

Seagate Technology plc
Form 10-Q
April 29, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2016

☐ **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

Edgar Filing: Seagate Technology plc - Form 10-Q

(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 ☒ No ☐

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 ☒ No ☐

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

Large accelerated filer: ☒

Accelerated filer: ☐

Non-accelerated filer: ☐

Smaller reporting company: ☐

(Do not check if a smaller reporting company)

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

As of April 25, 2016, 298,483,729 of the registrant's ordinary shares, par value \$0.00001 per share, were issued and outstanding.

Table of Contents

INDEX

SEAGATE TECHNOLOGY PLC

	PAGE NO.
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets April 1, 2016 and July 3, 2015 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three and Nine Months ended April 1, 2016 and April 3, 2015 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) Three and Nine Months ended April 1, 2016 and April 3, 2015 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows Nine Months ended April 1, 2016 and April 3, 2015 (Unaudited)</u>	6
<u>Condensed Consolidated Statement of Shareholders Equity Nine Months ended April 1, 2016 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2.</u>	30
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	37
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	38
<u>Controls and Procedures</u>	
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	39
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	39
<u>Risk Factors</u>	
<u>Item 2.</u>	39
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	39
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	39
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	40
<u>Other Information</u>	
<u>Item 6.</u>	40
<u>Exhibits</u>	
<u>SIGNATURES</u>	41

[Table of Contents](#)**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SEAGATE TECHNOLOGY PLC****CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions)****(Unaudited)**

	April 1, 2016	July 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,193	\$ 2,479
Short-term investments	6	6
Accounts receivable, net	1,250	1,735
Inventories	928	993
Deferred income taxes		122
Other current assets	223	233
Total current assets	3,600	5,568
Property, equipment and leasehold improvements, net	2,165	2,278
Goodwill	1,238	874
Other intangible assets, net	492	370
Deferred income taxes	619	496
Other assets, net	260	259
Total Assets	\$ 8,374	\$ 9,845
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 1,504	\$ 1,540
Accrued employee compensation	170	256
Accrued warranty	108	135
Accrued expenses	477	412
Total current liabilities	2,259	2,343
Long-term accrued warranty	97	113
Long-term accrued income taxes	28	33
Other non-current liabilities	177	183
Long-term debt	4,130	4,155
Total Liabilities	6,691	6,827
Commitments and contingencies (See Notes 12 and 14)		
Equity:		
Seagate Technology plc Shareholders' Equity:		
Ordinary shares and additional paid-in capital	5,903	5,734
Accumulated other comprehensive loss	(28)	(30)
Accumulated deficit	(4,192)	(2,686)
Total Equity	1,683	3,018
Total Liabilities and Equity	\$ 8,374	\$ 9,845

Edgar Filing: Seagate Technology plc - Form 10-Q

The information as of July 3, 2015 was derived from the Company's audited Consolidated Balance Sheet as of July 3, 2015.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	April 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015
Revenue	\$ 2,595	\$ 3,330	\$ 8,506	\$ 10,811
Cost of revenue	2,071	2,375	6,553	7,778
Product development	298	346	930	1,029
Marketing and administrative	150	219	491	654
Amortization of intangibles	29	33	94	95
Restructuring and other, net	20	14	95	24
Gain on arbitration award, net				(620)
Total operating expenses	2,568	2,987	8,163	8,960
Income from operations	27	343	343	1,851
Interest income	1	1	2	4
Interest expense	(47)	(48)	(142)	(152)
Other, net	28	8	18	118
Other (expense) income, net	(18)	(39)	(122)	(30)
Income before income taxes	9	304	221	1,821
Provision for income taxes	30	13	43	216
Net income (loss)	\$ (21)	\$ 291	\$ 178	\$ 1,605
Net income (loss) per share:				
Basic	\$ (0.07)	\$ 0.90	\$ 0.59	\$ 4.92
Diluted	(0.07)	0.88	0.59	4.81
Number of shares used in per share calculations:				
Basic	298	323	300	326
Diluted	298	330	303	334
Cash dividends declared per ordinary share	\$ 0.63	\$ 0.54	\$ 1.80	\$ 1.51

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	April 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015
Net income (loss)	\$ (21)	\$ 291	\$ 178	\$ 1,605
Other comprehensive income (loss), net of tax:				
Cash flow hedges				
Change in net unrealized gain (loss) on cash flow hedges	(1)	(3)	(3)	(12)
Less: reclassification for amounts included in net income		7	2	9
Net change	(1)	4	(1)	(3)
Marketable securities				
Change in net unrealized gain (loss) on marketable securities				
Less: reclassification for amounts included in net income				
Net change				
Post-retirement plans				
Change in unrealized gain (loss) on post-retirement plans			1	
Less: reclassification for amounts included in net income				
Net change			1	
Foreign currency translation adjustments	5	(12)	2	(28)
Total other comprehensive income (loss), net of tax	4	(8)	2	(31)
Comprehensive income (loss)	\$ (17)	\$ 283	\$ 180	\$ 1,574

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Nine Months Ended	
	April 1, 2016	April 3, 2015
OPERATING ACTIVITIES		
Net income	\$ 178	\$ 1,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	615	629
Share-based compensation	95	106
Impairment of long-lived assets	25	
Deferred income taxes	1	(3)
Loss on sale of property and equipment		1
(Gain) loss on redemption and repurchase of debt	(3)	52
Other non-cash operating activities, net	13	(9)
Changes in operating assets and liabilities:		
Accounts receivable, net	531	(36)
Inventories	85	(61)
Accounts payable	(31)	149
Accrued employee compensation	(92)	(40)
Accrued expenses, income taxes and warranty	1	(9)
Vendor non-trade receivables	17	30
Other assets and liabilities	(24)	5
Net cash provided by operating activities	1,411	2,419
INVESTING ACTIVITIES		
Acquisition of property, equipment and leasehold improvements	(441)	(546)
Purchases of short-term investments		(5)
Sales of short-term investments		4
Maturities of short-term investments		19
Cash used in acquisition of business, net of cash acquired	(634)	(450)
Other investing activities, net	10	(90)
Net cash used in investing activities	(1,065)	(1,068)
FINANCING ACTIVITIES		
Redemption and repurchase of debt	(22)	(536)
Net proceeds from issuance of long-term debt		498
Taxes paid related to net share settlement of equity awards	(55)	
Repurchases of ordinary shares	(1,090)	(907)
Dividends to shareholders	(539)	(493)
Proceeds from issuance of ordinary shares under employee stock plans	78	91
Other financing activities, net	(4)	(12)
Net cash used in financing activities	(1,632)	(1,359)
Effect of foreign currency exchange rate changes on cash and cash equivalents		(22)
(Decrease) in cash and cash equivalents	(1,286)	(30)
Cash and cash equivalents at the beginning of the period	2,479	2,634
Cash and cash equivalents at the end of the period	\$ 1,193	\$ 2,604

[Table of Contents](#)
SEAGATE TECHNOLOGY PLC
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Nine Months Ended April 1, 2016
(In millions)
(Unaudited)

	Number of Ordinary Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at July 3, 2015	315	\$	\$ 5,734	\$ (30)	\$ (2,686)	\$ 3,018
Net income					178	178
Other comprehensive income				2		2
Issuance of ordinary shares under employee stock plans	7		78			78
Repurchases of ordinary shares	(23)				(1,090)	(1,090)
Tax withholding related to vesting of restricted stock units	(1)				(55)	(55)
Dividends to shareholders					(539)	(539)
Share-based compensation			95			95
Other			(4)			(4)
Balance at April 1, 2016	298	\$	\$ 5,903	\$ (28)	\$ (4,192)	\$ 1,683

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Organization

Seagate Technology plc (the Company) is a leading provider of electronic data storage technology and solutions. Its principal products are hard disk drives, commonly referred to as disk drives, hard drives or HDDs. In addition to HDDs, it produces a broad range of electronic data storage products including solid state hybrid drives (SSHD), solid state drives (SSD), PCIe cards and SATA controllers. Its storage technology portfolio also includes storage subsystems, high performance computing (HPC) solutions, and data storage services.

Hard disk drives are devices that store digitally encoded data on rapidly rotating disks with magnetic surfaces. Disk drives continue to be the primary medium of mass data storage due to their performance attributes, high quality and cost effectiveness. Complementing existing data center storage architecture, solid-state storage devices use integrated circuit assemblies as memory to store data, and most SSDs use NAND-based flash memory. In addition to HDDs and SSDs, SSHDs combine the features of SSDs and HDDs in the same unit, containing a large hard disk drive and an SSD cache to improve performance of frequently accessed data.

The Company's products are designed for enterprise servers and storage systems in mission critical and nearline applications; client compute applications, where its products are designed primarily for desktop and mobile computing; and client non-compute applications, where its 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, digital media systems and surveillance systems.

The Company's product and solution portfolio for the enterprise data storage industry includes storage enclosures, integrated application platforms and HPC data storage solutions. Its storage subsystems support a range of high-speed interconnect technologies to meet demanding cost and performance specifications. Its modular subsystem architecture allows it to support many segments within the networked storage market by enabling different specifications of storage subsystem designs to be created from a standard set of interlocking technology modules.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and all its wholly-owned and majority-owned subsidiaries, after elimination of intercompany transactions and balances.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company's condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its condensed consolidated financial statements. The condensed consolidated financial statements reflect, in the opinion of management, all material adjustments necessary to present fairly the condensed consolidated financial position, results of operations, comprehensive income (loss), cash flows and shareholders' equity for the periods presented. Such adjustments are of a normal and recurring nature. Certain prior period amounts in the condensed consolidated financial statements and notes to the condensed consolidated financial statements have been reclassified to conform to the current period's presentation.

The Company's Consolidated Financial Statements for the fiscal year ended July 3, 2015, are included in its Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission (SEC) on August 11, 2015. 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 3, 2015, and the notes thereto, are adequate to make the information presented not misleading.

The results of operations for the three and nine months ended April 1, 2016, are not necessarily indicative of the results of operations to be expected for any subsequent interim period in the Company's fiscal year ending July 1, 2016. The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The three and nine months ended April 1, 2016 consisted of 13 weeks and 39 weeks, respectively. The three and nine months ended April 3, 2015 consisted of 13 weeks and 40 weeks, respectively. Fiscal year 2016 will be comprised of 52 weeks and will end on July 1, 2016. The fiscal quarters ended April 1, 2016, January 1, 2016, and April 3, 2015, are also referred to herein as the March 2016 quarter, the December 2015 quarter, and the March 2015 quarter, respectively.

Summary of Significant Accounting Policies

There have been no significant changes in the Company's significant accounting policies. 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

Table of Contents

ended July 3, 2015, as filed with the SEC on August 11, 2015 for a discussion of the Company's other significant accounting policies.

Recently Issued Accounting Pronouncements

In May 2014, August 2015, and April 2016, the FASB issued ASU 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers*, ASU 2015-14 (ASC Topic 606) *Revenue from Contracts with Customers, Deferral of the Effective Date*, and ASU 2016-10 (ASC Topic 606) *Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing*, respectively. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. The Company is in the process of assessing the impact, if any, on its consolidated financial statements.

In April 2015 and August 2015, the FASB issued ASU 2015-03 (ASC Subtopic 835-30), *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* and ASU 2015-15 (ASC Subtopic 835-30), *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*, respectively. The ASUs require that debt issuance costs related to a recognized debt liability, with the exception of those related to line-of-credit arrangements, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements and disclosures.

In July 2015, the FASB issued ASU 2015-11 (ASC Topic 330), *Inventory: Simplifying the Measurement of Inventory*. The amendments in this ASU require inventory measurement at the lower of cost and net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted by all entities as of the beginning of an interim or annual reporting period. The Company is in the process of assessing the impact, if any, of this ASU on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16 (ASC Topic 805), *Business Combinations Simplifying the Accounting for Measurement-Period Adjustments*. The amendments in this update require that an acquirer recognize measurement period adjustments in the period in which the adjustments are determined. The income effects of such measurement period adjustments are to be recorded in the same period's financial statements but calculated as if the accounting had been completed as of the acquisition date. The impact of measurement period adjustments to earnings that relate to prior period financial statements are to be presented separately on the income statement or disclosed by line item. The amendments in this update are for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for public business entities for reporting periods for which financial statements have not yet been issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements and disclosures.

In November 2015, the FASB issued ASU 2015-17 (ASC Topic 740), *Income Taxes Balance Sheet Classification of Deferred Taxes*. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted by all entities as of the beginning of an interim or annual reporting period. The Company early adopted this ASU for the December 2015 quarter on a prospective basis. See footnote 4 for disclosure of the financial statement impact of this adoption.

In January 2016, the FASB issued ASU 2016-01 (ASC Subtopic 825-10), *Financial Instruments- Overall Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU require entities to measure all investments in equity securities at fair value with changes recognized through net income. This requirement does not apply to investments that qualify for the equity method of accounting, to those that result in consolidation of the investee, or for which the entity meets a practicability exception to fair value measurement. Additionally, the amendments eliminate certain disclosure requirements related to financial instruments measured at amortized cost and add disclosures related to the measurement categories of financial assets and financial liabilities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for only certain portions of the ASU. The Company is in the process of assessing the impact, if any, on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), *Leases*. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The

Table of Contents

amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 (ASC Topic 718), *Stock Compensation – Improvements to Employee Share-Based Payment Accounting*. The amendments in this ASU are intended to simplify several areas of accounting for share based compensation arrangements, including the income tax consequences, classification on the consolidated statement of cash flows and treatment of forfeitures. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact, if any, of this ASU on its consolidated financial statements.

2. Balance Sheet Information

Investments

The following table summarizes, by major type, the fair value and amortized cost of the Company's investments as of April 1, 2016:

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities:			
Money market funds	\$ 705	\$	705
Certificates of deposit	5		5
Corporate bonds	6		6
	\$ 716	\$	716
Included in Cash and cash equivalents			\$ 703
Included in Short-term investments			6
Included in Other current assets			7
Total			\$ 716

As of April 1, 2016, the Company's Other current assets included \$7 million in restricted cash and investments held as collateral at banks for various performance obligations.

As of April 1, 2016, the Company had no material available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. The Company determined that no available-for-sale securities were other-than-temporarily impaired as of April 1, 2016.

The fair value and amortized cost of the Company's investments classified as available-for-sale at April 1, 2016, by remaining contractual maturity were as follows:

Edgar Filing: Seagate Technology plc - Form 10-Q

(Dollars in millions)	Amortized Cost		Fair Value	
Due in less than 1 year	\$	710	\$	710
Due in 1 to 5 years		6		6
Thereafter				
Total	\$	716	\$	716

Edgar Filing: Seagate Technology plc - Form 10-Q

Table of Contents

The following table summarizes, by major type, the fair value and amortized cost of the Company's investments as of July 3, 2015:

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities:			
Money market funds	\$ 1,203	\$	1,203
Certificates of deposit	867		867
Corporate bonds	6		6
Total	\$ 2,076	\$	2,076
Included in Cash and cash equivalents			\$ 2,063
Included in Short-term investments			6
Included in Other current assets			7
Total			\$ 2,076

As of July 3, 2015, the Company's Other current assets included \$7 million in restricted cash and investments held as collateral at banks for various performance obligations.

As of July 3, 2015, the Company had no material 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 3, 2015.

Inventories

The following table provides details of the inventory balance sheet item:

(Dollars in millions)	April 1, 2016	July 3, 2015
Raw materials and components	\$ 353	\$ 352
Work-in-process	243	239
Finished goods	332	402
	\$ 928	\$ 993

Property, Equipment and Leasehold Improvements, net

The components of property, equipment and leasehold improvements, net, were as follows:

(Dollars in millions)

Edgar Filing: Seagate Technology plc - Form 10-Q

	April 1, 2016		July 3, 2015	
Property, equipment and leasehold improvements	\$	9,808	\$	9,630
Accumulated depreciation and amortization		(7,643)		(7,352)
	\$	2,165	\$	2,278

In the three and nine months ended April 1, 2016, the Company determined it would discontinue the use of certain manufacturing property and equipment in the short-term, and that certain other manufacturing property and equipment was permanently impaired, and as a result recognized a charge of \$32 million from the write-off and accelerated depreciation of of these fixed assets. This amount was recorded in Cost of revenue in the Condensed Consolidated Statement of Operations. In the three and nine months ended April 3, 2015, the Company did not record any material impairment charges.

Table of Contents*Accumulated Other Comprehensive Income (Loss) (AOCI)*

The components of AOCI, net of tax, were as follows:

(Dollars in millions)	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Marketable Securities (a)	Unrealized Gains (Losses) on post- retirement plans	Foreign currency translation adjustments	Total
Balance at July 3, 2015	\$ 1	\$	\$ (15)	\$ (16)	\$ (30)
Other comprehensive income (loss) before reclassifications	(3)		1	2	
Amounts reclassified from AOCI	2				2
Other comprehensive income (loss)	(1)		1	2	2
Balance at April 1, 2016	\$	\$	\$ (14)	\$ (14)	\$ (28)
Balance at June 27, 2014	\$ (1)	\$	\$ (10)	\$ 9	\$ (2)
Other comprehensive income (loss) before reclassifications	(12)			(28)	(40)
Amounts reclassified from AOCI	9				9
Other comprehensive income (loss)	(3)			(28)	(31)
Balance at April 3, 2015	\$ (4)	\$	\$ (10)	\$ (19)	\$ (33)

(a) The cost of a security sold or the amount reclassified out of AOCI into earnings was determined using specific identification.

3. Debt

Short-Term Borrowings

The credit agreement entered into by the Company and its subsidiary Seagate HDD Cayman on January 18, 2011 and subsequently amended (the Revolving Credit Facility) provides the Company with a \$700 million senior secured revolving credit facility. The term of the Revolving Credit Facility is through January 15, 2020, provided that if the Company does not have Investment Grade Ratings (as defined in the Revolving Credit Facility) on August 15, 2018, then the maturity date will be August 16, 2018 unless certain extension conditions have been satisfied. The loans made under the Revolving Credit Facility will bear interest at a rate of LIBOR plus a variable margin that will be determined based on the corporate credit rating of the Company. The Company and certain of its material subsidiaries fully and unconditionally guarantee the Revolving Credit Facility. The Revolving Credit Facility is available for cash borrowings, subject to compliance with certain covenants and other customary conditions to borrowing, and for the issuance of letters of credit up to a sub-limit of \$75 million.

The Revolving Credit Facility, as amended, includes three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. On April 28, 2016, the Revolving Credit Agreement was amended in order to increase the allowable net leverage ratio to adjust for our current financial liquidity position. We were in compliance with the modified

Edgar Filing: Seagate Technology plc - Form 10-Q

covenants as of April 1, 2016 and expect to be in compliance for the next 12 months.

As of April 1, 2016, no borrowings had been drawn or letters of credit utilized under the Revolving Credit Facility.

Long-Term Debt

\$800 million Aggregate Principal Amount of 3.75% Senior Notes due November 2018 (the 2018 Notes). The interest on the 2018 Notes is payable semi-annually on May 15 and November 15 of each year. The issuer under the 2018 Notes is Seagate HDD Cayman, and the obligations under the 2018 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

\$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 2021 Notes is Seagate HDD Cayman, and the obligations under the 2021 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

Table of Contents

\$1 billion Aggregate Principal Amount of 4.75% Senior Notes due June 2023 (the 2023 Notes). The interest on the 2023 Notes is payable semi-annually on June 1 and December 1 of each year. The issuer under the 2023 Notes is Seagate HDD Cayman, and the obligations under the 2023 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

\$1 billion Aggregate Principal Amount of 4.75% Senior Notes due January 2025 (the 2025 Notes). The interest on the 2025 Notes is payable semi-annually on January 1 and July 1 of each year. The issuer under the 2025 Notes is Seagate HDD Cayman, and the obligations under the 2025 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

\$700 million Aggregate Principal Amount of 4.875% Senior Notes due June 2027 (the 2027 Notes). The interest on the Notes is payable semi-annually on June 1 and December 1 of each year, which commenced on December 1, 2015. The issuer under the 2027 Notes is Seagate HDD Cayman, and the obligations under the 2027 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

\$500 million Aggregate Principal Amount of 5.75% Senior Notes due December 2034 (the 2034 Notes). The interest on the 2034 Notes is payable semi-annually on June 1 and December 1 of each year. The issuer under the 2034 Notes is Seagate HDD Cayman, and the obligations under the 2034 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. During the March 2016 quarter, the Company repurchased \$10 million aggregate principal amount of its 2034 Notes for cash at a discount to their principal amount, plus accrued and unpaid interest. The Company recorded a gain on the repurchase of approximately \$3 million, which is included in Other, net in the Company's Condensed Consolidated Statement of Operations.

At April 1, 2016, future principal payments on long-term debt were as follows (in millions):

Fiscal Year	Amount
Remainder of 2016	\$
2017	
2018	
2019	800
2020	
Thereafter	3,333
	\$ 4,133

4. Income Taxes

Edgar Filing: Seagate Technology plc - Form 10-Q

The Company recorded an income tax provision of \$30 million and \$43 million in the three and nine months ended April 1, 2016, respectively. The income tax provision for the nine months ended April 1, 2016 included approximately \$2 million of net discrete tax provision associated with prior year tax adjustments offset by the release of tax reserves due to the expiration of certain statutes of limitation.

The Company's income tax provision recorded for the three and nine months ended April 1, 2016 differed from the provision from 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 and (ii) a decrease in valuation allowance for certain U.S. deferred tax assets.

Consistent with the intent of ASU 2015-17 to simplify the presentation of deferred income taxes, the Company elected to adopt ASU 2015-17 on a prospective basis as of the second quarter, fiscal year 2016. Prior periods were not retrospectively adjusted. As a result of this change in accounting principle, \$120 million of the Company's deferred tax assets were reclassified from current to non-current.

During the nine months ended April 1, 2016, the Company's unrecognized tax benefits excluding interest and penalties decreased by approximately \$4 million to \$79 million. The unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$79 million at April 1, 2016, subject to certain future valuation allowance reversals. During the 12 months beginning April 2, 2016, the Company expects that its unrecognized tax benefits could be reduced by approximately \$24 million primarily as a result of the expiration of certain statutes of limitation.

The Company is subject to taxation in many jurisdictions globally and is required to file U.S. federal, U.S. state and non-U.S. income tax returns. On April 4, 2016, the IRS approved the audit settlement reached in December 2015 regarding all disputed issues associated with the Company's U.S. federal income tax returns for fiscal years 2008, 2009 and 2010. This audit settlement did not have a material impact on the Company's financial statements. As a result of this settlement and the expiration of certain statutes of

Table of Contents

limitation, the Company is no longer subject to tax examination of U.S. federal income tax returns for years prior to fiscal year 2012.

The Company recorded an income tax provision of \$13 million and \$216 million in the three and nine months ended April 3, 2015, respectively. The income tax provision for the nine months ended April 3, 2015 included approximately \$181 million of net tax expense due to the final audit assessment received from the Jiangsu Province State Tax Bureau of the People's Republic of China (China assessment) for calendar years 2007 through 2013.

The Company's income tax provision recorded for the three and nine months ended April 3, 2015 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) tax expense associated with the China assessment recorded in the three months ended January 2, 2015, and (iii) a decrease in valuation allowance for certain U.S. deferred tax assets.

5. Acquisitions

Dot Hill Systems Corp.

On October 6, 2015, the Company acquired all of the outstanding shares of Dot Hill Systems Corp. (Dot Hill), a supplier of software and hardware storage systems. The Company paid \$9.75 per share, or \$674 million, in cash for the acquisition. The acquisition of Dot Hill further expands the Company's OEM-focused cloud storage systems business and advances the Company's strategic efforts.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

(Dollars in millions)	Amount
Cash and cash equivalents	\$ 40
Accounts receivable, net	48
Inventories	21
Other current and non-current assets	7
Property, plant and equipment	10
Intangible assets	252
Goodwill	364
Total assets	742
Accounts payable, accrued expenses and other	(68)
Total liabilities	(68)
Total	\$ 674

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:

Edgar Filing: Seagate Technology plc - Form 10-Q

(Dollars in millions)	Fair Value	Weighted-Average Amortization Period
Existing technology	\$ 164	5.0 years
Customer relationships	71	7.0 years
Trade names	3	5.0 years
Total amortizable intangible assets acquired	238	5.5 years
In-process research and development	14	
Total acquired identifiable intangible assets	\$ 252	

The recognized goodwill, which is not deductible for income tax purposes, is primarily attributable to cost synergies expected to arise after the acquisition and the benefits the Company expects to derive from enhanced market opportunities.

The expenses related to the acquisition of Dot Hill in for the nine months ended April 1, 2016, which are included within Marketing and administrative expense on the Consolidated Statement of Operations, are not significant.

Table of Contents

The amounts of revenue and earnings of Dot Hill included in the Company's Consolidated Statement of Operations from the acquisition date were not significant.

LSI's Flash Business

On September 2, 2014, the Company completed the acquisition of certain assets and liabilities of LSI Corporation's (LSI) Accelerated Solutions Division and Flash Components Division (collectively, the Flash Business) from Avago Technologies Limited for \$450 million in cash. The transaction is intended to strengthen Seagate's strategy to deliver a full suite of storage solutions, providing Seagate with established enterprise PCIe flash and SSD controller capabilities to deliver solutions for the growing flash storage market.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

(Dollars in millions)	Amount
Inventories	\$ 37
Property, plant and equipment	22
Intangible assets	141
Other assets	6
Goodwill	337
Total assets	543
Liabilities	(93)
Total liabilities	(93)
Total	\$ 450

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

(Dollars in millions)	Fair Value	Weighted-Average Amortization Period
Existing technology	\$ 84	3.5 years
Customer relationships	40	3.8 years
Trade names	17	4.5 years
Total acquired identifiable intangible assets	\$ 141	3.7 years

The goodwill recognized is primarily attributable to the benefits the Company expects to derive from enhanced market opportunities, and is not deductible for income tax purposes.

The Company incurred approximately \$1 million of expenses related to the acquisition of LSI's Flash Business during the nine months ended April 3, 2015, which were included within Marketing and administrative expense on the Company's Condensed Consolidated Statement of

Operations.

The amounts of revenue and earnings of LSI's Flash Business included in the Company's Consolidated Statement of Operations from the acquisition date through April 3, 2015 were not significant.

Xyratex Ltd

On March 31, 2014, the Company acquired all of the outstanding shares of Xyratex Ltd (Xyratex), a leading provider of data storage technology. The Company paid \$13.25 per share, or approximately \$376 million in cash for the acquisition. The acquisition of Xyratex further strengthens the Company's vertically integrated supply and manufacturing chain for disk drives and provides access to important capital requirements, as well as expands the Company's storage solutions portfolio.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

(Dollars in millions)	Amount
Cash and cash equivalents	\$ 91
Accounts receivable, net	67
Inventories	111
Other current and non-current assets	28
Property, plant and equipment	55
Intangible assets	80
Goodwill	60
Total assets	492
Accounts payable and accrued expenses	(116)
Total liabilities	(116)
Total	\$ 376

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	\$ 23	5.5 years
Customer relationships	18	3.9 years
Total amortizable intangible assets acquired	41	4.8 years
In-process research and development	39	
Total acquired identifiable intangible assets	\$ 80	

The goodwill recognized is primarily attributable to the synergies expected to arise after the acquisition, and is not deductible for income tax purposes.

6. Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the nine months ended April 1, 2016, are as follows:

(Dollars in millions)	Amount
Balance at July 3, 2015	\$ 874

Edgar Filing: Seagate Technology plc - Form 10-Q

Goodwill acquired (a)		364
Foreign currency translation effect		
Balance at April 1, 2016	\$	1,238

(a) Amount represents goodwill recognized from the Dot Hill acquisition.

Other Intangible Assets

Other intangible assets consist primarily of existing technology, customer relationships and in-process research and development acquired in business combinations. With the exception of in-process research and development, acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets. Amortization is charged to Operating expenses in the Condensed Consolidated Statements of Operations. In-process research and development has been determined to have an indefinite useful life and is not amortized, but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying amount of in-process research and development exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. There were no impairment charges

Edgar Filing: Seagate Technology plc - Form 10-Q

Table of Contents

recognized for in-process research and development. Upon completion of the in-process research and development, the related assets will be accounted for as finite-lived intangible assets, and will be amortized over their useful lives.

The carrying value of other intangible assets subject to amortization as of April 1, 2016, is set forth in the following table:

(Dollars in millions)	Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount	Weighted Average Remaining Useful Life
Existing technology	\$ 311	\$	(75)	\$	236	4.3 years
Customer relationships	511		(306)		205	3.3 years
Trade names	29		(12)		17	2.8 years
Other intangible assets	28		(8)		20	3.4 years
Total amortizable other intangible assets	\$ 879	\$	(401)	\$	478	3.8 years

The carrying value of in-process research and development not subject to amortization was \$14 million as of April 1, 2016.

The carrying value of other intangible assets subject to amortization as of July 3, 2015 is set forth in the following table:

(Dollars in millions)	Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount	Weighted Average Remaining Useful Life
Existing technology	\$ 191	\$	(69)	\$	122	4.1 years
Customer relationships	487		(282)		205	2.4 years
Trade names	27		(7)		20	3.2 years
Other intangible assets	27		(4)		23	4.2 years
Total amortizable other intangible assets	\$ 732	\$	(362)	\$	370	3.1 years

For the three and nine months ended April 1, 2016, amortization expense of other intangible assets was \$44 million and \$131 million, respectively. For the three and nine months ended April 3, 2015, amortization expense of other intangible assets was \$40 million and \$112 million. As of April 1, 2016, expected amortization expense for other intangible assets for each of the next five fiscal years and thereafter is as follows:

(Dollars in millions)	Amount
Remainder of 2016	\$ 43
2017	166
2018	108
2019	68
2020	50
Thereafter	43
	\$ 478

7. Restructuring and Exit Costs

For the three and nine months ended April 1, 2016, the Company recorded restructuring charges of approximately \$20 million and \$95 million, respectively, comprised primarily of charges related to employee termination costs and facility exit costs associated with restructuring of our work force during the fiscal year. The Company's significant restructuring plans are described below. All restructuring charges are reported in Restructuring and other, net on the Condensed Consolidated Statements of Operations.

September 2015 Plan - On September 4, 2015, the Company committed to a restructuring plan (the September 2015 Plan) intended to realign its cost structure with the current macroeconomic business environment. The September 2015 Plan included reducing worldwide headcount by approximately 1,000 employees. The September 2015 Plan was largely completed by the fiscal quarter ended January 1, 2016. For the nine months ended April 1, 2016, the Company recorded total restructuring charges of approximately \$65 million related to the September 2015 Plan, comprised of approximately \$57 million for employee termination costs and \$8 million facility exit costs, respectively. The Company did not record any material restructuring charges related to the September 2015 Plan in the three months ended April 1, 2016. For the three and nine months ended April 1, 2016, the Company

Table of Contents

made cash payments of \$7 million and \$53 million, respectively, comprised primarily of employee termination costs related to the September 2015 Plan.

February 2016 Plan - On February 15, 2016, the Company committed to a restructuring plan (the February 2016 Plan) intended to align our manufacturing footprint with current macroeconomic conditions. The February 2016 Plan included reducing worldwide headcount by approximately 2,000 employees. The February 2016 Plan was largely completed by the fiscal quarter ended April 1, 2016. For the three and nine months ended April 1, 2016, the Company recorded total restructuring charges of approximately \$15 million related to the February 2016 Plan, comprised of approximately \$14 million for employee termination costs and \$1 million facility exit costs, respectively. For the three and nine months ended April 1, 2016, the Company made cash payments of \$14 million, comprised primarily of employee termination costs related to the February 2016 Plan.

Other Restructuring and Exit Costs - For the three and nine months ended April 1, 2016, the Company recorded restructuring charges of approximately \$5 million and \$15 million, respectively, and made cash payments of \$8 million and \$26 million, respectively, related to other restructuring plans.

8. Derivative Financial Instruments

The Company is exposed to foreign currency exchange rate, interest rate, and to a lesser extent, equity price risks relating to its ongoing business operations. The Company enters into foreign currency forward exchange contracts in order to manage the foreign currency exchange rate risk on forecasted expenses denominated in foreign currencies and to mitigate the remeasurement risk of certain foreign currency denominated liabilities. The Company's accounting policies for these instruments are based on whether the instruments are classified as designated or non-designated hedging instruments. The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The changes in the fair value 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. The amounts of net unrealized gain or loss on cash flow hedges were immaterial as of April 1, 2016 and July 3, 2015.

The Company de-designates its cash flow hedges when the forecasted hedged transactions are realized or it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in Accumulated other comprehensive income (loss) are reclassified 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 net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three and nine months ended April 1, 2016. As of April 1, 2016, the Company's existing foreign currency forward exchange contracts mature within 12 months. The deferred amount currently recorded in Accumulated other comprehensive loss expected to be recognized into earnings over the next 12 months is immaterial.

The following tables show the total notional value of the Company's outstanding foreign currency forward exchange contracts as of April 1, 2016 and July 3, 2015:

(Dollars in millions)	As of April 1, 2016			
	Contracts Designated as Hedges		Contracts Not Designated as Hedges	
British Pound Sterling	\$	20	\$	7
	\$	20	\$	7

(Dollars in millions)	As of July 3, 2015			
	Contracts Designated as Hedges		Contracts Not Designated as Hedges	
British Pound Sterling	\$	35	\$	
Singapore dollars		23		42
Thai Baht		18		48
Malaysian Ringgit		12		15
Chinese Renminbi		5		16
Euro				13
	\$	93	\$	134

Table of Contents

The Company is subject to equity market risks due to changes in the fair value of the notional investments selected by its employees as part of its Non-qualified Deferred Compensation Plan the Seagate Deferred Compensation Plan (the SDCP). In fiscal year 2014, the Company entered into a Total Return Swap (TRS) in order to manage the equity market risks associated with the SDCP liabilities. The Company pays a floating rate, based on LIBOR plus an interest rate spread, on the notional amount of the TRS. The TRS is designed to substantially offset changes in the SDCP liability due to changes in the value of the investment options made by employees. As of April 1, 2016, the notional investments underlying the TRS amounted to \$94 million. The contract term of the TRS was through January 2016, and is settled on a monthly basis, therefore limiting counterparty performance risk. The Company renewed the contract term through January 2017 under materially the same terms. The Company did not designate the TRS as a hedge. Rather, the Company records all changes in the fair value of the TRS to earnings to offset the market value changes of the SDCP liabilities.

The following tables show the Company's derivative instruments measured at fair value as reflected in the Condensed Consolidated Balance Sheet as of April 1, 2016 and July 3, 2015:

(Dollars in millions)	As of April 1, 2016			
	Asset Derivatives		Liability Derivatives	
	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	\$ (1)
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets		Accrued expenses	
Total return swap	Other current assets		Accrued expenses	
Total derivatives		\$		\$ (1)

(Dollars in millions)	As of July 3, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets	\$ 2	Accrued expenses	\$ (1)
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Other current assets		Accrued expenses	(3)
Total return swap	Other current assets	1	Accrued expenses	
Total derivatives		\$ 3		\$ (4)

Table of Contents

The following tables show the effect of the Company's derivative instruments on the Condensed Consolidated Statement of Comprehensive Income (Loss) and the Condensed Consolidated Statement of Operations for the three and nine months ended April 1, 2016:

(Dollars in millions)

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) (a)	
	For the Three Months	For the Nine Months		For the Three Months	For the Nine Months		For the Three Months	For the Nine Months
Derivatives Designated as Hedging Instruments								
Foreign currency forward exchange contracts	\$ (1)	\$ (3)	Cost of revenue	\$	\$ (2)	Cost of revenue	\$	\$

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		For the Three Months	For the Nine Months
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward exchange contracts	Other, net	\$	\$ (4)
Total return swap	Operating expenses	1	(3)

(a) The amount of gain or (loss) recognized in income represents \$0 related to the ineffective portion of the hedging relationships and \$0 related to the amount excluded from the assessment of hedge effectiveness for the three and nine months ended April 1, 2016, respectively.

The following tables show the effect of the Company's derivative instruments on the Condensed Consolidated Statement of Comprehensive Income (Loss) and the Condensed Consolidated Statement of Operations for the three and nine months April 3, 2015:

(Dollars in millions)

Amount of Gain or (Loss) Recognized in OCI on	Location of Gain or (Loss) Reclassified from Accumulated	Amount of Gain or (Loss) Reclassified from	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income
---	--	--	--	---

Edgar Filing: Seagate Technology plc - Form 10-Q

	Derivatives (Effective Portion)		OCI into	Accumulated OCI into Income (Effective Portion)		(Ineffective Portion and Amount Excluded	(Ineffective Portion and Amount Excluded from Effectiveness Testing) (a)	
	For the Three Months	For the Nine Months		For the Three Months	For the Nine Months		For the Three Months	For the Nine Months
Derivatives Designated as Hedging Instruments			Income (Effective Portion)			from Effectiveness Testing)		
Foreign currency forward exchange contracts	\$ (3)	\$ (13)	Cost of revenue	\$ (7)	\$ (9)	Cost of revenue	\$ 1	\$ 1

Table of Contents

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		For the Three Months	For the Nine Months
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward exchange contracts	Other, net	\$ 1	\$ (4)
Total return swap	Operating expenses	2	2

(a) The amount of gain or (loss) recognized in income represents \$0 related to the ineffective portion of the hedging relationships and \$1 million related to the amount excluded from the assessment of hedge effectiveness for the three and nine months April 3, 2015, respectively.

9. Fair Value

Measurement of Fair Value

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

Fair Value Hierarchy

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

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

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

Edgar Filing: Seagate Technology plc - Form 10-Q

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

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

Table of Contents*Items Measured at Fair Value on a Recurring Basis*

The following tables present the Company's assets and liabilities, by financial instrument type and balance sheet line item that are measured at fair value on a recurring basis, excluding accrued interest components, as of April 1, 2016:

(Dollars in millions)	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Money market funds	\$ 703	\$	\$	\$ 703
Certificates of deposit				
Corporate bonds		6		6
Total cash equivalents and short-term investments	703	6		709
Restricted cash and investments:				
Money market funds	2			2
Certificates of deposit		5		5
Total assets	\$ 705	\$ 11	\$	\$ 716
Liabilities:				
Derivative liabilities	\$	\$ (1)	\$	\$ (1)
Total liabilities	\$	\$ (1)	\$	\$ (1)

(Dollars in millions)	Fair Value Measurements at Reporting Date Using			
	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	\$ 703	\$	\$	\$ 703
Short-term investments		6		6
Other current assets	2	5		7
Total assets	\$ 705	\$ 11	\$	\$ 716
Liabilities:				
Accrued expenses	\$	\$ (1)	\$	\$ (1)
Total liabilities	\$	\$ (1)	\$	\$ (1)

Edgar Filing: Seagate Technology plc - Form 10-Q

Table of Contents

The following tables present the Company's assets and liabilities, by financial instrument type and balance sheet line item that are measured at fair value on a recurring basis, excluding accrued interest components, as of July 3, 2015:

(Dollars in millions)	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Money market funds	\$ 1,201	\$	\$	\$ 1,201
Certificates of deposit		862		862
Corporate bonds		6		6
Total cash equivalents and short-term investments	1,201	868		2,069
Restricted cash and investments:				
Money market funds	2			2
Certificates of deposit		5		5
Derivative assets		3		3
Total assets	\$ 1,203	\$ 876	\$	\$ 2,079
Liabilities:				
Derivative liabilities	\$	\$ (4)	\$	\$ (4)
Total liabilities	\$	\$ (4)	\$	\$ (4)

(Dollars in millions)	Fair Value Measurements at Reporting Date Using			
	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	\$ 1,201	\$ 862	\$	\$ 2,063
Short-term investments		6		6
Other current assets	2	8		10
Total assets	\$ 1,203	\$ 876	\$	\$ 2,079
Liabilities:				
Accrued expenses	\$	\$ (4)	\$	\$ (4)
Total liabilities	\$	\$ (4)	\$	\$ (4)

The Company classifies items in Level 1 if the financial assets consist of securities 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, U.S. Treasuries and certificates of deposits. 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

Edgar Filing: Seagate Technology plc - Form 10-Q

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 April 1, 2016, 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

Table of Contents

instruments consist of foreign currency forward exchange contracts and the TRS. The Company recognizes derivative financial instruments in its 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.

As of April 1, 2016 and July 3, 2015, the Company had no Level 3 assets or liabilities measured at fair value on a recurring basis.

Items Measured at Fair Value on a Non-Recurring Basis

The Company enters into certain strategic investments for the achievement of business and strategic objectives. Strategic investments in equity securities where the Company does not have the ability to exercise significant influence over the investees are recorded at cost and are included in Other assets, net in the Condensed Consolidated Balance Sheets, and are periodically analyzed to determine whether or not there are indicators of impairment. The carrying value of the Company's strategic investments at April 1, 2016 and July 3, 2015 totaled \$112 million and \$120 million, respectively, and consisted primarily of privately held equity securities without a readily determinable fair value.

In the three and nine months ended April 1, 2016, the Company determined that certain equity investments accounted for under the cost method were other-than-temporarily impaired, and recognized a charge of \$2 million and \$12 million, respectively, in order to write down the carrying amount of the investments to zero. Since there was no active market for the equity securities of the investee, the Company estimated fair value of the investee by analyzing the underlying cash flows and future prospects of the investee. These amounts were recorded in Other, net in the Condensed Consolidated Statement of Operations for the three and nine months ended April 1, 2016. The Company did not record any material impairment charges in the three and nine months ended April 3, 2015.

Other Fair Value Disclosures

The Company's debt is carried at amortized cost. The fair value of the Company's debt is derived using the closing price as of the date of valuation, which takes into account the yield curve, interest rates, and other observable inputs. Accordingly, these fair value measurements are categorized as Level 2. The following table presents the fair value and amortized cost of the Company's debt in order of maturity:

(Dollars in millions)	April 1, 2016		July 3, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
3.75% Senior Notes due November 2018	\$ 800	\$ 804	\$ 800	\$ 828
7.00% Senior Notes due November 2021	158	164	158	170
4.75% Senior Notes due June 2023	990	826	1,000	1,016
4.75% Senior Notes due January 2025	995	787	1,000	995
4.875% Senior Notes due June 2027	698	518	698	675
5.75% Senior Notes due December 2034	489	356	499	491
Long-term debt	\$ 4,130	\$ 3,455	\$ 4,155	\$ 4,175
Less short-term borrowings and current portion of long-term debt				

Long-term debt, less current portion	\$	4,130	\$	3,455	\$	4,155	\$	4,175
--------------------------------------	----	-------	----	-------	----	-------	----	-------

10. 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 298,459,787 shares were outstanding as of April 1, 2016, and 100,000,000 preferred shares, par value \$0.00001, of which none were issued or outstanding as of April 1, 2016.

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

Table of Contents

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.

Repurchases of Equity Securities

On July 24, 2013, the Board of Directors authorized the Company to repurchase \$2.5 billion of its outstanding ordinary shares.

On April 22, 2015, the Board of Directors authorized the Company to repurchase an additional \$2.0 billion of its outstanding ordinary shares.

All repurchases are effected as redemptions in accordance with the Company's Articles of Association.

As of April 1, 2016, \$1.8 billion remained available for repurchase under the existing repurchase authorization limit.

The following table sets forth information with respect to repurchases of the Company's shares during the nine months ended April 1, 2016:

(In millions)	Number of Shares Repurchased	Dollar Value of Shares Repurchased
Repurchases of Ordinary Shares	23	\$ 1,090
Tax Withholding Related to Vesting of Equity Awards	1	55
Total	24	\$ 1,145

11. Compensation

The Company recorded approximately \$30 million and \$95 million of stock-based compensation expense during the three and nine months ended April 1, 2016, respectively. The Company recorded approximately \$33 million and \$106 million of stock-based compensation expense during the three and nine months ended April 3, 2015, respectively.

12. Guarantees

Indemnifications to Officers and Directors

On May 4, 2009, Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands (Seagate-Cayman), then the parent company, entered into a new form of indemnification agreement (the Revised Indemnification Agreement) with its officers and directors of Seagate-Cayman and its subsidiaries (each, an Indemnitee). The Revised Indemnification Agreement provides indemnification in addition to any of Indemnitee s indemnification rights under Seagate-Cayman 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 Seagate-Cayman or any of its subsidiaries, arising out of his or her service as a director, officer, employee or agent of Seagate-Cayman or any of its subsidiaries or of any other entity to which he or she provides services at Seagate-Cayman 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 Seagate-Cayman or the applicable subsidiary of Seagate-Cayman 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 Seagate-Cayman or the applicable subsidiary of Seagate-Cayman. In addition, the Revised Indemnification Agreement provides that Seagate-Cayman 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.

On July 3, 2010, pursuant to a corporate reorganization, the common shareholders of Seagate-Cayman became ordinary shareholders of Seagate Technology plc (the Company) and Seagate-Cayman became a wholly owned subsidiary of the Company, as described more fully in the Current Report on Form 8-K filed by the Company on July 6, 2010 (the Redomestication). On July 27, 2010, in connection with the Redomestication, the Company, as sole shareholder of Seagate-Cayman, approved a form of deed of indemnity (the Deed of Indemnity), which provides for the indemnification by Seagate-Cayman of any director, officer,

Table of Contents

employee or agent of the Company, Seagate-Cayman or any subsidiary of the Company (each, a Deed Indemnitee), in addition to any of a Deed Indemnitee's indemnification rights under the Company's Articles of Association, applicable law or otherwise, with a similar scope to the Revised Indemnification Agreement. Seagate-Cayman entered into the Deed of Indemnity with certain Deed Indemnitees effective as of July 3, 2010 and continues to enter into the Deed of Indemnity with additional Deed Indemnitees from time to time.

The nature of these 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 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 1 to 5 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. Changes in the Company's product warranty liability during the three and nine months ended April 1, 2016 and April 3, 2015 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
(Dollars in millions)	April 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015
Balance, beginning of period	\$ 223	\$ 282	\$ 248	\$ 273
Warranties issued	30	36	96	116
Repairs and replacements	(37)	(45)	(118)	(145)
Changes in liability for pre-existing warranties, including expirations	(11)		(23)	21
Warranty liability assumed from business acquisitions			2	8
Balance, end of period	\$ 205	\$ 273	\$ 205	\$ 273

Table of Contents**13. 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, unvested restricted share units and shares to be purchased under the ESPP. 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 attributable to the shareholders of Seagate Technology plc:

(In millions, except per share data)	For the Three Months Ended		For the Nine Months Ended	
	April 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015
Numerator:				
Net income (loss)	\$ (21)	\$ 291	\$ 178	\$ 1,605
Number of shares used in per share calculations:				
Total shares for purposes of calculating basic net income (loss) per share	298	323	300	326
Weighted-average effect of dilutive securities:				
Employee equity award plans		7	3	8
Total shares for purpose of calculating diluted net income (loss) per share	298	330	303	334
Net income (loss) per share:				
Basic	\$ (0.07)	\$ 0.90	\$ 0.59	\$ 4.92
Diluted	(0.07)	0.88	0.59	4.81

The anti-dilutive shares related to employee equity award plans that were excluded from the computation of diluted net income (loss) were 4 million and 2 million for the three and nine months ended April 1, 2016, respectively, and immaterial for the three and nine months ended April 3, 2015.

14. 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 (the 635 patent) and U.S. Patent No. 5,638,267 (the 267 patent), misappropriation of trade secrets, breach of contract, and other claims. In the complaint, the plaintiffs requested injunctive relief, \$800 million in compensatory damages and unspecified punitive damages, including for willful infringement. On January 16, 2002, Convolve filed an amended complaint, alleging defendants infringe US Patent No. 6,314,473 (the 473 patent). The district court ruled in 2010 that the 267 patent was out of the case.

On August 16, 2011, the district court granted in part and denied in part the Company's motion for summary judgment. On July 1, 2013, the U.S. Court of Appeals for the Federal Circuit: 1) affirmed the district court's summary judgment rulings that Seagate did not misappropriate any of the alleged trade secrets and that the asserted claims of the 635 patent are invalid; 2) reversed and vacated the district court's summary judgment of non-infringement with respect to the 473 patent; and 3) remanded the case for further proceedings on the 473 patent. On July 11, 2014, the district court granted the Company's summary judgment motion regarding Convolve's only remaining cause of action, which alleged infringement of the 473 patent. The district court entered

Table of Contents

judgment in favor of the Company on July 14, 2014. Convolve filed a notice of appeal on August 13, 2014. On February 10, 2016, the U.S. Court of Appeals for the Federal Circuit: 1) affirmed the district court's summary judgment of no direct infringement by Seagate because Seagate's ATA/SCSI disk drives do not meet the user interface limitation of the asserted claims of the '473 patent; 2) affirmed the district court's summary judgment of non-infringement by Compaq's products as to claims 1, 3, and 5 of the '473 patent because Compaq's F10 BIOS interface does not meet the commands limitation of those claims; 3) vacated the district court's summary judgment of non-infringement by Compaq's accused products as to claims 7-15 of the '473 patent; 4) reversed the district court's summary judgment of non-infringement based on intervening rights; and 5) remanded the case to the district court for further proceedings on the '473 patent. In view of the rulings made by the district court and the Court of Appeals 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.

Alexander Shukh v. Seagate Technology - On February 12, 2010, Alexander Shukh filed a complaint against the Company in the U.S. District Court for the District of Minnesota, 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. On March 31, 2014, the district court granted Seagate's summary judgment motion and entered judgment in favor of Seagate. Mr. Shukh filed a notice of appeal on April 7, 2014. On October 2, 2015, the court of appeals vacated and remanded the district court's grant of summary judgment on Mr. Shukh's claim for correction of inventorship and affirmed the district court's grant of summary judgment as to all other claims. On October 29, 2015, Mr. Shukh filed a petition for rehearing en banc with the court of appeals; the petition was denied on December 17, 2015. On March 16, 2016, Shukh filed a petition for writ of certiorari to the U.S. Supreme Court. 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.

LEAP Co., Ltd. v. Seagate Singapore International Headquarters Pte. Ltd. and Nippon Seagate Inc. - On July 4, 2012, LEAP Co., Ltd. filed a lawsuit in the Tokyo District Court of Japan against Seagate Singapore International Headquarters Pte. Ltd., Nippon Seagate Inc. and Buffalo Inc. alleging wrongful termination of purchase agreements and other claims, and seeking approximately \$38 million in damages. On March 16, 2016, the Company and LEAP reached a settlement. As a result of the settlement, this litigation between the Company and LEAP has ended. There is no damage or loss to the Company related to this matter.

Enova Technology Corporation v. Seagate Technology (US) Holdings, Inc., et al. - On June 5, 2013, Enova Technology Corporation (Enova) filed a complaint against Seagate Technology (US) Holdings, Inc. and Seagate Technology LLC in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 7,136,995, Cryptographic Device, and U.S. Patent No. 7,900,057, Cryptographic Serial ATA Apparatus and Method. The complaint seeks unspecified compensatory damages, enhanced damages, injunctive relief, attorneys' fees, and other relief. On April 27, 2015, the district court ordered a stay of the case, in view of proceedings regarding the '995 and '057 Patents before the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office. The Company believes the claims are without merit and intends to vigorously defend this case. On September 2, 2015, PTAB issued its final written decision that claims 1-15 of the '995 Patent are held unpatentable. On December 18, 2015, PTAB issued its final written decisions that claims 1-32 and 40-53 of the '057 Patent are held unpatentable. On February 4, 2016, PTAB issued its final written decision that claims 33-39 of the '057 Patent are held unpatentable. Enova has appealed PTAB's

decisions on the 995 Patent and the 057 Patent to the U.S. Court of Appeals for the Federal Circuit. A hearing before the court of appeals has not yet been scheduled. 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.

Seagate Technology LLC v. Western Digital Corp. On October 8, 2014, the Minnesota Supreme Court ruled that the arbitration award in favor of the Company in its case against Western Digital for the misappropriation of the Company's trade secrets should be confirmed. In the arbitration award, issued on January 23, 2012, the arbitrator determined that Western Digital and its former employee had misappropriated the Company's trade secrets. The arbitrator awarded the Company \$525 million in compensatory damages and, after adding interest, issued a final award of \$630 million. Interest on the final award has been accruing at 10%. On October 14, 2014, the Company received a partial payment from Western Digital in the amount of \$773 million. During the quarter ended January 2, 2015, the amount of the final award, less litigation and other related costs, was recorded by the Company in Gain on arbitration award, net, and the remaining amount received was recorded in Other, net. On April 7, 2015, the Hennepin County District Court of Minnesota (district court) denied Seagate's motion for entry of judgment for an amount of additional interest owing on the arbitration award. On January 25, 2016, the Minnesota Court of Appeals reversed and remanded the district court's order regarding the unpaid interest. On January 27, 2016, the Company received a further payment from Western Digital in the amount of \$33 million, which was the remaining balance of interest owed on the final award. This amount was recorded in Other, net in the Condensed Consolidated Statement of Operations for the three and nine months ended April 1, 2016. On January 29, 2016, the parties filed a stipulation of dismissal with the district

Table of Contents

court, ending the litigation.

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 and server storage products, 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 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

Edgar Filing: Seagate Technology plc - Form 10-Q

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.

Table of Contents

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

The following is a discussion of the financial condition, changes in financial condition, and results of operations for our fiscal quarters ended April 1, 2016, January 1, 2016 and April 3, 2015, referred to herein as the March 2016 quarter, the December 2015 quarter, and the March 2015 quarter, respectively. We operate and report financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. The March 2016, December 2015, and March 2015 quarters were 13 weeks.

You should read this discussion in conjunction with financial information and related notes included elsewhere in this report. 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.

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 and year ending July 1, 2016 and beyond. These statements identify prospective information and may include words such as expects, intends, plans, anticipates, believes, estimates, predicts, projects and similar expressions. These forward-looking statements are based on information available to the Company as of the date of this Quarterly Report on Form 10-Q and are based on management's current views and assumptions. These forward-looking statements are conditioned upon and also involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or events to differ materially from those anticipated by these forward-looking statements. Such risks, uncertainties and other factors may be beyond our control and may pose a risk to our operating and financial condition. Such risks and uncertainties include, but are not limited to: uncertainty in global economic conditions; the impact of variable demand and the adverse pricing environment for disk drives, particularly in view of current business and economic conditions; 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; the impact of competitive product announcements; currency fluctuations that may impact our margins and international sales; possible excess industry supply with respect to particular disk drive products and disruptions to our supply chain or production capabilities; unexpected advances in competing technologies; the development and introduction of products based on new technologies and expansion into new data storage markets; our ability to comply with certain covenants in our credit facilities with respect to financial ratios and financial condition tests; cyber-attacks or other data breaches that disrupt our operations or results in the dissemination of proprietary or confidential information; and our ability to achieve projected cost savings in connection with restructuring plans and fluctuations in interest rates. We also encourage you to read our Annual Report on Form 10-K for the fiscal year ended July 3, 2015, which contains information concerning risks, uncertainties and other factors that could cause results to differ materially from those projected in the forward-looking statements herein. 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 March 2016 quarter.* Highlights of events in the March 2016 quarter that impacted our financial position.

- *Results of Operations.* An analysis of our financial results comparing the March 2016 quarter to the December 2015 quarter and the March 2015 quarter and the nine months ended March 2016 to the nine months ended March 2015.
- *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.

Our Company

We are a leading provider of electronic data storage technology and solutions. Our principal products are hard disk drives, commonly referred to as disk drives, hard drives or HDDs. In addition to HDDs, we produce a broad range of electronic data storage products including solid state hybrid drives (SSHD), solid state drives (SSD), PCIe cards and SATA controllers. Our storage technology portfolio also includes storage subsystems, high performance computing (HPC) solutions, and data storage services.

Hard disk drives are devices that store digitally encoded data on rapidly rotating disks with magnetic surfaces. Disk drives continue to be the primary medium of mass data storage due to their performance attributes, high quality and cost effectiveness. Complementing existing data center storage architecture, solid-state storage devices use integrated circuit assemblies as memory to store data, and most SSDs use NAND-based flash memory. In addition to HDDs and SSDs, SSHDs combine the features of SSDs

Table of Contents

and HDDs in the same unit, containing a large hard disk drive and an SSD cache to improve performance of frequently accessed data.

Our products are designed for enterprise servers and storage systems in mission critical and nearline applications; client compute applications, where our products are designed primarily for desktop and mobile computing; 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, digital media systems and surveillance systems.

Our product and solution portfolio for the enterprise data storage industry includes storage enclosures, integrated application platforms and HPC data storage solutions. Our storage subsystems support a range of high-speed interconnect technologies to meet demanding cost and performance specifications. Our modular subsystem architecture allows us to support many segments within the networked storage market by enabling different specifications of storage subsystem designs to be created from a standard set of interlocking technology modules.

Overview of the March 2016 Quarter

During the quarter ended March 2016, the industry experienced accelerated declines in drive unit shipments primarily as demand decreased for mission critical and client compute hard drives. During the March 2016 quarter, we shipped 39 million drive units totaling 56 exabytes of storage capacity, generating revenue of approximately \$2.6 billion and gross margin of 20%. Our operating cash flow was \$205 million. We paid \$188 million for dividends to shareholders.

Results of Operations

We list in the tables below summarized information from our Condensed Consolidated Statements of Operations by dollars and as a percentage of revenue:

(Dollars in millions)	For the Three Months Ended			For the Nine Months Ended		
	April 1, 2016	January 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015	
Revenue	\$ 2,595	\$ 2,986	\$ 3,330	\$ 8,506	\$ 10,811	
Cost of revenue	2,071	2,245	2,375	6,553	7,778	
Gross margin	524	741	955	1,953	3,033	
Product development	298	304	346	930	1,029	
Marketing and administrative	150	160	219	491	654	
Amortization of intangibles	29	31	33	94	95	
Restructuring and other, net	20	17	14	95	24	
Gain on litigation settlement, net					(620)	
Income from operations	27	229	343	343	1,851	
Other income (expense), net	(18)	(49)	(39)	(122)	(30)	
Income before income taxes	9	180	304	221	1,821	
Provision for income taxes	30	15	13	43	216	

Edgar Filing: Seagate Technology plc - Form 10-Q

Net income (loss)	\$	(21)	\$	165	\$	291	\$	178	\$	1,605
-------------------	----	------	----	-----	----	-----	----	-----	----	-------

31

Edgar Filing: Seagate Technology plc - Form 10-Q

Table of Contents

	April 1, 2016	For the Three Months Ended January 1, 2016	April 3, 2015	For the Nine Months Ended April 1, 2016	April 3, 2015
Revenue	100%	100%	100%	100%	100%
Cost of revenue	80	75	71	77	72
Gross margin	20	25	29	23	28
Product development	11	10	10	11	10
Marketing and administrative	6	5	7	6	6
Amortization of intangibles	1	1	1	1	1
Restructuring and other, net	1	1		1	
Gain on litigation settlement, net					(6)
Income from operations	1	8	11	4	17
Other (expense) income, net	(1)	(2)	(1)	(1)	
Income before income taxes		6	10	3	17
Provision for income taxes	1	1		1	2
Net income (loss)	(1)%	6%	10%	2%	15%

Revenue

The following table summarizes information regarding average drive selling prices (ASPs), drive volume unit shipments, exabytes shipped, and revenues by channel and geography:

(In millions, except percentages, exabytes and ASPs)	April 1, 2016	For the Three Months Ended January 1, 2016	April 3, 2015	For the Nine Months Ended April 1, 2016	April 3, 2015
Unit Shipments:					
Enterprise	8	8	9	23	27
Client Compute	21	25	31	76	106
Client Non-Compute	10	13	10	33	34
Total Units Shipped	39	46	50	132	167
ASPs (per unit)	\$ 60	\$ 59	\$ 62	\$ 59	\$ 61
Exabytes Shipped	56	61	55	171	176
Revenues by Channel (%)					
OEMs	69%	69%	70%	69%	70%
Distributors	16%	16%	18%	17%	18%
Retailers	15%	15%	12%	14%	12%
Revenues by Geography (%)					
Americas	30%	26%	29%	28%	27%
EMEA	17%	19%	16%	18%	17%
Asia Pacific	53%	55%	55%	54%	56%

Revenue in the March 2016 quarter decreased by \$0.4 billion from the December 2015 quarter as a result of a decrease in shipments by 7 million units due to lower demand and seasonality declines.

Revenue in the March 2016 quarter and the nine months then ended decreased by \$0.7 billion and \$2.3 billion, respectively, as compared to the March 2015 quarter and the nine months then ended due to a decrease in unit shipments and price erosion, partially offset by improved product mix and the consolidation of Dot Hill. The decrease in unit shipments of 11 million and 35 million units as compared to the three and nine

Edgar Filing: Seagate Technology plc - Form 10-Q

months ended March 2015, respectively, was primarily the result of decreased demand in the client compute market and reduced demand for mission critical HDD enterprise products in the December 2015 quarter.

We maintain various sales programs such as channel rebates and price masking. Price masking rebates are primarily a function of OEM enterprise revenue and contributed to a higher proportion of the sales programs as a percentage of revenue in the March 2016 quarter. Sales programs were approximately 14%, 14% and 11% of gross drive revenue for the March 2016 quarter, December 2015 quarter and March 2015 quarter, respectively. Adjustments to revenues due to under or over

Edgar Filing: Seagate Technology plc - Form 10-Q

Table of Contents

accruals for sales programs related to revenues reported in prior quarterly periods were less than 1.0% of quarterly gross revenue in the March 2016 quarter.

Cost of Revenue and Gross Margin

(Dollars in millions)	For the Three Months Ended			For the Nine Months Ended		
	April 1, 2016	January 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015	
Cost of revenue	\$ 2,071	\$ 2,245	\$ 2,375	\$ 6,553	\$ 7,778	
Gross margin	524	741	955	1,953	3,033	
Gross margin percentage	20%	25%	29%	23%	28%	

Gross margin as a percentage of revenue for the March 2016 quarter decreased by 460 basis points compared to the December 2015 quarter. This decrease was primarily due to approximately 100 basis points of change in gross margin from reduced demand in legacy hard drives and new adjacencies and focused inventory reductions resulting in underutilization of certain factories, 80 basis points decrease associated with costs from certain terminated contracts and write down of inventory, and 100 basis points decrease from the write off of certain fixed assets. Price erosion was offset by improved product mix.

Compared to the March 2015 quarter, gross margin in the March 2016 quarter decreased by 850 basis points. This decrease was due to approximately 230 basis points of change in gross margin from reduced demand in legacy hard drives and new adjacencies resulting in underutilization of certain factories, 80 basis points decrease associated with costs from certain terminated contracts and write down of inventory, 100 basis points decrease associated with the write off of certain fixed assets, with the remainder primarily due to price erosion that was partially offset by improved product mix and cost savings due to work force reductions.

Compared to the nine months ended in the March 2015 quarter, gross margin in the nine month ended in the March 2016 quarter decreased by 510 basis points. This decrease was due to approximately 110 basis points of change in gross margin from reduced demand in legacy hard drives and new adjacencies resulting in underutilization of certain factories, with the remainder primarily due to price erosion that was partially offset by cost savings due to work force reductions and improved product mix.

In the March 2016 quarter, total warranty cost was 0.7% of revenue and included favorable changes in estimates of prior warranty accruals of approximately 0.4% of revenue primarily due to improvements in return rates on newer generation products. Warranty cost related to new unit shipments was 1.1% of revenue for each of the March 2016, December 2015 and March 2015 quarters, respectively.

Operating Expenses

(Dollars in millions)	For the Three Months Ended			For the Nine Months Ended		
	April 1, 2016	January 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015	
Product development	\$ 298	\$ 304	\$ 346	\$ 930	\$ 1,029	

Edgar Filing: Seagate Technology plc - Form 10-Q

Marketing and administrative	150	160	219	491	654
Amortization of intangibles	29	31	33	94	95
Restructuring and other, net	20	17	14	95	24
Gain on litigation settlement, net					(620)
Operating expenses	\$ 497	\$ 512	\$ 612	\$ 1,610	\$ 1,182

Product development expense. Product development expense for the March 2016 quarter decreased by \$6 million from the December 2015 quarter due to increased operational efficiencies in our business and a decrease in variable compensation, partially offset by an increased use of vacation in the December 2015 quarter. Compared to the March 2015 quarter, product development expense decreased by \$48 million due to a decrease in salaries and other employee benefits of \$20 million as a result of a restructuring of our work force in the September 2015 quarter, an \$11 million decrease in variable compensation, and other cost reduction efforts, partially offset by the consolidation of Dot Hill in the December 2015 quarter.

Product development expense for the nine months ended March 2016 decreased by \$99 million as compared to the corresponding period in the prior year due to a decrease in salaries and other employee benefits of \$46 million as a result of a restructuring of our work force in the September 2015 quarter, a \$41 million decrease in variable compensation, and other cost reduction efforts, partially offset by the consolidation of Dot Hill in the December 2015 quarter.

Marketing and administrative expense. Marketing and administrative expense for the March 2016 quarter decreased by \$10 million from the December 2015 quarter due to a \$9 million reduction in advertising from the completion of certain promotional and

Table of Contents

branding activities in the December 2015 quarter and a decrease in variable compensation. Compared to the March 2015 quarter, marketing and administrative expense decreased by \$69 million due to a decrease in salaries and other employee benefits of \$24 million as a result of a restructuring of our work force in the September 2015 quarter, a \$17 million reduction in advertising from the completion of certain promotional and branding activities in the December 2015 quarter, and a decrease in variable compensation, partially offset by the consolidation of Dot Hill in the December 2015 quarter.

Marketing and administrative expense for the nine months ended March 2016 decreased by \$163 million as compared to the corresponding period in the prior year due to a decrease in salaries and other employee benefits of \$60 million as a result of a restructuring of our work force in the September 2015 quarter, a \$43 million decrease in variable compensation and stock based compensation, a \$21 million reduction in advertising from the completion of certain promotional and branding activities in the December 2015 quarter, and increased operational efficiencies in our business.

Amortization of intangibles. Amortization of intangibles for the March 2016 quarter decreased from the December 2015 quarter and March 2015 quarter by \$2 million and \$4 million, respectively, due to certain intangible assets reaching the end of their useful life, partially offset by the intangibles acquired in the acquisition of Dot Hill.

Amortization of intangibles for the nine months ended March 2016 decreased by \$1 million as compared to the corresponding period in the prior year as a result certain intangible assets reaching the end of their useful life, partially offset by the amortization of intangibles acquired with LSI Corporation's Accelerated Solutions Division and Flash Components Division in September of 2014 and Dot Hill in the December 2015 quarter.

Restructuring and other, net. Restructuring and other, net for the March 2016 quarter was comprised primarily of a restructuring charge recorded during the March 2016 quarter to reduce our work force by approximately 2,000 employees to align our manufacturing footprint with current macroeconomic conditions. The December 2015 quarter and the March 2015 quarter was comprised primarily of charges related to employee termination costs and facility exit costs associated with restructuring of our work force.

Restructuring and other, net for the nine months ended March 2016 was comprised primarily of restructuring charges recorded during the September 2015 quarter and the March 2016 quarter to reduce our work force. Restructuring and other, net for the nine months ended March 2015 was due to charges to reduce our work force as a result of our ongoing focus on cost efficiencies in all areas of our business.

Gain on arbitration award, net. Gain on arbitration award, net for the nine months then ended March 2015 was related to the final award amount of \$630 million, less litigation and other related costs of \$10 million, in the Company's case against Western Digital for the misappropriation of the Company's trade secrets.

Other (expense) income, net

Edgar Filing: Seagate Technology plc - Form 10-Q

(Dollars in millions)	For the Three Months Ended			For the Nine Months Ended		
	April 1, 2016	January 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015	
Other (expense) income, net	\$ (18)	\$ (49)	\$ (39)	\$ (122)	\$ (30)	

Other (expense) income, net decreased by \$31 million from the December 2015 quarter primarily due to the \$33 million final payment of unpaid interest on the final arbitration award amount in the Company's case against Western Digital. Compared to the March 2015 quarter, other (expense) income, net decreased by \$21 million due to the \$33 million final payment of unpaid interest from Western Digital, partially offset by a \$16 million change in foreign currency remeasurement related to changes in foreign exchange rates.

Other (expense) income, net for the nine months ended March 2016 increased \$92 million as compared to the corresponding period in the prior year due to the partial payment of \$143 million for interest accrued on the final arbitration award amount in the Company's case against Western Digital in the December 2014 quarter compared to \$33 million in the March 2016 quarter, and a \$35 million change in foreign currency remeasurement related to net gains and losses from changes in foreign exchange rates, which were more pronounced in the prior year, partially offset by a \$52 million increase in losses from the early redemption and repurchases of debt in the nine months ended March 2015.

Income taxes

(Dollars in millions)	For the Three Months Ended			For the Nine Months Ended		
	April 1, 2016	January 1, 2016	April 3, 2015	April 1, 2016	April 3, 2015	
Provision for income taxes	\$ 30	\$ 15	\$ 13	\$ 43	\$ 216	

Table of Contents

Our effective tax rate for the March 2016 quarter and for the first nine months of fiscal year 2016 is higher than normal due to a drop in earnings for the year. Our lower earnings resulted in greater tax expense related to the first nine months of fiscal year 2016 being recorded in the March 2016 quarter. Our 2016 income tax provision included approximately \$2 million of net discrete tax provision associated with prior year tax adjustments offset by the release of tax reserves due to the expiration of certain statutes of limitation.

Our income tax provision recorded for the March 2016 quarter and for the first nine months of fiscal year 2016 differed from the provision from 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 and (ii) a decrease in valuation allowance for certain U.S. deferred tax assets. The acquisition of Dot Hill Systems Corporation is not expected to have a material impact on our effective tax rate in fiscal year 2016

Consistent with the intent of ASU 2015-17 to simplify the presentation of deferred income taxes, we elected to adopt ASU 2015-17 on a prospective basis as of the second quarter, fiscal year 2016. Prior periods were not retrospectively adjusted. As a result of this change in accounting principle, \$120 million of our deferred tax assets were reclassified from current to non-current.

During the nine months ended April 1, 2016, our unrecognized tax benefits excluding interest and penalties decreased by approximately \$4 million to \$79 million. The unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$79 million at April 1, 2016, subject to certain future valuation allowance reversals. During the 12 months beginning January 2, 2016, we expect that our unrecognized tax benefits could be reduced by approximately \$24 million primarily as a result of the expiration of certain statutes of limitation.

We are subject to taxation in many jurisdictions globally and we are required to file U.S. federal, U.S. state and non-U.S. income tax returns. On April 4, 2016, the IRS approved the audit settlement reached in December 2015 regarding all disputed issues associated with our U.S. federal income tax returns for fiscal years 2008, 2009 and 2010. This audit settlement did not have a material impact on our financial statements. As a result of this settlement and the expiration of certain statutes of limitation, we are no longer subject to tax examination of U.S. federal income tax returns for years prior to fiscal year 2012.

Our income tax provision recorded for the first nine months of fiscal year 2015 included approximately \$181 million of net tax expense due to the final audit assessment received from the Jiangsu Province State Tax Bureau of the People's Republic of China (China assessment) for calendar years 2007 through 2013.

Our income tax provision recorded for the March 2015 quarter and for the first nine months of fiscal year 2015 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) tax expense associated with the China assessment recorded during the December 2014 quarter, and (iii) a decrease in valuation allowance for certain U.S. deferred tax assets. The acquisition of LSI's Flash Business did not have a material impact on our effective tax rate in fiscal year 2015.

Liquidity and Capital Resources

The following sections discuss our principal liquidity requirements, as well as our sources and uses of cash and our liquidity and capital resources. Our cash and cash equivalents are maintained in investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of money market funds, certificates of deposits, and other interest-bearing bank deposits. The principal objectives of our investment policy are the preservation of principal and maintenance of liquidity. We believe our cash equivalents and short-term investments are liquid and accessible. We operate in some countries that have restrictive regulations over the movement of cash and/or foreign exchange across their borders. However, these restrictions have not impeded our ability to conduct our business, nor do we expect them to in the next 12 months. We are not aware of any downgrades, losses or other significant deterioration in the fair value of our cash equivalents or short-term investments and we do not believe the fair value of our short-term investments has significantly changed from the values reported as of April 1, 2016.

Table of Contents

Cash and Cash Equivalents and Short-term Investments

(Dollars in millions)	April 1, 2016		July 3, 2015		Change
Cash and cash equivalents	\$	1,193	\$	2,479	\$ (1,286)
Short-term investments		6		6	
Total	\$	1,199	\$	2,485	\$ (1,286)

Our cash and cash equivalents and short-term investments decreased from July 3, 2015 as a result of net cash outflows for the acquisition of Dot Hill, repurchase of our ordinary shares, dividends paid to our shareholders, and capital expenditures. These cash outflows were partially offset by our net cash provided by operating activities.

Cash Provided by Operating Activities

Cash provided by operating activities for the nine months ended April 1, 2016 of \$1,411 million includes the effects of net income adjusted for non-cash items including depreciation, amortization, share-based compensation, and:

- a decrease of \$531 million in accounts receivable, primarily due to the decrease in revenue

Cash Used in Investing Activities

Cash used for investing activities for the nine months ended April 1, 2016 was \$1,065 million and primarily attributable to the following activities:

- \$634 million paid for the acquisition of Dot Hill, net of cash acquired; and
- \$441 million used to acquire property, equipment and leasehold improvements

Cash Used in Financing Activities

Cash used in financing activities of \$1,632 million for the nine months ended April 1, 2016 was primarily attributable to the following activities:

- \$1,090 million paid to repurchase ordinary shares; and
- \$539 million in dividend payments to shareholders.

Liquidity Sources, Cash Requirements and Commitments

Our primary sources of liquidity as of April 1, 2016 consisted of: (1) approximately \$1.2 billion in cash, cash equivalents, and short-term investments, (2) cash we expect to generate from operations and (3) a \$700 million senior revolving credit facility.

The line of credit is available for borrowings, subject to compliance with financial covenants and other customary conditions to borrowing. As of April 1, 2016, no borrowings had been drawn under the revolving credit facility or had been utilized for letters of credit issued under this credit facility.

The credit agreement that governs our revolving credit facility, as amended, includes three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. On April 28, 2016, the Revolving Credit Agreement was amended in order to increase the allowable net leverage ratio to adjust for our current financial liquidity position. We were in compliance with the modified covenants as of April 1, 2016 and expect to be in compliance for the next 12 months.

Our liquidity requirements are primarily to meet our working capital, product development and capital expenditure needs, to fund scheduled payments of principal and interest on our indebtedness, and to fund our quarterly dividend. Our ability to fund these requirements will depend on our future cash flows, which are determined by future operating performance, and therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control.

For fiscal year 2016, we expect capital expenditures to be at or below our long-term targeted range of 6% to 8% of revenue.

From time to time we may repurchase any of our outstanding notes in open market or privately negotiated purchases or otherwise, or may repurchase outstanding notes pursuant to the terms of the applicable indenture.

The Company's Board of Directors declared a quarterly cash dividend of \$0.63 per share on April 29, 2016, which is payable on May 24, 2016 to shareholders of record at the close of business on May 10, 2016.

Table of Contents

From time to time we may repurchase any of our outstanding ordinary shares through private, open market, or broker assisted purchases. As of April 1, 2016, \$1.8 billion remained available for repurchase under our existing repurchase authorization limit. All repurchases are effected as redemptions in accordance with the Company's Articles of Association.

Critical Accounting Policies

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

Since our fiscal year ended July 3, 2015, there have been no material changes in our critical accounting policies and estimates. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 3, 2015, as filed with the SEC on August 11, 2015, for a discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

See Part I, Item 1. Financial Statements Note 1. Basis of Presentation and Summary of Significant Accounting Policies for information regarding the effect of new accounting pronouncements on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risks due to the volatility of interest rates, foreign currency exchange rates, and bond markets. A portion of these risks are hedged, but fluctuations could impact our results of operations, financial position and cash flows. Additionally, we have exposure to downgrades in the credit ratings of our counterparties as well as exposure related to our credit rating changes.

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. As of April 1, 2016, we had no material available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. We determined no available-for-sale securities were other-than-temporarily impaired as of April 1, 2016. We currently do not use derivative financial instruments in our investment portfolio.

Edgar Filing: Seagate Technology plc - Form 10-Q

We have fixed rate debt obligations. We enter into debt obligations to support general corporate purposes including capital expenditures and working capital needs.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations as of April 1, 2016.

Fiscal Years Ended

(Dollars in millions, except percentages)	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value at April 1, 2016
Assets								
Cash equivalents:								
Fixed rate	\$ 703	\$	\$	\$	\$	\$ 7	\$ 710	\$ 710
Average interest rate	0.33%					0.42%	0.33%	
Short-term investments:								
Fixed rate	\$	\$ 5	\$	\$	\$	\$ 1	\$ 6	\$ 6
Average interest rate		9.98%				3.52%	8.85%	
Total fixed income	\$ 703	\$ 5	\$	\$	\$	\$ 8	\$ 716	\$ 716
Average interest rate	0.33%	9.98%				0.84%	0.40%	
Debt								
Fixed rate	\$	\$	\$	\$ 800	\$	\$ 3,333	\$ 4,133	\$ 3,455
Average interest rate				3.75%		5.03%	4.78%	

Table of Contents

Foreign Currency Exchange Risk. We may enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments and anticipated foreign currency denominated expenditures. Our policy prohibits us from entering into derivative financial instruments for speculative or trading purposes.

We also hedge a portion of our foreign currency denominated balance sheet positions with foreign currency forward exchange contracts to reduce the risk that our earnings will be adversely affected by changes in currency exchange rates. The changes in fair value of these hedges are recognized in earnings in the same period as the gains and losses from the remeasurement of the assets and liabilities. These foreign currency forward exchange contracts are not designated as hedging instruments under ASC 815, *Derivatives and Hedging*. All these foreign currency forward contracts mature within 12 months.

We evaluate hedging effectiveness prospectively and retrospectively and record any ineffective portion of the hedging instruments in Cost of revenue on the Condensed Consolidated Statements of Operations. We did not have any material net gains (losses) recognized in Cost of revenue for cash flow hedges due to hedge ineffectiveness or discontinued cash flow hedges during the three months ended April 1, 2016.

The table below provides information as of April 1, 2016 about our foreign currency forward exchange contracts. The table is provided in U.S. dollar equivalent amounts and presents the notional amounts (at the contract exchange rates) and the weighted average contractual foreign currency exchange rates.

(Dollars in millions, except average contract rate)	Notional Amount	Average Contract Exchange Rate	Estimated Fair Value (1)
Foreign currency forward exchange contracts:			
British Pound Sterling	\$ 27	\$ 1.50	\$ (1)
Total	\$ 27		\$ (1)

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

Other Market Risks. We have exposure to counterparty credit downgrades in the form of credit risk related to our foreign currency forward exchange contracts and our fixed income portfolio. We monitor and limit our credit exposure for our foreign currency forward exchange contracts by performing ongoing credit evaluations. We also manage the notional amount of contracts entered into with any one counterparty, and we maintain limits on maximum tenor of contracts based on the credit rating of the financial institution. Additionally, the investment portfolio is diversified and structured to minimize credit risk. As of April 1, 2016, we had no material credit exposure related to our foreign currency forward exchange contracts. Changes in our corporate issuer credit ratings have minimal impact on our financial results, but downgrades may negatively impact our future transaction costs and our ability to execute transactions with various counterparties.

Edgar Filing: Seagate Technology plc - Form 10-Q

We are subject to equity market risks due to changes in the fair value of the notional investments selected by our employees as part of our Seagate Deferred Compensation Plan (the "SDCP"). In fiscal year 2014, we entered into a Total Return Swap ("TRS") in order to manage the equity market risks associated with the SDCP liabilities. We pay a floating rate, based on LIBOR plus an interest rate spread, on the notional amount of the TRS. The TRS is designed to substantially offset changes in the SDCP liability due to changes in the value of the investment options made by employees. See Part I, Item 1. Financial Statements Note 8, Derivative Financial Instruments of this Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on the evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective as of April 1, 2016. During the quarter ended April 1, 2016, there were no changes in our internal control over financial reporting that materially affected, or were reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Part I, Item 1. Financial Statements Note 13, Legal, Environmental and Other Contingencies of this Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to the description of the risk factors associated with our business previously disclosed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended July 3, 2015. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K as they could materially affect our business, financial condition and future results.

The Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Repurchase of Equity Securities

All repurchases are effected as redemptions in accordance with the Company's Articles of Association.

On July 24, 2013, the Board of Directors authorized the Company to repurchase \$2.5 billion of its outstanding ordinary shares.

On April 22, 2015, the Board of Directors authorized the Company to repurchase an additional \$2.0 billion of its outstanding ordinary shares.

Edgar Filing: Seagate Technology plc - Form 10-Q

As of April 1, 2016, \$1.8 billion remained available for repurchase under the existing repurchase authorization limit. There is no expiration date on this authorization.

The following table sets forth information with respect to all repurchases of our shares made during fiscal quarter ended April 1, 2016:

(In millions, except average price paid per share)	Total Number of Shares Repurchased (a)	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
January 2, 2016 through January 29, 2016		\$ 32.49		\$ 1,759
January 30, 2016 through February 26, 2016		29.95		1,758
February 27, 2016 through April 1, 2016		34.37		1,758
Total		\$ 31.90		\$ 1,758

(a) Includes statutory tax withholdings related to vesting of equity awards, which were immaterial in the fiscal quarter ended April 1, 2016.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

ITEM 5. OTHER INFORMATION

Fourth Amendment to the Revolving Credit Facility

As previously disclosed, on January 18, 2011, the Company and its subsidiary Seagate HDD Cayman (the Borrower) entered into a credit agreement (the Revolving Credit Facility) among the Company, the Borrower, the lenders party thereto (the Lenders) and The Bank of Nova Scotia, as Administrative Agent (the Administrative Agent). On April 28, 2016, the Company, the Borrower, the Lenders party thereto and the Administrative Agent entered into the Fourth Amendment to the Revolving Credit Facility to modify the net leverage ratio financial covenant to require a net leverage ratio not in excess of (i) 2.25 to 1 as of the end of the fiscal quarters ending April 1, 2016 through and including June 30, 2017, (ii) 2:00 to 1 as of the end of the fiscal quarters ending September 29, 2017 through and including March 30, 2018, (iii) 1.75 to 1 as of the end of the fiscal quarter ending June 29, 2018 and (iv) 1.50 to 1 thereafter.

ITEM 6. EXHIBITS

See Exhibit Index on the page immediately following the signature page to this Report for a list of exhibits to this Report, which Exhibit Index is incorporated herein by reference.

Table of Contents

SIGNATURES

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

SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY

DATE: April 29, 2016

BY: /s/ STEPHEN J. LUCZO
Stephen J. Luczo
Chief Executive Officer, Director and
Chairman of the Board of Directors
(Principal Executive Officer)

DATE: April 29, 2016

BY: /s/ DAVID H. MORTON, JR.
David H. Morton, Jr.
Executive Vice President, Finance and Chief
Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Memorandum and Articles of Association of the Company, as amended and restated by Special Resolution dated October 30, 2013, filed as Exhibit 3.1 to the Company's current report on Form 8-K filed on November 4, 2013 and incorporated herein by reference.
3.2	Certificate of Incorporation of the Company, filed as Exhibit 3.2 to the Company's annual report on Form 10-K filed on August 20, 2010 and incorporated herein by reference.
4.1	Indenture dated as of December 2, 2014, among Seagate HDD Cayman, as issuer, the Company, as guarantor, and U.S. Bank National Association, as trustee, filed as Exhibit 4.1 to the Company's current report on Form 8-K filed on December 2, 2014 and incorporated herein by reference.
4.2	Form of 5.75% Senior Note due 2034, included in Exhibit 4.1 to the Company's current report on Form 8-K filed on December 2, 2014 and incorporated herein by reference.
4.3	Registration Rights Agreement dated as of December 2, 2014, among Seagate HDD Cayman, the Company and Morgan Stanley & Co. LLC, filed as Exhibit 4.3 to the Company's current report on Form 8-K filed on December 2, 2014 and incorporated herein by reference.
10.1+	Fourth Amendment, dated April 28, 2016, to the Credit Agreement, dated as of January 18, 2011.
31.1+	Certification of Stephen J. Luczo, Chief Executive Officer, Director and Chairman of the Board of Directors of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of David H. Morton, Jr., Executive Vice President, Finance and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Stephen J. Luczo, Chief Executive Officer, Director and Chairman of the Board of Directors of the Company and David H. Morton, Jr., Executive Vice President, Finance and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Filed herewith.

The certifications attached as Exhibit 32.1 that accompany this Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Seagate Technology plc under the Securities Act of 1933, as amended, or the

Edgar Filing: Seagate Technology plc - Form 10-Q

Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.