manufacturing capacity and product development expense going forward. We also expect to incur additional incremental integration costs relating to the acquisition.

Results of Operations

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

	For the Three Months Ended			For the Six Months Ended	
(Dollars in millions)	**December 30, 2011**	**September 30, 2011**	**December 31, 2010**	**December 30, 2011**	**December 31, 2010**
Revenue	$ 3,195	$ 2,811	$ 2,719	$ 6,007	$ 5,417
Cost of revenue	2,185	2,262	2,190	4,448	4,338
Gross margin	1,010	549	529	1,559	1,079
Product development	259	208	213	467	422
Marketing and administrative	141	105	102	245	206
Amortization of intangibles	2		1	3	2
Restructuring and other, net	3		7	3	11
Income from operations	605	236	206	841	438
Other income (expense), net	(47)	(84)	(31)	(132)	(110)
Income before income taxes	558	152	175	709	328

Provision for (benefit from) income taxes	(5)	12	25	6	29
Net income	$ 563	$ 140	$ 150	$ 703	$ 299

	For the Three Months Ended			For the Six Months Ended	
(Dollars in millions)	**December 30, 2011**	**September 30, 2011**	**December 31, 2010**	**December 30, 2011**	**December 31, 2010**
Revenue	100%	100%	100%	100%	100%
Cost of revenue	68	80	81	74	80
Gross margin	32	20	19	26	20
Product development	8	7	8	8	8
Marketing and administrative	4	4	4	4	4