

SEAGATE TECHNOLOGY

Form 10-K/A

September 03, 2004

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

**(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended July 2, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-31560

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**SEAGATE TECHNOLOGY**

(Exact name of Registrant as specified in its charter)

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**Cayman Islands**  
(State or other jurisdiction of  
incorporation or organization)

**98-0355609**  
(I.R.S. Employer  
Identification Number)

**P.O. Box 309GT**  
**Ugland House, South Church Street**  
**George Town, Grand Cayman, Cayman Islands**  
(Address of principal executive offices)

**Registrant's telephone number, including area code: (345) 949-8066**

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**Securities registered pursuant to Section 12 (b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<b>Common shares, par value \$0.00001 per share</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): YES  NO

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The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$2.841 billion based upon a closing price of \$19.31 reported for such date by the New York Stock Exchange. Common shares held by each executive officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding common shares of the registrant as of August 27, 2004 was 462,944,029.

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**DOCUMENTS INCORPORATED BY REFERENCE**

None.

**Explanatory Note**

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This amendment on Form 10-K/A (Amendment No. 1) amends our annual report on Form 10-K for the fiscal year ended July 2, 2004, as filed with the Securities and Exchange Commission on August 10, 2004, and is being filed to revise and update the footnote disclosure to our Equity Compensation Plan Information table, to update Note 9 to our Consolidated Financial Statements and to include the information required by Part III of Form 10-K. The information required by Items 10-14 of Part III are no longer being incorporated by reference to our Proxy Statement. This amendment is not intended to update other information presented in this annual report as originally filed, except where specifically noted.

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*Some of the statements and assumptions included in this Annual Report on Form 10-K are forward-looking statements, including, in particular, statements about our plans, strategies and prospects in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7. These statements identify prospective information. These forward-looking statements are based on current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ, possibly materially, from those in the forward-looking statements. These risks include, among others, risks related to price and product competition in our industry, customer demand for our products, the development and introduction of new products, the impact of technological advances, risks related to our intellectual property, general market conditions and the factors listed in the Risk Factors section of Item 7 of this Annual Report on Form 10-K. We undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made.*

## **PART I**

### **ITEM 1. BUSINESS**

We are a leader in the design, manufacturing and marketing of rigid disc drives. Rigid disc drives, which are commonly referred to as disc drives or hard drives, are used as the primary medium for storing electronic information in systems ranging from desktop and notebook computers, and consumer electronic devices to data centers delivering information over corporate networks and the Internet. We produce a broad range of rigid disc drive products that make us a leader in enterprise applications, where our products are used in enterprise servers, mainframes and workstations; desktop applications, where our products are used in PCs; mobile computing applications, where our products are used in notebook computers; and consumer electronic applications, where our products are used in digital video recorders (DVRs), gaming platforms, and digital music players.

We sell our rigid disc drives primarily to major original equipment manufacturers, or OEMs, and also market to distributors under our globally recognized brand name. For fiscal years 2004, 2003 and 2002, approximately 60%, 61% and 66%, respectively, of our rigid disc drive revenue was from sales to OEMs, including customers such as Hewlett-Packard, Dell, IBM, EMC, and Microsoft. We have longstanding relationships with many of these OEM customers. We also have key relationships with major distributors, who sell our rigid disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world. Also, we are currently expanding our direct sales to retailers. For fiscal years 2004, 2003 and 2002, approximately 30%, 34% and 39%, respectively, of our revenue came from customers located in North America, approximately 30%, 31% and 31%, respectively, came from customers located in Europe and approximately 40%, 35% and 30%, respectively, came from customers located in the Far East. Substantially all of our revenue is denominated in U.S. dollars.

### **Industry**

#### *Demand for Electronic Data Storage*

We believe that the amount of data stored and accessed electronically is growing rapidly and that there are a number of key factors driving this demand. We are particularly focused on three areas of growing demand for rigid disc drives:

*Growth in Rigid Disc Drives for Consumer Electronics.* High-performance computing and communications functions and, increasingly, rigid disc drives are being incorporated into consumer electronics devices such as video game consoles, DVRs and advanced television set-top boxes. In addition, faster connections to the Internet and increased broadband capacity have encouraged consumers to download greater amounts of text, video and audio data, expanding the market for rigid disc drives for use in new consumer and entertainment appliances. The adoption and

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rapid growth of the use of rigid disc drives in these applications will be facilitated by the development of low-cost rigid disc drives that meet the pricing requirements of the consumer electronics market.

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*Growth in Rigid Disc Drives for Mobile Computing.* The mobile computing market is expected to grow faster than any other PC segment as performance and price continue to improve, placing notebook computers in an attractive position relative to desktop computers. Notebook systems are increasingly becoming replacement systems to desktop computers and progressively more desirable to consumers as the need for mobility increases and wireless adoption continues to advance. In addition, the industry continually progresses towards smaller systems and devices.

*Growth of Storage Area Networks and Network Attached Storage.* The need to address the dramatic expansion in data storage management requirements has spurred the evolution of new storage and data management technologies. Enterprises are increasingly offloading network traffic to dedicated storage area networks, or SANs. In addition, many enterprises are moving away from the use of server-attached storage to network-attached storage, or NAS. These solutions combine high-performance storage products that are comprised principally of rigid disc drives with sophisticated software and communications technologies. We expect that the market for these solutions will grow rapidly and will result in greater opportunities for the sale of high-performance, high-capacity rigid disc drives.

An emerging application in enterprise storage is the use of near-line storage systems. These systems use less expensive discs to allow fast access to less frequently needed data.

### ***Success in Our Industry Depends on Technology and Manufacturing Leadership***

The design and manufacturing of rigid disc drives depends on highly advanced technology and manufacturing techniques, especially in the areas of read/write heads and recording media. Rigid disc drive manufacturers are distinguished by their level of integration, which is the degree to which they control the technology used in their products, and by whether they are captive, producing rigid disc drives for their own computer systems, or independent. Integrated manufacturers are companies that design and produce the critical technologies, including read/write heads and recording media, used in their rigid disc drives. An integrated approach enables them to lower manufacturing costs and to improve the functionality of components so that they work together efficiently. In contrast, manufacturers that are not integrated purchase most of their components from third-party suppliers, upon whom they depend for key elements of their technological innovation and differentiation. This can limit their ability to coordinate technology roadmaps and optimize the component design process for manufacturing efficiency and product reliability while making them reliant on the technology investment decisions of their suppliers. Independent manufacturers can enjoy a competitive advantage over captive manufacturers in working with OEMs because they do not compete with OEMs for computer system sales.

Due to the significant challenges posed by the need to continually innovate and improve manufacturing efficiency, the rigid disc drive industry continues to undergo significant consolidation as manufacturers and merchant component suppliers merge with other companies or exit the industry. For instance, IBM merged its rigid disc drive business with that of Hitachi through the formation of Hitachi Global Storage Technologies, a separate company. Consolidation is likely to continue in our industry as the technological challenges and the associated levels of required investment grow, increasing the competitive necessity of large-scale operations. We believe the competitive dynamics of the rigid disc drive industry favor integrated, independent manufacturers with the scale to make substantial technology investments and apply them across a broad product portfolio and set of customers.

### **Overview of Rigid Disc Drive Technology**

All rigid disc drives incorporate the same basic technology although individual products vary. One or more rigid discs are attached to a spindle assembly powered by a spindle motor that rotates the discs at a high constant speed around a hub. The discs, or recording media, are the components on which data is stored and from which it is retrieved. Each disc typically consists of a substrate of finely machined aluminum or



glass with a layer of a

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thin-film magnetic material. Read/write heads, mounted on an arm assembly similar in concept to that of a record player, fly extremely close to each disc surface and record data on and retrieve it from concentric tracks in the magnetic layers of the rotating discs. The read/write heads are mounted vertically on an e-shaped assembly. The e-block and the recording media are mounted inside a metal casing, called the base casting.

Upon instructions from the drive's electronic circuitry, a head positioning mechanism, or actuator, guides the heads to the selected track of a disc where the data is recorded or retrieved. Application specific integrated circuits, or ASICs, and ancillary electronic control chips are collectively mounted on printed circuit boards. ASICs move data to and from the read/write head and the internal controller, or interface, which communicates with the host computer. Rigid disc drive manufacturers typically use one or more of several industry standard interfaces such as advanced technology architecture, or ATA, Serial ATA which provides higher data transfer rates than the previous ATA standard, small computer system interface, or SCSI, and Fibre Channel.

Rigid disc drive performance is commonly assessed by six key characteristics:

storage capacity, commonly expressed in megabytes, gigabytes or terabytes, which is the amount of data that can be stored on the disc;

spindle rotation speed, commonly expressed in revolutions per minute, which has an effect on speed of access to data;

interface transfer rate, commonly expressed in megabytes per second, which is the rate at which data moves between the rigid disc drive and the computer controller;

average seek time, commonly expressed in milliseconds, which is the time needed to position the heads over a selected track on the disc surface,

data transfer rate, commonly expressed in megabytes per second, which is the rate at which data is transferred to and from the disc; and

product quality and reliability, commonly expressed in annualized return rates (ARR).

Areal density is a measure of storage capacity per square inch on the recording surface of a disc. Current areal densities are sufficient to meet the requirements of most applications today. Although the rate of increase in areal density is slowing, we expect the long-term demand for increased drive capacities to continue to increase as audio and visual data require many multiples of the storage capacity of simple text. We have pursued, and expect to continue to pursue, a range of technologies to increase areal densities across the entire range of our products to increase drive capacities and to enable the production of higher capacity smaller form factor disc drives.

## **Manufacturing**

We pursue an integrated business strategy based on the ownership of critical component technologies. This strategy allows us to maintain control over our product roadmap and component cost, quality and availability. Our manufacturing efficiency and flexibility is a critical element of our integrated business strategy. During the past several years we have made significant improvements in our manufacturing efficiency by:

consolidating the number of facilities we operate and reducing the number of personnel we employ;

expanding manufacturing automation to enhance our efficiency and flexibility;

applying Six Sigma to improve product quality and reliability and reduce costs;

integrating our supply chain with suppliers and customers to enhance our demand visibility and reduce our working capital requirements; and

coordinating between our manufacturing group and our research and development organization to rapidly achieve volume manufacturing and enhance our product quality and reliability.

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Manufacturing our rigid disc drives is a complex process that begins with the production of individual components and ends with a fully assembled unit. We design, assemble and/or manufacture a number of the most important components found in our rigid disc drives, including read/write heads, recording media, printed circuit boards, spindle motors and ASICs.

*Read/Write Heads.* The function of the read/write head is to scan across the disc as it spins, magnetically recording or reading information. The tolerances of recording heads are extremely demanding and require state-of-the-art equipment and processes. Our read/write heads are manufactured with thin-film and photolithographic processes similar to those used to produce semiconductor integrated circuits. Beginning with six inch round ceramic wafers, we process more than 25,000 head elements at one time. Each of these head elements goes through more than 300 steps, all in clean room environments. Our read/write heads require highly advanced processes with tolerances approaching the thickness of a single atom. We perform all primary stages of design and manufacture of read/write heads at our facilities. Although the percentage of our requirements for read/write heads that we produce internally varies periodically, we currently manufacture all of our read/write heads.

*Recording Media.* The function of the recording media is to magnetically store information. The domains where each bit of magnetic code is stored are extremely small and precisely placed. As a result, the manufacturing of recording media requires sophisticated thin-film processes. Each disc is a sequentially processed set of layers that consist of structural, magnetic, protective and lubricating materials. Once complete, the disc must have a high degree of physical uniformity to assure reliable and error-free storage. We purchase aluminum substrate blanks for recording media production from third parties, mainly in Japan. These blanks are machined, plated and polished to produce finished substrates at our plant in Northern Ireland. We also purchase glass substrates from third parties in Japan for use in our mobile and small form factor consumer electronic products. Although the percentage of our requirements for recording media that we produce internally varies from quarter to quarter, we currently manufacture almost all of our recording media requirements. We are in the process of expanding our media production facility in Singapore to further increase our production capacity. Our strategy is to purchase no more than 20% of our recording media requirements from third-party suppliers in any given quarter.

*Printed Circuit Boards.* We assemble and test a significant portion of the printed circuit boards used in our rigid disc drives. Printed circuit boards are the boards that contain the electronic circuitry and ASICs that provide the electronic controls of the rigid disc drive and on which the head-disc assembly is mounted. We assemble printed circuit boards at our facilities in Malaysia and China.

*Spindle Motors.* We participate in the design of most of our spindle motors and purchase them principally from outside vendors in Asia, whom we have licensed to use our intellectual property and technology.

*ASICs.* We participate in the design of many of the ASICs used in our rigid disc drives for motor and actuator control, such as interface controllers, read/write channels and pre-amplifiers. We do not manufacture any ASICs but, rather, buy them from third-party suppliers.

Following the production of the individual components of the rigid disc drive, the first step in the manufacture of a rigid disc drive itself is the assembly of the actuator arm, read/write heads, discs and spindle motor in a housing to form the head-disc assembly. The production of the head-disc assembly involves largely automated processes. Printed circuit boards are then mated to the head-disc assembly and the completed unit is tested prior to packaging and shipment. Final assembly and test operations of our rigid disc drives occur primarily at facilities located in China and Singapore. We perform subassembly and component manufacturing operations at our facilities in China, Malaysia, Northern Ireland, Singapore, Thailand, and in the United States, in California and Minnesota. In addition, third parties manufacture and assemble components for us in various Asian countries, including China, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand, and in Europe and the United States.



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We offer a broad range of 3.5-inch form factor rigid disc drive products for the enterprise, desktop and consumer electronics sectors of the rigid disc drive industry. During fiscal year 2004, we introduced the Momentus family of 2.5-inch rigid disc drives for notebook computers. Also, during fiscal year 2004, we introduced Savvio, our first 2.5-inch enterprise disc drive. We offer more than one product within each product family, and differentiate products on the basis of price/performance and form factor, or the dimensions of the rigid disc drive. Historically, our industry has been characterized by continuous and significant advances in technology, which contributed to rapid product life cycles; however, based upon the recent pace of new product introductions, we believe that our industry is currently in a period in which the rate of increases in areal density, which is the storage capacity per square inch on a disc, is lower than the rate of the last several years, resulting in longer product life cycles. We list in the table below our main current product offerings.

<b>Product Name</b>	<b>Markets Served</b>	<b>Storage Capacities (gigabytes)</b>	<b>Rotation Speed (RPM)</b>	<b>Interface</b>
Cheetah SFF 10K.1 (Savvio)	Enterprise	36 and 73	10,000	SCSI/Fibre Channel
Cheetah 10K.6	Enterprise	36, 73 and 46	10,000	SCSI/Fibre Channel
Cheetah 15K.3	Enterprise	18, 36 and 73	15,000	SCSI/Fibre Channel
Barracuda 7200.7	Desktop/Consumer Electronics	40, 60, 80, 120, 160 and 200	7,200	ATA/SATA
U Series X	Desktop/Consumer Electronics	10 and 20	5,400	ATA
U-9 Series	Consumer Electronics	40, 80, 120, and 160	5,400	ATA
Momentus	Mobile Computing	20, 30 and 40	5,400/4,200	ATA

In June 2004, we announced 12 new rigid disc drive products which will be introduced in fiscal year 2005, including:

our first 1-inch form factor rigid disc drive, which will be primarily used in hand held consumer electronics devices such as digital audio players and digital cameras;

larger capacity 3.5-inch form factor rigid disc drives to address the market for larger capacity personal video recorders and home media storage devices and near-line enterprise applications;

additional capacity models of our 2.5-inch form factor Momentus mobile computing rigid disc drive, which will more completely address our customers' mobile computing disc drive requirements; and

new versions of our current Barracuda and Cheetah desktop and enterprise rigid disc drives.

Many of these new product will address disc drive applications for which we currently have no product offerings.

**Enterprise Storage**

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*Cheetah Family.* Commercial uses for Cheetah rigid disc drives include Internet and e-commerce servers, data mining and data warehousing, mainframes and supercomputers, department/enterprise servers and workstations, transaction processing, professional video and graphics and medical imaging.

*Savvio Family.* Savvio is our new 2.5-inch enterprise disc drive. This disc drive is our first enterprise disc drive in the smaller 2.5-inch form factor and, as such, allows the installation of more disc drives per square foot, thus facilitating faster access to data.

### **Desktop Storage**

*U Series X and Barracuda ATA/SATA Family.* The U Series X and Barracuda ATA/SATA family of rigid disc drives are used in desktop applications, workstations and low-end server applications.

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### **Consumer Electronics Storage**

*U Series and Barracuda ATA/SATA Family.* The U-9 Series of rigid disc drives are used in new markets, including personal video recorder (PVR), video game consoles, audio jukeboxes, home media centers, and home and industrial security systems. The Barracuda 7200.7 is used in PVR s and the U Series X is used in PVR s and gaming applications. Our consumer electronics (CE) drives feature quiet acoustics, high reliability and high performance streaming.

### **Mobile Computing**

*Momentum Family.* Momentum is our introductory mobile computing rigid disc drive product. The current Momentum rigid disc drives target only a portion of the mobile computing market. Commercial uses for Momentum rigid disc drives include notebook computers running popular office applications and laptops for business, government and education environments. Consumer uses for Momentum rigid disc drives include home notebook computers, tablet computers and digital audio applications.

### **Customers**

We sell our rigid disc drive products primarily to major OEMs and distributors. OEM customers incorporate our rigid disc drives into computer systems and storage systems for resale. Distributors typically sell our rigid disc drives to small OEMs, dealers, system integrators and other resellers. Shipments to OEMs were approximately 60%, 61% and 66% of our revenue in fiscal years 2004, 2003 and 2002, respectively. Shipments to distributors were approximately 40%, 39% and 34% of our revenue in fiscal years 2004, 2003 and 2002, respectively. Sales to Hewlett-Packard accounted for approximately 19% and 18% of our rigid disc drive revenue in fiscal years 2004 and 2003, respectively. Sales to Hewlett-Packard and Compaq together accounted for approximately 20% of our rigid disc drive revenue in fiscal year 2002. No other customer accounted for 10% or more of our rigid disc drive revenue in fiscal years 2004, 2003 and 2002. Also, we are currently expanding our direct sales to retailers. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors Risks Related to Our Business Dependence on Key Customers.

OEM customers typically enter into master purchase agreements with us. These agreements provide for pricing, volume discounts, order lead times, product support obligations and other terms and conditions. The term of these agreements is usually 12 to 36 months, although our product support obligations generally extend substantially beyond this period. These master agreements typically do not commit the customer to buy any minimum quantity of products, or create exclusive relationships. Deliveries are scheduled only after receipt of purchase orders. In addition, with limited lead-time, customers may cancel or defer most purchase orders without significant penalty. Anticipated orders from many of our customers have in the past failed to materialize or OEM delivery schedules have been deferred or altered as a result of changes in their business needs.

Our distributors generally enter into non-exclusive agreements for the redistribution of our products. They typically furnish us with a non-binding indication of their near-term requirements and product deliveries are generally scheduled based on a weekly confirmation by the distributor of its requirements for that week. The agreements typically provide the distributors with price protection with respect to their inventory of our rigid disc drives at the time of a reduction by us in our selling price for the rigid disc drives and also provide limited rights to return the product.



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We also regularly enter into agreements with our customers, which obligate us to provide a limited indemnity against losses resulting from intellectual property claims. These agreements are customary in our industry and typically require us to indemnify our customer against certain damages and costs incurred as a result of third party intellectual property claims arising as a result of their use of our products.

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### **Sales, Marketing and Customer Service**

Our sales organization focuses on deepening our relationship with our customers. The worldwide sales group focuses on geographic coverage of OEMs and distributors throughout most of the world. The worldwide sales group is organized regionally among North America, Japan, Asia-Pacific (excluding Japan) and Europe, Africa and the Middle East. In addition, we have a sales operation group which focuses on aligning our production levels with customers' product requirements. Our sales force works directly with our marketing organization to coordinate our OEM and distribution channel relationships. Also, we are currently expanding our direct sales to retailers. We maintain sales offices throughout the United States and in Australia, China, England, France, Germany, India, Ireland, Japan, Singapore and Taiwan.

Our marketing organization works to increase demand for our rigid disc drive products through strategic collaboration with key OEM customers to align our respective product roadmaps and to build our brand and end- customer relationships. This organization is comprised of our strategic marketing, business development and marketing communications groups. Our strategic marketing group coordinates with our research and development group to align our product development roadmap to meet key OEM customers' technology requirements over the long term. Our business development group coordinates the qualification of new products with OEMs, determines product pricing and provides product service and support. Our marketing communications group focuses on building the Seagate brand name among our OEM and distribution channel customers.

We warrant our products for periods ranging from one year to five years, and on July 26, 2004, we announced the introduction of our five-year warranty, effective June 1, 2004, on every Seagate internal PC, notebook and enterprise disc drive shipped through our distribution and retail channels.

Foreign sales are subject to foreign exchange controls and other restrictions, including, in the case of some countries, approval by the Office of Export Administration of the U.S. Department of Commerce and other U.S. governmental agencies.

### **Competition**

The rigid disc drive industry is intensely competitive, with manufacturers competing for a limited number of major customers. Some of the principal factors used by customers to differentiate among rigid disc drive manufacturers are:

storage capacity;

price per unit and price per gigabyte;

storage/retrieval access times;

data transfer rates;

product quality and reliability;

production volume capability;

form factor; and

responsiveness to customer preferences and demands.

We believe that our products are generally competitive with respect to each of these factors in the markets that we currently address. We summarize below our principal competitors, the effect of competition on price erosion for our products and product life cycles and technology.

*Principal Competitors.* We have experienced and expect to continue to experience intense competition from a number of domestic and foreign companies, some of which have greater financial and other resources

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than we have. These competitors include other independent rigid disc drive manufacturers such as Maxtor and Western Digital, as well as large captive manufacturers such as Fujitsu, Hitachi Global Storage Technologies, Samsung and Toshiba. Because they produce complete computer systems, captive manufacturers can derive a greater portion of their operating margins from other components, which reduces their need to realize a profit on the rigid disc drives included in their computer systems and allows them to sell rigid disc drives to third parties at very low margins. Many captive manufacturers are also formidable competitors because they have more substantial resources and greater access to their internal customers than we do. In addition, Hitachi Global Storage Technologies (together with affiliated entities) and Samsung Electronics Incorporated also sell other products to our customers, including critical components like flash memory, application-specific integrated circuits, or ASICs, and flat panel displays, and may be willing to sell their disc drives at a lower margin to advance their overall business strategy. We also face indirect competition from present and potential customers, who evaluate from time to time whether to manufacture their own rigid disc drives and other information storage products or purchase them from outside sources other than us. These manufacturers also sell rigid disc drives to third parties, which results in direct competition with us. We expect that continued consolidation both among independent manufacturers and among captive manufacturers will increase the threat posed to our business by these competitors. During the last few years, three additional competitors have entered the market; Cornice and GS Magicstor, offering 1-inch disc drives, and Excelstor as a contract manufacturer of desktop disc drives.

*Price Erosion.* Our competitors have historically offered new or existing products at lower prices as part of a strategy to gain or retain market share and customers, and we expect these practices to continue. Even during periods when demand for rigid disc drives is stable, our industry is price competitive and vendors experience price erosion over the life of a product. Such price erosion has increased as product life cycles have lengthened due to a slowing in the rate of increase in areal density. This slowing of the areal density curve may contribute to increases in average price erosion to the extent that historical price erosion patterns continue, product life cycles are lengthened, our competitors have more time to enter the market for a particular product, and we are unable to offset this with new products at higher average prices. We expect that price erosion in our industry will continue for the foreseeable future. To remain competitive, we believe it will be necessary to continue to reduce our prices. We have established production facilities in China, Malaysia, Singapore and Thailand to achieve cost reductions.

*Product Life Cycles and Changing Technology.* Historically, competition and changing customer preference and demand in the rigid disc drive industry have shortened product life cycles and caused acceleration in the development and introduction of new technology. Based on the recent pace of new product introductions, however, we believe that the current rate of increase in areal density is slowing from the rate of the last several years, and the resulting variability in product life cycles may make planning for product transitions more difficult. We believe that our future success will depend upon our ability to develop, manufacture and market products of high quality and reliability which meet changing user needs and which successfully anticipate or respond to changes in technology and standards on a cost-effective and timely basis.

**Research and Development**

We are committed to developing new component technologies and products and evaluating alternative technologies. We have increased our focus on research and development and realigned our rigid disc drive development process. This structured product process is designed to bring new products to market through predictable and repeatable methodologies. Seagate Research, which is based in Pittsburgh, Pennsylvania, is dedicated to extending the capacity of magnetic and optical recording and exploring alternative data storage technologies, including perpendicular recording technology and heat assisted magnetic recording technology. Perpendicular recording technology involves a different orientation for the magnetic field than is currently used in rigid disc drives, and heat assisted magnetic recording technology uses heat generated by a laser to improve storage capacity. Our Advanced Technology Integration effort focuses rigid disc drive and component research on recording subsystems, including read/write heads and recording media, market-specific product technology as well as technology focused towards new business opportunities. The primary purpose of our Advanced

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Technology Integration effort is to ensure timely availability of mature component technologies to our product development teams as well as allowing us to leverage and coordinate those technologies in the design centers across our products in order to take advantage of opportunities in the marketplace. During fiscal years 2004, 2003 and 2002, we had product development expenses of \$666 million, \$670 million and \$698 million, respectively.

## **Patents and Licenses**

As of July 2, 2004, we had approximately 2,456 U.S. patents and 726 patents issued in various foreign jurisdictions as well as approximately 1,194 U.S. and 1,204 foreign patent applications pending. The number of patents and patent applications will vary at any given time as part of our ongoing patent portfolio management activity. Due to the rapid technological change that characterizes the information storage industry, we believe that the improvement of existing products, reliance upon trade secret law, the protection of unpatented proprietary know-how and development of new products are generally more important than patent protection in establishing and maintaining a competitive advantage. Nevertheless, we believe that patents are valuable to our business and intend to continue our efforts to obtain patents, where available, in connection with our research and development program.

The information storage industry is characterized by significant litigation relating to patent and other intellectual property rights. Because of rapid technological development in the information storage industry, some of our products have been, and in the future could be, alleged to infringe existing patents of third parties. From time to time, we receive claims that our products infringe patents of third parties. Although we have been able to resolve some of those claims or potential claims by obtaining licenses or rights under the patents in question without a material adverse affect on us, other claims have resulted in adverse decisions or settlements. In addition, other claims are pending which if resolved unfavorably to us could have a material adverse effect on our business and results of operations. For more information on these claims, see Item 3. Legal Proceedings. The costs of engaging in intellectual property litigation may be substantial regardless of the merit of the claim or the outcome. We have patent cross-licenses with a number of companies. Additionally, as part of our normal intellectual property practices, we are engaged in negotiations with other major rigid disc drive companies and component manufacturers with respect to ongoing patent cross-licenses. For a discussion of the related risks, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors Risks Related to Our Business Potential Loss of Licensed Technology.

## **Backlog**

In view of customers' rights to cancel or defer orders with little or no penalty, we believe backlog in the rigid disc drive industry is of limited indicative value in estimating future performance and results.

## **Employees**

At July 2, 2004, we employed approximately 40,000 persons worldwide, of which approximately 30,000 employees were located in our Asian operations. In addition, we make use of temporary employees, principally in manufacturing, who are hired on an as-needed basis. We believe that our future success will depend in part on our ability to attract and retain qualified employees at all levels, and even then we cannot assure you of any such success. We believe that our employee relations are good.

## **Environmental Matters**

Our operations are subject to comprehensive 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 our 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.

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We believe that our operations are currently in substantial compliance with all environmental laws, regulations and permits. We incur operating and capital costs on an ongoing basis to comply with environmental laws. If additional or more stringent requirements are imposed on us in the future, we could incur additional operating costs and capital expenditures.

Some environmental laws, such as the U.S. federal superfund law and similar state statutes, 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. We have been identified as a potentially responsible party at several superfund sites. At each of these sites, the government has assigned to us a 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.

Some of our current and former sites have a history of commercial and industrial operations, including the use of hazardous substances. Groundwater and soil contamination resulting from historical operations has been identified at several of our current and former facilities and we are addressing the cleanup of these sites in cooperation with the relevant government agencies.

While our ultimate costs in connection with these sites is difficult to predict with complete accuracy, based on our current estimates of cleanup costs and our expected allocation of these costs, we do not expect costs in connection with these superfund sites and contaminated sites to be material.

**Table of Contents****Executive Officers and Directors**

We list below our executive officers and members of our board of directors and their ages and positions as at September 2, 2004. There are no family relationships among any of our directors or executive officers.

Mr. Watkins, Mr. Pope, Mr. Hudson, Mr. Coulter, Mr. Davidson, Mr. Hutchins and Mr. Marquardt hold the same position at New SAC, except that Mr. Luczo serves as Chief Executive Officer of New SAC. Mr. Pope serves as the Chief Financial Officer and Treasurer of Certance Holdings (formerly Seagate Removable Storage Solutions Holdings). Mr. Hudson serves as General Counsel and Corporate Secretary of Certance Holdings. We expect that our directors and those of our officers who also serve as officers of our affiliates will continue to devote a portion of their time and energy to the affairs of those companies.

Pursuant to the Seagate Technology shareholders agreement, Messrs. Davidson and Hutchins were designated as directors by Silver Lake Partners and Mr. Coulter was designated as a director by Texas Pacific Group.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen J. Luczo	47	Chairman of the Board of Directors
William D. Watkins	51	President, Chief Executive Officer and Director
Charles C. Pope	49	Executive Vice President, Finance and Chief Financial Officer
David A. Wickersham	48	Executive Vice President and Chief Operating Officer
Brian S. Dexheimer	41	Executive Vice President, Worldwide Sales, Marketing and Customer Service
William L. Hudson	52	Executive Vice President, General Counsel and Corporate Secretary
John P. Weyandt	57	Executive Vice President, Product and Process Development
James M. Chirico, Jr.	46	Senior Vice President and General Manager, Asia Operations
Jaroslav S. Glembocki	48	Senior Vice President, Heads and Media
Mark H. Kryder	60	Senior Vice President, Research and Technology and Chief Technical Officer
William W. Bradley	61	Director
James G. Coulter	44	Director
James A. Davidson	45	Director
Glenn H. Hutchins	48	Director
Donald E. Kiernan	63	Director
David F. Marquardt	55	Director
Lydia Marshall	55	Director
Gregorio Reyes	63	Director
John W. Thompson	55	Director
Edward J. Zander	57	Director

*Mr. Luczo*, the Chairman of our Board of Directors, joined us in October 1993 as Senior Vice President of Corporate Development. In March 1995, he was appointed Executive Vice President of Corporate Development and Chief Operating Officer of Seagate Software Holdings. In July 1997, he was appointed Chairman of the Board of Directors of Seagate Software Holdings. In September 1997, Mr. Luczo was promoted to President and Chief Operating Officer of Seagate Delaware and, in July 1998, he was promoted to Chief Executive Officer. Mr. Luczo resigned from the office of President of Seagate Delaware in May 2000, and became a member of our board of directors in November 2000. Mr. Luczo was elected Chairman of Seagate Technology in June 2002. Effective July 3, 2004, Mr. Luczo resigned from the office of Chief Executive Officer, and Mr. Watkins was elected to that office. Prior to joining us, Mr. Luczo was Senior Managing Director of the Global Technology Group of Bear, Stearns & Co. Inc., an investment banking firm, from February 1992 to October 1993. Mr. Luczo serves as Chief Executive Officer of New SAC and is a member of the boards of directors of New SAC and E2open, Inc. and was elected Chairman of Seagate Technology on June 19, 2002.



*Mr. Watkins*, our President, Chief Executive Officer and Director, joined us as Executive Vice President of our Recording Media Group in February 1996 with our merger with Conner Peripherals, Inc. In October 1997,

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Mr. Watkins took on additional responsibility as Executive Vice President of the Disc Drive Operations and in August 1998, he was appointed to the position of Chief Operating Officer, with responsibility for our disc drive manufacturing, recording media and head operations and product development. In June 2000, he was appointed to the position of President, and in November 2000, he became a member of our board of directors. Effective July 3, 2004, Mr. Watkins was appointed to the office of Chief Executive Officer. Prior to joining us, he was President and General Manager of the Disk Division at Conner Peripherals, Inc., an information storage solutions company, from January 1990 until December 1992. In January 1993, Mr. Watkins was promoted to Senior Vice President of Heads & Media Manufacturing Operations at Conner Peripherals, Inc. Mr. Watkins is a member of the boards of directors of Iolon, Inc. and MEMC Electronic Materials, Inc. He also serves on the Executive Advisory Council for IDEMA (International Disc Drives and Equipment Manufacturer Association) and the Executive Advisory Board of Juran Center for Leadership in Quality.

*Mr. Pope*, our Executive Vice President of Finance since April 1999 and our Chief Financial Officer since February 1998, joined us as Director of Budgets and Analysis in 1985 with our acquisition of Grenex, Inc. From January 1997 to April 1999, Mr. Pope was our Senior Vice President of Finance. He has held a variety of positions in his 20-year executive experience with us, including as Director of Finance of the Thailand operations, Vice President of Finance of the Asia Pacific operations, Vice President of Finance and Treasurer of Seagate Delaware, Vice President and General Manager of Seagate Magnetics and, most recently, Senior Vice President of Finance of the Storage Products Group.

*Mr. Wickersham* joined us in May 1998 as Senior Vice President, Worldwide Materials. He assumed responsibilities for Worldwide Product Line Management in August 1999. In May 2000, he was promoted to Executive Vice President and in April 2004, assumed the responsibility of Chief Operating Officer. Prior to joining us, Mr. Wickersham was Vice President, Worldwide Materials at Maxtor Corporation from 1996 to May 1998. From 1993 to 1996, Mr. Wickersham was Director of Corporate Materials at Exabyte Corporation. From 1978 to 1993, he held various management positions at IBM. Mr. Wickersham serves on the Board of IDEMA (International Disc Drives and Equipment Manufacturer Association).

*Mr. Dexheimer* joined us as a result of our acquisition of Imprimis in 1989. His career includes more than 20 years of experience in data storage, holding various sales, sales management and marketing positions with us. Mr. Dexheimer held the position of Vice President, Marketing and Product Line Management in the Removable Storage Solutions group from 1996 to July 1997. In July 1997, he was promoted to Vice President and General Manager of Removable Storage Solutions until August 1998 when he was promoted to Senior Vice President, Product Marketing and Product Line Management for Desktop disc drives. In August 1999, he was promoted to Senior Vice President, Worldwide Sales and Marketing. He was promoted to Executive Vice President Worldwide Sales, Marketing and Customer Service in August 2000.

*Mr. Hudson*, our Executive Vice President, General Counsel and Corporate Secretary, joined us in January 2000 as a Senior Vice President and was promoted to Executive Vice President in November 2002. Prior to joining us, Mr. Hudson was a partner of the law firm Gibson Dunn & Crutcher, LLP from August 1997 to December 1999 and, from October 1984 to July 1997, he was a partner of the law firm Brobeck, Phleger & Harrison, LLP.

*Mr. Weyandt* joined us in 1989 with our acquisition of Imprimis Technology. Since October 2003, Mr. Weyandt has served as our Executive Vice President, Product and Process Development for enterprise, desktop and mobile computing storage. Mr. Weyandt is also responsible for our Motors, Advance Technology Integration and Factory of the Future groups. Mr. Weyandt has spent over 30 years in the disc drive industry commencing with Control Data in 1969. His background includes assignments in manufacturing engineering, product quality, supplier quality, design engineering and process development.

*Mr. Chirico*, our Senior Vice President and General Manager of Asia Operations, joined us in 1998 as Senior Vice President of Worldwide Manufacturing Quality based in Singapore. In April 1999, he was appointed



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Senior Vice President and General Manager of Recording Head Operations based in Minnesota. In September 2000, he was appointed to his current position of Senior Vice President and General Manager, Asia Operations. Mr. Chirico is presently based in Singapore. Prior to joining us, Mr. Chirico spent 17 years with IBM where he held a number of management positions within manufacturing operations. Mr. Chirico served as chairman of IDEMA (International Disc Drives and Equipment Manufacturer Association) Asia Pacific Management Committee until April 2004.

*Mr. Glembocki* was promoted to Senior Vice President of our Recording Heads and Media Operations in October 2000. In this position, Mr. Glembocki is responsible for overseeing all component research, product development, disc drive integration, production launch, materials and volume production activities for the worldwide operations relating to heads and media, which are located in the United States, Asia and Europe. Mr. Glembocki joined us in the February 1996 merger with Conner Peripherals. As Vice President of Engineering for our Recording Media Group, Mr. Glembocki was responsible for our media research, product development, drive integration and production launch. A key member of the team that founded the Conner Disk Division, Mr. Glembocki managed all of the engineering research and development activities. During 1994 and 1995, Mr. Glembocki held the position of General Manager of the Conner Disk Division. Prior to joining us, Mr. Glembocki held positions at Domain Technology and IBM.

*Dr. Kryder*, our Chief Technical Officer as of June 27, 2003, joined us in 1998 as Senior Vice President, Research and Technology, and built Seagate Research into the leading industrial research laboratory in the field of data storage technology. Prior to coming to Seagate, he was the Stephen J. Jatras university professor of Electrical and Computer Engineering and founding director of the Data Storage Systems Center at Carnegie Mellon University, which he joined in 1978. Dr. Kryder holds a Bachelor of Science degree in Electrical Engineering from Stanford University and a Ph.D. in Electrical Engineering and Physics from the California Institute of Technology. He has authored over 300 publications and holds 21 patents. He is a member of the National Academy of Engineering, a Fellow of the American Physical Society and a Fellow of the Institute of Electrical and Electronic Engineers (IEEE). He has twice been selected as Distinguished Lecturer for the IEEE Magnetics Society and has been awarded the IEEE Magnetics Society Achievement Award, the IEEE Reynold B. Johnson Information Storage Award and the IEEE Millennium Medal.

*Senator Bradley* became a member of our board of directors in July 2003. Senator Bradley is a Managing Director of Allen & Company LLC. Senator Bradley served as chief outside advisor to McKinsey & Company's non-profit practice from 2001 to 2004. From 1997 to 1999, he was a Senior Advisor and Vice Chairman to the International Council of J.P. Morgan & Co., Inc. During that time, he also served as an essayist for CBS evening news and a visiting professor at Stanford University, Notre Dame University and the University of Maryland. Senator Bradley served in the U.S. Senate from 1979 to 1997, representing the State of New Jersey. In 2000, he was a candidate for the Democratic nomination for President of the United States. He is also a member of the boards of directors of Starbucks Corporation and Willis Group Holdings, Limited.

*Mr. Coulter* became a member of our board of directors in November 2000. Mr. Coulter is a principal of the Texas Pacific Group, a private investment firm he co-founded in 1993. From 1986 to 1992, Mr. Coulter was a Vice President of Keystone, Inc. From 1986 to 1988, Mr. Coulter was also associated with SPO Partners, an investment firm that focuses on public market and private minority investments. Mr. Coulter is a member of the board of directors of J. Crew Group and a number of private companies.

*Mr. Davidson* became a member of our board of directors in November 2000. Mr. Davidson is a managing member of Silver Lake Partners, a private equity investment firm he co-founded in 1999. From June 1990 to November 1998, Mr. Davidson was an investment banker with Hambrecht & Quist LLC, most recently serving as a Managing Director and Head of Technology Investment Banking. He is also a member of the board of directors of Flextronics International Ltd.

*Mr. Hutchins* became a member of our board of directors in November 2000. Mr. Hutchins is a managing member of Silver Lake Partners, a private equity investment firm he co-founded in 1999. From 1994 to 1999,



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Mr. Hutchins was a Senior Managing Director of The Blackstone Group L.P., where he focused on its private equity investing. Mr. Hutchins is a member of the boards of directors of Gartner, Inc. and Ameritrade Holding Corp.

*Mr. Kiernan* became a member of our board of directors in April 2003. Mr. Kiernan is the retired senior executive vice president and chief financial officer of SBC Communications, where he served for 11 years and was responsible for all financial affairs. Prior to joining SBC, Mr. Kiernan was a partner with Arthur Young & Co., where he held several positions over his 20-year tenure, including head of the firm's management consulting practice in Florida and both audit-coordinating partner and managing partner of the firm's St. Louis office. Mr. Kiernan is also a member of the boards of directors of LaBranche and Company, Inc., Health Management Associates, Inc., and Money Gram International.

*Mr. Marquardt* became a member of our board of directors in November 2000. Mr. Marquardt was a co-founder of August Capital, a California-based venture capital firm, in 1995. Prior to August Capital, Mr. Marquardt was a partner of Technology Venture Investors, a venture capital firm that he co-founded in 1980. Mr. Marquardt is a member of the boards of directors of Microsoft Corporation, Netopia, Inc., Tumbleweed Communications Corp. and a number of private companies.

*Ms. Marshall* became a member of our board of directors in April 2004. Ms. Marshall was the founder and, from October 1999 until August 2004, was chairperson of the board of directors and chief executive officer of Versura, Inc., an internet-based provider of services to financial institutions, colleges and universities. Previously, she was managing director of Rockport Capital Incorporated from 1997 to 1999, executive vice president Marketing of Sallie Mae from 1993 to 1997 and senior vice president of Sallie Mae's Institutional and Public Finance and Strategic Planning Divisions from 1985 to 1993. Ms. Marshall serves as chair of the board for CARE International and is a member of the boards of directors of Nationwide Financial Services, Inc. and Nationwide Mutual Insurance Company.

*Mr. Reyes* became a member of our board of directors in April 2004. Mr. Reyes began his career in the semiconductor industry with National Semiconductor in 1962, followed by executive positions with Motorola, Fairchild Semiconductor and Eaton. From 1981 to 1984, he was president and chief executive officer of National Micronetics, a provider of hard disc magnetic recording head products for the data storage industry. Between 1986 and 1990, he was chairman and chief executive officer of American Semiconductor Equipment Technologies. Mr. Reyes co-founded Sunward Technologies in 1985 and served as chairman and chief executive officer until 1994. Mr. Reyes is a member of the boards of directors of LSI Logic Corp., Dialog Semiconductor and a number of private companies.

*Mr. Thompson* became a member of our board of directors in November 2000. Mr. Thompson is chairman of the board of directors and chief executive officer of Symantec Corporation, an Internet security technology provider. Before joining Symantec in April 1999, Mr. Thompson held various executive and management positions with IBM from 1971. Mr. Thompson is a member of the boards of directors of NiSource, Inc. and United Parcel Service, Inc.

*Mr. Zander* became a member of our board of directors in November 2002. In January 2004, Mr. Zander joined Motorola, Inc., where he currently serves as chairman and chief executive officer. Mr. Zander was a principal at Silver Lake Partners from July 2003 to January 2004. Prior to joining Silver Lake Partners, Mr. Zander served as president and chief operating officer of Sun Microsystems, Inc. from January 1998 through June 2002, during which time he oversaw the company's day-to-day business operations, including hardware and software design and development, global sales, service and customer advocacy, worldwide manufacturing and purchasing, research and development and worldwide marketing. Mr. Zander has acquired over 25 years of experience in the computer business serving in senior marketing management positions at Apollo Computer Systems Incorporated and Data General Corporation prior to joining Sun in October 1987. Mr. Zander is a member of the board of directors of a number of private companies.



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### **Financial Information**

Financial information for the Company's reportable business segments and about geographic areas is set forth in Item 8, Note 6, Business Segment and Geographic Information.

### **Available Information**

*Availability of Reports.* Seagate Technology is a reporting company under the Securities Exchange Act of 1934, as amended, and files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). The public may read and copy any Company filings at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because the Company makes filings to the SEC electronically, you may access this information at the SEC's Internet site: [www.sec.gov](http://www.sec.gov). This site contains reports, proxies and information statements and other information regarding issuers that file electronically with the SEC.

*Web Site Access.* Our Internet web site address is [www.seagate.com](http://www.seagate.com). We make available, free of charge at the Investor Relations portion of this web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Reports of beneficial ownership filed pursuant to Section 16(a) of the 1934 Act are also available on our web site.

### **Corporate Information**

We were formed in 2000 as an exempted company incorporated with limited liability under the laws of the Cayman Islands.

## **ITEM 2. PROPERTIES**

Our company headquarters is located in the Cayman Islands, while our U.S. executive offices are in Scotts Valley, California. Our principal manufacturing facilities are located in China, Malaysia, Northern Ireland, Singapore and Thailand and, in the United States, in California and Minnesota. Our principal disc drive design and R&D facilities are located in Colorado, Minnesota, Pennsylvania and Singapore. Portions of our facilities are occupied under leases that expire at various times through 2027. We occupy a total of 6.9 million square feet, of which, 4.4 million is for manufacturing and warehousing, 1.3 million is for product development and 1.2 million is for administrative purposes.

## **ITEM 3. LEGAL PROCEEDINGS**

See Item 8, Note 9, Legal, Environmental, and Other Contingencies.



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

None.

**Table of Contents*****PART II*****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS****Market Information**

Our common shares have traded on the New York Stock Exchange under the symbol *STX* since December 11, 2002. Prior to that time there was no public market for our common shares. The high and low sales prices of our common shares, as reported by the New York Stock Exchange, are set forth below for the periods indicated.

<b>Fiscal Quarter</b>	<b>Price Range</b>	
	<b>High</b>	<b>Low</b>
Quarter ending December 27, 2002 (commencing December 11, 2002)	\$ 11.78	\$ 9.86
Quarter ending March 28, 2003	\$ 12.95	\$ 7.78
Quarter ending June 27, 2003	\$ 18.49	\$ 9.98
Quarter ending October 3, 2003	\$ 28.60	\$ 17.45
Quarter ending January 2, 2004	\$ 31.35	\$ 16.70
Quarter ending April 2, 2004	\$ 21.70	\$ 14.99
Quarter ending July 2, 2004	\$ 16.26	\$ 11.50

The closing price of our common shares as reported by the New York Stock Exchange on September 2, 2004 was \$11.94 per share. As of September 2, 2004 there were 799 holders of record of our common shares. There were no sales of our equity securities during fiscal year 2004 that were not registered under the Securities Act of 1933.

**Dividends**

On January 29, 2004, our board of directors amended our quarterly dividend policy, and pursuant to our amended policy, we increased our quarterly distribution to our shareholders to \$0.06 per share (\$0.24 annually) so long as the aggregate amount of the distribution does not exceed 50% of our cumulative consolidated net income plus 100% of net cash proceeds received from the issuance of capital for the period beginning June 30, 2001 and ending the most recent fiscal quarter in which financial statements are internally available.

We are restricted in our ability to pay distributions by the covenants contained in the indenture governing our senior notes and the credit agreement governing our senior secured credit facilities. Our declaration of distributions is also subject to Cayman Islands law and the discretion of our board of directors. Under the terms of the Seagate Technology shareholders agreement (which was amended on September 2, 2004), at least seven members of our board of directors must approve the payment of distributions in excess of 15% of our net income in the prior fiscal year (provided that such consent is not required to declare and pay our regular quarterly dividend of \$0.06 per share). In deciding whether or not to declare quarterly distributions, our directors will take into account such factors as general business conditions within the rigid disc drive industry, our financial results, our capital requirements, contractual and legal restrictions on the payment of distributions by our subsidiaries to us or by us to our shareholders, the impact of paying distributions on our credit ratings and such other factors as our board of directors may deem

relevant.

Pursuant to our quarterly dividend policy, we made quarterly distributions of (i) \$0.03 per share to our shareholders of record as of each of February 14, 2003 and May 9, 2003; (ii) \$0.04 per share on each of August 22, 2003 and November 21, 2003 to our shareholders of record as of August 8, 2003 and November 7, 2003, respectively; and (iii) \$0.06 per share on each of February 27, 2004, May 21, 2004 and August 20, 2004 to our shareholders of record as of February 13, 2004, May 7, 2004 and August 6, 2004, respectively.

Since the closing of our initial public offering in December 2002, we have made distributions, pursuant to our quarterly dividend policy totaling approximately \$144 million in the aggregate.

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Within the two most recent fiscal years, we have made additional distributions unrelated to our quarterly dividend policy. These include:

an in-kind distribution of a \$32 million promissory note to our shareholders of record immediately following our sale of XIOtech Corporation on November 4, 2002; and

a distribution of approximately \$262 million to the holders of our then-outstanding shares immediately prior to our initial public offering.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for U.S. federal income tax purposes in any taxable year, the distribution will be treated as a return of capital for U.S. tax purposes, causing a reduction in a shareholder's adjusted tax basis in the common shares. We did not have current or accumulated earnings and profits for U.S. federal income tax purposes for our taxable year ended July 2, 2004 and, accordingly, distributions paid on our common shares during this period were treated as a return of capital for U.S. federal income tax purposes. There can be no assurances that we will not have current or accumulated earnings and profits for U.S. federal income tax purposes in future years. To the extent that we do have current or accumulated earnings and profits for U.S. federal income tax purposes, a distribution on our common shares will not be treated as a return of capital distribution and will be treated as dividend income.

Furthermore, we currently believe that we are a foreign personal holding company for U.S. federal income tax purposes. Under recent U.S. federal income tax legislation, U.S. shareholders who are individuals will not be eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15%) on distributions on our common shares if we qualify as a foreign personal holding company in the year in which such distributions were made or in the preceding taxable year.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

We list in the table below selected historical consolidated and combined financial information relating to us, and our predecessor for the periods indicated. Through November 22, 2000, the rigid disc drive business that we now operate and the storage area networks business that we operated through November 4, 2002, and which XIOtech Corporation ( XIOtech ) now operates, were the rigid disc drive and storage area networks divisions of Seagate Technology, Inc., a Delaware corporation, our predecessor corporation. Our operations prior to the sale of XIOtech were substantially identical to the operations of our predecessor before the November 2000 transactions.

We have derived our historical financial information as of and for the fiscal years ended July 2, 2004, June 27, 2003, and June 28, 2002 from our audited consolidated financial statements and related notes included elsewhere in this report.

We have derived our historical financial information as of and for the period from November 23, 2000 to June 29, 2001 from our audited consolidated financial statements and related notes not included in this report.

We have derived our predecessor's historical financial information below for the period from July 1, 2000 through November 22, 2000 from the audited combined financial statements and related notes of our predecessor, which are not included in this report.

We have derived our predecessor's historical financial information below as of the end of and for the fiscal year ended June 30, 2000 from the audited combined financial statements and related notes of our predecessor, which are not included in this report.

	Seagate Technology			Predecessor		
	Fiscal Year Ended			Fiscal		
	July 2, 2004	June 27, 2003	June 28, 2002	Nov. 23, 2000 to June 29, 2001	July 1, 2000 to Nov. 22, 2000	June 30, 2000
(in millions, except for per share data)						
Revenue	\$ 6,224	\$ 6,486	\$ 6,087	\$ 3,656	\$ 2,310	\$ 6,073
Gross margin	1,459	1,727	1,593	732	275	1,251
Income (loss) from operations	444	691	374	(74)	(623)	(285)
Gain on sale of SanDisk common stock					102	679
Gain on exchange of certain investments in equity securities						199
Debt refinancing charges			(93)			
Net income (loss)	529	641	153	(110)	(412)	366
Basic net income per share	1.17	1.53	0.38			
Diluted net income per share	1.06	1.36	0.36			
Total assets	3,942	3,517	3,095	2,966		5,818
Accrued deferred compensation			147			
Total debt	743	749	751	900		703
Shareholders' / Stockholders' equity	\$ 1,855	\$ 1,316	\$ 754	\$ 653		\$ 2,942
Number of shares used in per share computations:*						
Basic	452	418	401			
Diluted	498	470	428			

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Cash distributions declared per share	\$ 0.20	\$ 0.71	\$ 0.50
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\* See Note 1, of the Notes to Consolidated Financial Statements included elsewhere in this report.

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*Year Ended July 2, 2004*

Includes a \$125 million income tax benefit from the reversal of accrued income taxes relating to tax indemnification amounts and a \$59 million restructuring charge.

*Year Ended June 27, 2003*

Includes a \$10 million write-down in our investment in a private company and a \$9 million net restructuring charge.

*Year Ended June 28, 2002*

Includes a \$179 million charge to record \$32 million paid to participants in our deferred compensation plan and \$147 million to accrue the remaining obligations under the plan, \$93 million in debt refinancing charges, and a \$4 million net restructuring charge.

*Period Ended June 29, 2001*

Includes a \$66 million net restructuring charge and a \$52 million write-off of in-process research and development incurred in connection with the November 2000 transactions.

*Period Ended November 22, 2000*

Includes \$567 million of non-cash compensation expense related to the November 2000 transactions and losses recognized on investments in Lernout & Hauspie Speech Products N.V. and Gadzoox Networks, Inc., losses on the sale of marketable securities of \$138 million, \$8 million and \$8 million, respectively, partially offset by gains on the sale of Veeco Instruments, Inc. stock of \$20 million, and \$19 million in restructuring charges.

*Year Ended June 30, 2000*

Includes a \$206 million net restructuring charge, a \$105 million write-off of in-process research and development incurred in connection with the acquisition of XIOtech, a \$64 million charge related to the settlement of litigation, \$43 million of non-cash compensation expense and payroll taxes related to the reorganization of Seagate Software Holdings, Inc., and a \$26 million charge related to employee separations.





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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following is a discussion of the financial condition and results of operations for the fiscal year ended July 2, 2004, the fiscal year ended June 27, 2003, and the fiscal year ended June 28, 2002. Unless the context indicates otherwise, as used herein, the terms we, us and our refer to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands, and its subsidiaries. New SAC, a Cayman Islands limited liability corporation is our controlling shareholder. We were formed in August 2000 to be a holding company for the rigid disc drive operating business and the storage area networks operating business of Seagate Technology, Inc., a Delaware corporation, which we refer to herein as Seagate Delaware. In November 2000, we acquired the rigid disc drive business and the storage area networks business of Seagate Delaware in a series of transactions that we refer to herein as the November 2000 transactions. We sold XIOtech Corporation, our storage area networks operating business, in November 2002.*

*You should read this discussion in conjunction with Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data included elsewhere in this report. Except as noted, references to any fiscal year mean the twelve-month period ending on the Friday closest to June 30 of that year.*

**Our Company**

We are a leader in the design, manufacturing and marketing of rigid disc drives. Rigid disc drives, which are commonly referred to as disc drives or hard drives, are used as the primary medium for storing electronic information in systems ranging from desktop and notebook computers and consumer electronic devices to data centers delivering information over corporate networks and the Internet. We produce a broad range of rigid disc drive products that make us a leader in enterprise applications, where our products are primarily used in enterprise servers, mainframes and workstations; desktop applications, where our products are used in PC's; mobile computing applications, where our products are used in notebook computers; and consumer electronic applications, where our products are used in digital video recorders (DVR's), gaming platforms, and digital music players.

We sell our rigid disc drives primarily to major OEMs and also market to distributors under our globally recognized brand name. For fiscal years 2004, 2003 and 2002, approximately 60%, 61% and 66%, respectively, of our rigid disc drive revenue was from sales to OEMs, including customers such as Hewlett-Packard, Dell, IBM, EMC, and Microsoft. We have longstanding relationships with many of these OEM customers. We also have key relationships with major distributors, who sell our rigid disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world. Also, we are currently expanding our direct sales to retailers. For fiscal years 2004, 2003 and 2002, approximately 30%, 34% and 39%, respectively, of our revenue came from customers located in North America, approximately 30%, 31% and 31%, respectively, came from customers located in Europe and approximately 40%, 35% and 30%, respectively, came from customers located in the Far East. Substantially all of our revenue is denominated in U.S. dollars.

***November 2000 Transactions***

Prior to November 22, 2000, Suez Acquisition Company, the predecessor to New SAC, entered into a stock purchase agreement with Seagate Delaware and Seagate Software Holdings, Inc., a subsidiary of Seagate Delaware. Concurrently, Seagate Delaware and VERITAS Software Corporation ( VERITAS ) entered into an agreement and plan of merger and reorganization. Suez Acquisition Company was an exempted company incorporated with limited liability under the laws of the Cayman Islands and formed solely for the purpose of entering into the stock purchase agreement and undertaking the related acquisitions. Suez Acquisition Company later assigned all of its rights and obligations under the stock purchase agreement to New SAC, an exempted company incorporated with limited liability under the laws of the Cayman Islands and formed for the same purpose. At the closing of those transactions, New SAC owned 400,000,000 shares of our preferred stock.



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An indemnification agreement provided that New SAC and its subsidiaries would be required to indemnify VERITAS and its affiliates for specified liabilities of Seagate Delaware and Seagate Software Holdings, Inc., including selected taxes. In return, VERITAS, Seagate Delaware and their affiliates agreed to indemnify New SAC and its subsidiaries for specified liabilities, including all taxes of Seagate Delaware for which New SAC would not be obligated to indemnify VERITAS and its affiliates. VERITAS deposited \$150 million in an escrow account, which could be applied by New SAC to satisfy certain tax liabilities, and which remained in the escrow account in full. To the extent that any part of the \$150 million was not utilized to satisfy these tax liabilities, it would be paid out to the former Seagate Delaware stockholders. In July 2002, we, and those of our affiliates that were parties to the indemnification agreement entered into a reimbursement agreement, which allocated the respective liabilities and obligations under the indemnification agreement.

Under the reimbursement agreement, if we and our affiliates became obligated to indemnify Seagate Delaware, VERITAS or any of their affiliates for tax liabilities under the indemnification agreement, Seagate Technology HDD Holdings would be responsible for the first \$125 million of the tax liabilities, and any amount exceeding \$125 million would then be allocated among Seagate Technology HDD Holdings, Seagate Technology SAN Holdings, Certance Holdings and Seagate Software (Cayman) Holdings Corporation on a pro rata basis in accordance with the portion of the purchase price allocated to each entity in connection with the November 2000 transactions. For indemnification obligations other than tax liabilities under the indemnification agreement, the responsible entity would reimburse any entity that satisfied the obligation on its behalf.

On July 31, 2001, Seagate Delaware and the Internal Revenue Service filed a settlement stipulation with the United States Tax Court in complete settlement of the remaining disputed tax matter reflected in the statutory notice of deficiency dated June 12, 1998. The settlement stipulation was expressly contingent upon Seagate Delaware and the Internal Revenue Service entering into a closing agreement in connection with certain tax matters arising in all or some part of the open tax years of Seagate Delaware and New SAC. The Internal Revenue Service completed its review of Seagate Delaware's federal tax returns for the periods prior to the acquisition date of the operating assets and submitted its conclusions to the congressional Joint Committee on Taxation for review. On March 15, 2004, VERITAS received written notification from the Internal Revenue Service that the congressional Joint Committee on Taxation had completed its review and had taken no exception to the Internal Revenue Service's conclusions.

As a result of the conclusion of the tax audits with no additional tax due, and based on the March 15, 2004 notification to VERITAS from the Internal Revenue Service, we recorded a \$125 million income tax benefit in our third fiscal quarter of 2004 from the reversal of accrued income taxes relating to the tax indemnification amounts due to VERITAS pursuant to the Indemnification Agreement between Seagate Delaware, New SAC and VERITAS.

### ***Management Rollover***

In connection with the November 2000 transactions, approximately 100 members of Seagate Delaware's management group entered into rollover agreements under which they agreed not to receive merger consideration consisting of a portion of their restricted shares of Seagate Delaware's common stock and unvested options to purchase those shares. The aggregate value of this foregone consideration was approximately \$184 million. Instead of receiving this merger consideration, members of the management group received 1,843,000 restricted ordinary and 48,500 preferred shares of New SAC and approximately \$179 million in participation interests in our deferred compensation plan.

The restricted ordinary and preferred shares of New SAC and the interests in our deferred compensation plan were scheduled to vest as follows:

one-third on November 22, 2001;

one-third proportionately each month over the 18 months following November 22, 2001; and  
the final one-third on May 22, 2003.

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In addition, at the closing of the November 2000 transactions certain individuals purchased additional ordinary and preferred shares of New SAC for approximately \$41 million in cash. Of this \$41 million, approximately \$21 million was purchased by members of the management group.

Following the closing of the November 2000 transactions, New SAC has issued 483,835 restricted ordinary shares to management, employees, directors and consultants of New SAC and its affiliates. These ordinary shares were scheduled to vest as follows:

25% of the shares on the first anniversary of the vesting commencement date; and

75% of the shares proportionately each month over the 36 months following the first anniversary of the vesting commencement date.

In May 2002, we made \$32 million in payments to participants in the deferred compensation plan. On June 19, 2002, the board of directors accelerated vesting of all deferred compensation interests under the terms of the plan and we subsequently recorded an accrual of \$147 million in the fourth fiscal quarter of 2002. As a result of certain distributions by New SAC to holders of its preferred shares in connection with our initial public offering, Seagate Technology HDD Holdings became obligated to pay out the \$147 million to participants of its deferred compensation plan, including named executive officers. Those payments were made following the closing of our initial public offering, thereby satisfying all remaining obligations under the deferred compensation plan.

New SAC redeemed all of its outstanding preferred shares as of March 14, 2003. As of July 2, 2004, there were 2,251,011 restricted ordinary shares outstanding. We have been recognizing, and will continue to recognize, compensation expense of approximately \$28 million proportionately over the respective vesting periods based on the estimated fair value of these shares of the date of issuance. Through July 2, 2004, we had recognized \$27 million of this compensation expense.

### ***Consummation of Initial Public Offering***

In December 2002, we completed the initial public offering of 72,500,000 of our common shares, 24,000,000 of which were sold by us and 48,500,000 of which were sold by New SAC, our controlling shareholder, at a price of \$12 per share. We received proceeds from our sale of the 24,000,000 newly issued common shares of approximately \$270 million after deducting underwriting fees, discounts and commissions. In connection with our initial public offering, New SAC converted its 400,000,000 shares of our preferred stock, into common stock. Immediately prior to the closing of our initial public offering, we paid a return of capital distribution of \$262 million, or \$0.65 per share, to the holders of our then-outstanding shares, including New SAC. We also paid a lump sum of approximately \$12 million to members of our sponsor group in exchange for the discontinuation of an annual monitoring fee of \$2 million. This payment was charged to marketing and administrative expense during our second fiscal quarter of 2002.

New SAC received proceeds of approximately \$557 million from the sale of 48,500,000 common shares in our initial public offering, after deducting underwriting discounts and commissions. New SAC distributed these net proceeds, together with the proceeds from the distribution described above, to holders of its preferred and ordinary shares. As a result of the distribution to New SAC's preferred shareholders, our wholly-owned subsidiary, Seagate Technology HDD Holdings, became obligated to make payments of approximately \$147 million to the participants in its deferred compensation plan. These payments were made following the closing of our initial public offering, and as a consequence there are no longer any outstanding obligations under that deferred compensation plan.

*Consummation of Secondary Public Offering*

Under the Seagate Technology shareholders agreement among New SAC, our financial sponsors and us, New SAC has demand registration rights to request from time to time that we register to sell shares of our

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common stock held by New SAC. New SAC exercised this right and on July 30, 2003, we completed the secondary public offering of 69,000,000 of our common shares, of which 9,000,000 were sold pursuant to the underwriters' exercise of their over-allotment option, all of which were sold by New SAC, as selling shareholder, at a price of \$18.75 per share. New SAC received proceeds of approximately \$1.3 billion, after deducting underwriting discounts and commissions of approximately \$39 million. We incurred direct expenses aggregating approximately \$1 million related to the offering. New SAC distributed its net proceeds to holders of its ordinary shares including approximately \$245 million distributed to our officers and employees who hold ordinary shares of New SAC. As of July 2, 2004, New SAC owned 282,500,000 shares, or approximately 61.5% of our outstanding common stock.

### ***Registration of Common Shares***

On July 20, 2004, we filed a registration statement on Form S-3 with respect to 60,000,000 of our common shares owned by New SAC. After this registration statement is declared effective by the SEC, New SAC may sell all 60,000,000 of these shares to the public. We will not receive any of the proceeds from the potential sale of these shares. After such sale or sales of these common shares is completed, New SAC will own 222,500,000 shares, or approximately 48.4% of our outstanding common stock (based upon our outstanding common shares as of July 2, 2004).

### **Overview**

*Industry Overview.* Our industry is characterized by several trends that have a material impact on our strategic planning, financial condition and results of operations. Historically, our industry has been characterized by continuous and significant advances in technology, which contributed to rapid product life cycles, the importance of being first to market with new products and the difficulty in recovering research and development expenses. However, based upon the recent pace of new product introductions, we believe that our industry is currently in a period in which the rate of increases in areal density, which is the storage capacity per square inch on a disc, is lower than the rate of the last several years. The slowing change in areal density contributes to:

an increase in the rates of price erosion as the slowing areal density curve results in longer product cycles which permits more competitors time to enter the market for a particular type of disc drive and, accordingly, increases competition based on price;

an increased importance of successfully executing product transitions, as factors such as quality, reliability and manufacturing yields become of increasing competitive importance; and

a potential reduction in financial benefit from new product introductions due to declining cost reductions and the inability to introduce new products at higher prices in traditional hard disc drive markets.

We also believe that the industry is experiencing several positive trends relative to overall demand including:

a proliferation of applications in the consumer electronics market that utilize disc drives. We estimate that in the most recent quarter industry shipments of disc drives to non-gaming consumer electronic applications grew in excess of 200% from the year-ago quarter;

a renewed buying cycle for consumer and commercial client computing systems. We estimate that in the most recent quarter industry shipments of disc drives for desktop and mobile computing storage applications grew 13% from the year-ago quarter, with the desktop

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market increasing approximately 10% and the mobile computing market increasing 25%. We believe that a portion of the growth in the mobile computing market is a result of consumers shifting from desktop computers to notebook computers, a trend that we believe may be accelerating; and

growth in selected enterprise storage applications such as near-line and small form factor.



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In the first half of fiscal year 2004, we observed what we believe to be a shift in seasonal demand for disc drives used in desktop and consumer electronics markets. We believe the seasonally high demand for disc drives used in these markets may be shifting more toward our first fiscal quarter from our second fiscal quarter. We believe this trend will continue and, due to the increasing importance of the consumer electronics market to our business, will impact our revenue and results of operations in these quarters.

Another key factor is the continued importance of sales to the distribution channel. Product qualification programs in this channel are limited, which increases the number of competing products that are available to satisfy demand, particularly in times of lengthening product cycles. As a result, purchasing decisions in this channel are based largely on price, terms and product availability and unit sales growth is less predictable and has greater fluctuation than sales to OEM customers. To the extent that our industry builds product based on expectations of demand that do not materialize, distributors may experience an oversupply of personal storage products that could lead to increased price erosion. As sales to distributors become an increasingly larger portion of total industry sales, disc drive manufacturers may experience increased volatility in their results of operations.

*Seagate Overview.* We maintain a highly integrated approach to our business by designing and manufacturing components we view as critical to our products, such as read/write heads and recording media. We believe that our control of these key technologies, combined with our innovations in manufacturing, enable us to achieve product performance, time-to-market leadership and manufacturing flexibility, which allows us to respond to customers and market opportunities. Although we derive an important competitive advantage as a result of this strategy, it results in higher fixed costs, which may adversely affect our financial performance, particularly in periods of declining demand and in periods of slower growth in the areal density curve such as we are now experiencing. To offset these higher fixed costs we are continuously engaged in efforts to reduce our costs and improve our manufacturing efficiencies and flexibility. This approach also increases the importance of realizing and maintaining substantial market share in the markets in which we compete, allowing us to spread our technology investments across a high unit volume of products.

A significant portion of our success historically has been a result of increasing our market share at the expense of our competitors. However, in the first fiscal quarter of 2004, our market share for our enterprise products was negatively affected by our customers diversifying their sources of supply as the slowing areal density curve has resulted in longer product cycles and more time for our competitors to enter the market for particular products. Additionally, in the second half of fiscal year 2004, our market share for notebook drive products was negatively affected by an oversupply condition in our customers supply chain. During June 2004, however, we announced 12 new products, which will address every major computing application and all major consumer markets thereby expanding our current addressable market from approximately 75% to approximately 97%. We believe that our near-term financial results will depend heavily on the successful introduction and customer acceptance of these new products.

We are dependent on our sales to distributors, however, in the distribution channel unit sales growth is less predictable and has greater fluctuation than sales to OEM customers. To the extent that our industry builds product based on expectations of demand that do not materialize, distributors may experience an oversupply of personal storage products that could lead to increased price erosion. During our second fiscal quarter of 2004, ended January 2, 2004, we observed lower than anticipated sell-through in the distribution channel. We believe our experience was consistent with that of our industry. We believe that this lower than anticipated sell-through taken together with the level of industry production, created increased pressure on pricing and terms and resulted in historically high industry channel inventories at the end of the December quarter. During the March quarter, a number of disc drive manufacturers independently launched initiatives to improve the stability of the distribution channel, particularly with respect to the purchasing behavior of distributors while other disc drive manufacturers have not. These initiatives included efforts to develop point-of-sale information systems to help match supply and demand, pricing increases and alteration of distribution programs. As the distribution channel reacts to these various activities, there may be increased volatility of sales in this channel for individual disc drive manufacturers. We exited the June quarter with approximately 5 weeks of distribution channel inventory, or

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approximately one million units lower than the March quarter. To the extent that our distributor customers reduce their purchases of our products or prices decline significantly in the distribution channel, our results of operations would be adversely affected.

During periods of slowing growth of areal density and longer product cycles we may experience heightened pricing pressures. This pricing pressure has contributed to a reduction in gross margins. To the extent that these pricing pressures continue, our gross margin may be negatively affected. Furthermore, the favorable impact of new product introductions on our results of operations may be minimized. Historically, the introduction of new products generally has had a favorable impact on our results of operations both because the new products are introduced at higher prices than existing competitive offerings and because advances in areal density technology have enabled lower manufacturing costs through reduction in components such as read/write heads and rigid discs. However, in contrast to when the rate of growth in areal density is increasing, a slowing growth rate in areal density can limit the cost benefits of new products because it is technologically more difficult to reduce the number of read/write heads and rigid discs in a particular drive. In addition, given the environment of intense price competition, in the absence of significant capacity increases or improvements in reliability, it is difficult to obtain higher prices for new products.

We believe that we and the hard drive industry are in a unique and challenging period of time with longer product cycles, continued aggressive pricing in the core markets and ongoing changes in how we serve our distribution channel partners. All of these may impact our near-term profitability. In our fourth fiscal quarter of 2004, we undertook significant restructuring activities to reduce the costs of our operations in light of our declining revenue, gross margins, and earnings over the past several quarters resulting from recent significant price erosion and market share variability, particularly with respect to our enterprise disc drive products. We continue to look at opportunities for further cost reductions which may result in additional restructuring activities and restructuring charges in the future. During this challenging period, the management team will continue to be intensely focused on maintaining profitability excluding the impact of any restructuring charges that we may incur.

**Results of Operations**

We list in the tables below the historical consolidated statements of operations in dollars and as a percentage of revenue for the fiscal years indicated.

	Fiscal Year Ended		
	July 2, 2004	June 27, 2003	June 28, 2002
	(in millions)		
Revenue	\$ 6,224	\$ 6,486	\$ 6,087
Cost of revenue	4,765	4,759	4,494
Gross margin	1,459	1,727	1,593
Product development	666	670	698
Marketing and administrative	290	357	498
Amortization of intangibles			19
Restructuring	59	9	4
Income from operations	444	691	374
Other income (expense), net	(16)	(31)	(135)
Income before income taxes	428	660	239

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Provision for (benefit from) income taxes	<u>(101)</u>	<u>19</u>	<u>86</u>
Net income	<u>\$ 529</u>	<u>\$ 641</u>	<u>\$ 153</u>

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	Fiscal Year Ended		
	July 2, 2004	June 27, 2003	June 28, 2002
Revenue	100%	100%	100%
Cost of revenue	77	73	74
Gross margin	23	27	26
Product development	11	10	12
Marketing and administrative	5	6	8
Amortization of intangibles			
Restructuring			
Income from operations	7	11	6
Other income (expense), net		(1)	(2)
Income before income taxes	7	10	4
Provision for (benefit from) income taxes	(2)		1
Net income	9%	10%	3%

***Fiscal Year 2004 Compared to Fiscal Year 2003***

*Revenue.* Revenue for fiscal year 2004 was \$6.224 billion, down 4% from \$6.486 billion in fiscal year 2003. The decrease in revenue was primarily due to price erosion, particularly with respect to our enterprise storage products, partially offset by an increase in unit shipments. Our unit shipments increased from 68 million units in fiscal year 2003 to 79 million units in fiscal year 2004. This increase in unit shipments was primarily in our desktop storage products and was due to an increase in the total available market, as well as our share of the total available market. Additionally, shipments increased as a result of the introduction of our mobile computing storage product.

Our overall average unit sales price for our rigid disc drive products was \$81, \$80, \$76 and \$71 for the first, second, third and fourth quarters of fiscal year 2004, respectively. Average annual price erosion from fiscal year 2003 to fiscal year 2004 was approximately 18%.

Unit shipments for desktop storage disc drives were 59.0 million for fiscal year 2004, up from 52.3 million in fiscal year 2003. However, we did experience a slight decline in drive shipments for desktop applications in the fourth fiscal quarter which can be attributed to an unexpected decline in industry distribution channel sell-through. Despite this decline, we believe that we maintained our market share.

Unit shipments for enterprise storage disc drives were 10.4 million during fiscal year 2004, slightly down from 10.5 million in fiscal year 2003; and, although we continue to experience aggressive pricing, we believe we maintained our market share.

During fiscal year 2004, we shipped 3.6 million mobile computing disc drives. We continue to be impacted by our limited product set for this market and our concentrated customer base. We also experienced aggressive pricing in the first half of calendar year 2004. As we leverage this

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product platform and expand our product offerings later in calendar year 2004, we expect to penetrate more of the mobile computing market and capture additional customers, revenue, and market share.

Unit shipments for consumer electronics storage disc drives were 6.3 million during fiscal year 2004, which represents a 33% increase in shipments from fiscal year 2003. This reflects strong growth in shipments to DVR consumer electronics applications. Until now, we have only participated in the portion of the consumer electronics market where 3.5-inch form factors drives are utilized. Beginning in our first fiscal quarter of 2005, we will add to our consumer electronics offerings with the previously announced ST1, our new 5 gigabyte,

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1-inch form factor rigid disc drive targeted at a variety of handheld consumer electronics applications such as digital music players and digital cameras.

We continued to maintain various sales programs aimed at increasing customer demand. We exercise judgment in formulating the underlying estimates related to distributor inventory levels, sales program participation and customer claims submittals in determining the provision for such programs. During fiscal year 2004, sales programs issued and recorded as contra-revenue, were approximately 7% of our gross revenue, compared to 5% of our gross revenue for fiscal year 2003. The increase in the provision for sales programs as a percentage of our gross revenue in fiscal year 2004 as compared to fiscal year 2003 was the result of higher distribution unit sales, particularly in the first half of fiscal year 2004.

*Cost of Revenue.* Cost of revenue for fiscal year 2004 was \$4.765 billion and was flat from \$4.759 billion in fiscal year 2003. Gross margin as a percentage of revenue for fiscal year 2004 was 23% as compared with 27% for fiscal year 2003. The decrease in gross margin as a percentage of revenue was primarily due to price erosion as a result of fewer new product introductions and longer product cycles caused by a slowing in the rate of increase in areal density. Gross margin as a percentage of revenue for the first, second, third and fourth fiscal quarters of 2004 was 27%, 26%, 22% and 17%, respectively.

*Product Development Expense.* Product development expense decreased by \$4 million, or 1%, for fiscal year 2004 when compared with fiscal year 2003. The decrease in product development expense from fiscal year 2003 was primarily due to decreases of \$30 million in employee incentive compensation, a \$6 million business development grant received in fiscal year 2003, \$4 million in legal expense and the absence of \$4 million in product development expense incurred in the year-ago period by XIOtech which we sold in fiscal year 2003. These decreases were partially offset by increases of \$21 million in salaries as a result of increased headcount and annual merit increases, \$11 million in program materials and \$7 million in depreciation.

*Marketing and Administrative Expense.* Marketing and administrative expense decreased by \$67 million, or 19%, for fiscal year 2004 when compared with fiscal year 2003. The decrease in marketing and administrative expense from fiscal year 2003 was primarily due to the absence of \$16 million in marketing and administrative expense incurred by XIOtech which we sold in fiscal year 2003, and decreases of \$12 million related to the discontinuation of an annual monitoring fee paid to certain New SAC investors, \$7 million in compensation expense pursuant to executive terminations all of which occurred in fiscal year 2003, as well as \$18 million in employee incentive compensation and \$12 million in outside services.

*Restructuring.* During fiscal year 2004, we recorded \$59 million in restructuring charges. Of the \$59 million, \$39 million was incurred in the quarter ended July 2, 2004 and was associated with the planned workforce reduction that we first announced in April 2004 and implemented in June 2004. The \$39 million restructuring charge was comprised of employee termination costs relating to a workforce reduction, primarily in our U.S. and Far East operations, of approximately 2,407 employees, 1,626 of whom had been terminated as of July 2, 2004. We expect the restructuring activities related to the charge taken in our fourth fiscal quarter of 2004 to be substantially completed by August 2004.

The remaining \$20 million in restructuring charges were incurred through the nine months ended April 2, 2004 as a result of a restructuring plan established to continue the alignment of our global workforce with existing and anticipated future market requirements, primarily in our U.S. design centers and Far East operations. The restructuring costs were comprised of employee termination costs relating to a reduction in our workforce of approximately 649 employees, 626 of whom had been terminated as of July 2, 2004. The restructuring activities taken through the nine months ended April 2, 2004 were substantially complete at July 2, 2004.

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Upon completion of the fiscal year 2004 restructuring activities, we estimate that annual salary expense will be reduced by approximately \$95 million. We continue to look at opportunities for further cost reductions which may result in additional restructuring activities and restructuring charges in the future.

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*Net Other Income (Expense).* Net other expense decreased \$15 million, or 48%, for fiscal year 2004 when compared with fiscal year 2003. The decrease in net other expense from fiscal year 2003 was primarily due to a decrease of \$8 million in write-downs of our investment in a private company, a \$4 million change in the value of the underlying assets of the rabbi trust associated with the deferred compensation plan.

*Income Taxes.* We recorded a benefit from income taxes of \$101 million for the fiscal year ended July 2, 2004 compared to a provision for income taxes of \$19 million for the fiscal year ended June 27, 2003. We are a foreign holding company incorporated in the Cayman Islands with foreign and U.S. subsidiaries that operate in multiple taxing jurisdictions. As a result, our worldwide operating income is either subject to varying rates of tax or is exempt from tax due to tax holidays or tax incentive programs we operate under in China, Malaysia, Singapore and Thailand. These tax holidays or incentives are scheduled to expire in whole or in part at various dates through 2015. The benefit for income taxes recorded for the fiscal year ended July 2, 2004 differs from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the net effect of (i) the tax benefit related to the aforementioned tax holidays and tax incentive programs, (ii) an additional valuation allowance recorded for U.S. deferred tax assets, and (iii) the reversal of the \$125 million tax indemnification amount for VERITAS (further described below). Our provision for income taxes for the fiscal year ended June 27, 2003 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to (i) the tax benefit related to the aforementioned tax holidays and tax incentive programs and (ii) the realization of deferred tax assets that had previously been subject to a valuation allowance. Based on our foreign ownership structure and subject to potential future increases in our valuation allowance for U.S. deferred tax assets, we anticipate that our effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from our U.S. subsidiaries may be subject to U.S. withholding taxes when and if distributed. Deferred tax liabilities have not been recorded on unremitted earnings of our foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or to U.S. federal income taxes if remitted to our foreign parent holding company.

As of July 2, 2004, we have recorded net deferred tax assets of \$58 million, the realization of which is primarily dependent on our ability to generate sufficient U.S. taxable income in fiscal years 2005 and 2006. Although realization is not assured, management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when we reevaluate our estimates of future U.S. and certain foreign taxable income.

On July 31, 2001, Seagate Delaware and the Internal Revenue Service filed a settlement stipulation with the United States Tax Court in complete settlement of the remaining disputed tax matters reflected in the statutory notice of deficiency dated June 12, 1998. On March 15, 2004, VERITAS received written notification from the Internal Revenue Service that the congressional Joint Committee on Taxation had completed its review and had taken no exception to the Internal Revenue Service's conclusions. On April 6, 2004, Seagate Delaware and the Internal Revenue Service filed a revised settlement stipulation with the United States Tax Court in connection with the statutory notice of deficiency, which reflected the parties' agreement to fully resolve the remaining tax matters included in the statutory notice of deficiency. On June 28, 2004, the revised settlement stipulation was made final by the United States Tax Court and the case has been closed.

In the fiscal year ended July 2, 2004, we recorded a \$125 million income tax benefit from the reversal of \$125 million of accrued income taxes relating to tax indemnification amounts due to VERITAS pursuant to the Indemnification Agreement between Seagate Delaware, Suez Acquisition Company and VERITAS. The tax indemnification amount was recorded by us in connection with the purchase of the operating assets of Seagate Delaware and represented U.S. tax liabilities previously accrued by Seagate Delaware for periods prior to the acquisition date of the operating assets. As a result of the conclusion of the tax audits with no additional tax liabilities due, we determined that the \$125 million accrual for the tax indemnification was no longer required and it was reversed in our third fiscal quarter of 2004.



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Certain of Seagate Delaware's foreign and state tax returns remain under examination by various taxing authorities. The Internal Revenue Service is currently examining our federal income tax returns for fiscal years ending in 2001 and 2002. The timing of the settlement of these examinations is uncertain. We believe that adequate amounts of tax have been provided for any final assessment that may result.

### ***Fiscal Year 2003 Compared to Fiscal Year 2002***

**Revenue.** Revenue for fiscal year 2003 was \$6.486 billion, up 7% from \$6.087 billion in fiscal year 2002. The increase in revenue was primarily due to improved unit sales volume that was substantially offset by price erosion and a shift in mix to our desktop storage products as compared to our enterprise storage products. Our unit shipments increased from 55 million units in fiscal year 2002 to 68 million units in fiscal year 2003. This increase in unit shipments was in both our desktop storage products and our enterprise storage products and was due to an increase in the total available market, especially for desktop storage products, as well as our share of the total available market. Additionally, we experienced strong growth in shipments to non-gaming consumer electronics applications.

Our overall average unit sales price for our rigid disc drive products was \$93, \$94, \$97 and \$97 for the first, second, third and fourth quarters of fiscal year 2003, respectively. Average annual price erosion from fiscal year 2002 to fiscal year 2003 was approximately 14%. Price erosion in the fourth quarter of fiscal year 2003 was the lowest we have experienced in eight years. Over the past few quarters, including seasonally weak periods, our industry has demonstrated operational discipline in managing production and inventory levels.

During fiscal year 2003, we continued to maintain various sales programs aimed at increasing customer demand. We exercise a considerable degree of judgment in formulating the underlying estimates related to distributor inventory levels, sales program participation and customer claims submittals in determining the provision for such programs. During fiscal year 2003, the total provision for sales programs, recorded as contra-revenue, was approximately 5% of our gross revenue, compared to 4% of our gross revenue for fiscal year 2002. The increase in the provision for sales programs as a percentage of our gross revenue in fiscal year 2003 as compared to fiscal year 2002 was a result of the increase in the portion of our revenue derived from sales to distributors.

**Cost of Revenue.** Cost of revenue for fiscal year 2003 was \$4.759 billion, up 6% from \$4.494 billion in fiscal year 2002. Gross margin as a percentage of revenue for fiscal year 2003 was 27% as compared with 26% for fiscal year 2002. The increase in gross margin as a percentage of revenue resulted from overall costs decreasing at a higher rate than price erosion and was primarily due to improved absorption of fixed costs from increased unit sales volume. Ongoing cost savings as a result of our restructuring activities and our continued implementation of operational efficiencies also benefited our gross margins. In addition, gross margins were enhanced by improved yields for products introduced during the last half of fiscal year 2003 as well as a trend toward increased price stability.

**Product Development Expense.** Product development expense decreased by \$28 million, or 4%, for fiscal year 2003 when compared with fiscal year 2002. The decrease in product development expense from fiscal year 2002 was primarily due to the non-recurrence of deferred compensation charges incurred in the fourth quarter of fiscal year 2002 and our sale of XIOtech in November 2002. These decreases were partially offset by increased expense related to the opening of our new research facility in Pittsburgh, Pennsylvania, which included employee, equipment and occupancy costs as well as several new product introductions and our development efforts in smaller than 3.5-inch form factor rigid disc drives.

**Marketing and Administrative Expense.** Marketing and administrative expense decreased by \$141 million, or 28%, for fiscal year 2003 when compared with fiscal year 2002. The decrease in marketing and administrative expense from fiscal year 2002 was primarily due to the non-recurrence of deferred compensation charges of \$112 million incurred in the fourth quarter of fiscal year 2002, and decreases of \$48 million

as a result of our sale

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of XIOtech in November 2002 and \$21 million in the provision for bad debts. These decreases were partially offset by increases of \$20 million in salaries and related costs, \$14 million in information technology expense and \$7 million in depreciation expense.

*Restructuring.* During fiscal year 2003, we recorded \$19 million in restructuring charges. We also reduced a restructuring accrual previously recorded by our predecessor in fiscal year 1998 by \$10 million due to a change in estimated lease obligations. These combined actions resulted in a net restructuring charge of \$9 million in fiscal year 2003. Of the \$19 million, \$17 million was incurred in the quarter ended September 27, 2002 as a result of a restructuring plan, which we refer to as the fiscal year 2003 restructuring plan, established to continue the alignment of our global workforce and manufacturing capacity with existing and anticipated future market requirements, primarily in our Far East operations. The restructuring charge was comprised of employee termination costs relating to a reduction in our workforce of approximately 3,750 employees. We estimate that after completion of the fiscal year 2003 restructuring activities, annual salary expense has been reduced by approximately \$12 million, excluding any savings in salary expense related to XIOtech, which was sold in November 2002. The fiscal year 2003 restructuring plan was substantially complete at June 27, 2003. The remaining \$2 million restructuring charge was incurred in the fiscal quarter ended June 27, 2003 and was comprised of employee termination costs relating to a workforce reduction of approximately 686 employees in our Thailand operations. We estimate that after completion of these restructuring activities, annual salary expense was reduced by approximately \$0.3 million. These restructuring activities were completed in July 2003.

*Net Other Income (Expense).* Net other expense decreased \$104 million, or 77%, for fiscal year 2003 when compared with fiscal year 2002. The decrease in net other expense from fiscal year 2002 was primarily due to decreases of \$93 million related to the debt refinancing charge in the fourth quarter of fiscal year 2002 and a \$30 million reduction in interest expense in fiscal year 2003 as a result of lower average outstanding debt and lower average interest rates paid because of our debt refinancing in May 2002. These decreases were partially offset by \$10 million in write-downs of our investment in a private company in fiscal year 2003 and a decrease in interest income of \$9 million resulting from lower average interest rates and a lower average balance in our interest bearing accounts.

*Income Taxes.* We recorded a provision for income taxes of \$19 million for fiscal year 2003 compared to a provision for income taxes of \$86 million for fiscal year 2002. We are a foreign holding company incorporated in the Cayman Islands with foreign and U.S. subsidiaries that operate in multiple taxing jurisdictions. As a result, our worldwide operating income is either subject to varying rates of tax or exempt from tax due to tax holidays and tax incentive programs that we operate under in China, Malaysia, Singapore and Thailand. Our provision for income taxes for fiscal year 2003 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to (i) the tax benefit related to the aforementioned tax holidays and tax incentive programs and (ii) the realization of various deferred tax assets that had previously been subject to a valuation allowance. Our provision for income taxes for fiscal year 2002 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before taxes primarily due to the net effect of (i) the tax benefit related to the aforementioned tax holidays and tax incentive programs and (ii) an increase in our valuation allowance for U.S. deferred tax assets. Based on our foreign ownership structure and subject to potential future increases in our valuation allowance for domestic deferred tax assets, we anticipate that our effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from our U.S. subsidiaries may be subject to U.S. withholding taxes when, and if, distributed. Deferred tax liabilities have not been recorded on unremitted earnings of our foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal income tax if remitted to the foreign parent holding company.

As of June 27, 2003, we have recorded net deferred tax assets of \$74 million, the realization of which is primarily dependent on our ability to generate sufficient U.S. taxable income in fiscal years 2004 and 2005. Although realization is not assured, management believes that it is more likely than not that these deferred tax

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assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when we reevaluate the underlying basis for our estimates of future U.S. and certain foreign taxable income.

Certain of our foreign tax returns for various fiscal years are under examination by taxing authorities. We believe that adequate amounts of tax have been provided for any final assessment that may result from these examinations.

**Liquidity and Capital Resources**

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

In May 2002, we refinanced all of our then outstanding indebtedness. Since that time, our indebtedness has consisted of \$400 million in principal amount of 8% senior notes due 2009 and senior secured credit facilities which consist of a \$350 million term loan facility that has been drawn in full and a \$150 million revolving credit facility, under which \$113 million was available for borrowing as of July 2, 2004. Although no borrowings have been drawn under this revolving credit facility to date, we had utilized \$37 million of the credit facility for outstanding letters of credit and bankers' guarantees as of July 2, 2004. The credit agreement that governs our senior secured credit facilities contains covenants that Seagate Technology HDD Holdings, our wholly-owned subsidiary that operates our rigid disc drive business, must satisfy in order to remain in compliance with the agreement. These covenants require Seagate Technology HDD Holdings, among other things, to maintain the following ratios: (1) an interest expense coverage ratio for any period of four consecutive fiscal quarters of at least 2.50 to 1.00; (2) a fixed charge coverage ratio for any four consecutive fiscal quarters of at least 1.50 to 1.00; and (3) a net leverage ratio of not more than 1.50 to 1.00 as of the end of any fiscal quarter. We are currently in compliance with all of these covenants, including the financial ratios that we are required to maintain.

The calculated financial ratios for the quarter ended July 2, 2004 are as follows:

	<b>Required</b>	<b>July 2, 2004</b>
Interest Coverage Ratio	Not less than 2.50	31.46
Fixed Charge Coverage Ratio	Not less than 1.50	3.15
Net Leverage Ratio	Not greater than 1.50	(0.48)

The degree to which we are leveraged could materially and adversely affect our ability to obtain financing for working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances or other purposes and could make us more vulnerable to industry downturns and competitive pressures. Although we are currently not a party to any agreement or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all. We will require substantial amounts of cash to fund scheduled payments of principal and interest on our indebtedness, future capital expenditures and any increased working capital requirements. If we are unable to meet our cash requirements out of existing cash or cash flow from operations, we cannot assure you that we will be able to obtain alternative financing on terms acceptable to us, if at all.

*Discussion of Cash Flows*

At July 2, 2004, our working capital was \$1.213 billion, which included cash, cash equivalents and short-term investments of \$1.183 billion. Cash, cash equivalents and short-term investments decreased \$11 million from fiscal year 2003 to fiscal year 2004. This decrease was primarily due to investments in property, equipment and leasehold improvements and distributions to shareholders offset by cash provided by operating activities and proceeds from employee stock option exercises.

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Cash provided by operating activities for fiscal year 2004 was \$635 million and consisted primarily of net income plus depreciation and amortization partially offset by a reversal of \$125 million in tax indemnification amounts.

During fiscal year 2004, we invested approximately \$605 million in property, equipment and leasehold improvements. The \$605 million investment comprised:

\$179 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the United States and the Far East;

\$157 million to expand our Woodlands thin-film media operations in Singapore;

\$149 million for manufacturing facilities and equipment for our recording head operations in the United States, the Far East and Northern Ireland; and

\$85 million to upgrade the capabilities of our thin-film media operations in the United States, Singapore and Northern Ireland; and

\$35 million for other purposes.

During fiscal year 2003, we invested approximately \$516 million in property, equipment and leasehold improvements. The \$516 million investment comprised:

\$212 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the United States and the Far East;

\$144 million to upgrade the capabilities of our thin-film media operations in the United States, Singapore and Northern Ireland;

\$132 million for our manufacturing facilities and equipment for the recording head operations in the United States, the Far East and Northern Ireland;

\$17 million for the purchase of a corporate aircraft; and

\$11 million for other purposes.

For fiscal year 2003, cash, cash equivalents and short-term investments increased \$351 million. This increase was primarily due to cash provided by operating activities and proceeds from the issuance of our common shares offset by distributions to shareholders and investments in property, equipment and leasehold improvements.

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Until required for other purposes, our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase.

Net cash provided by operating activities was \$635 million for fiscal year 2004, \$882 million for fiscal year 2003, and \$905 million for fiscal year 2002. Net cash provided by operating activities for fiscal year 2004 was primarily attributable to net income as adjusted for non-cash expenses for depreciation and amortization and the benefit for the reversal of tax indemnification amounts. Net cash provided by operating activities for fiscal year 2003 was primarily attributable to net income as adjusted for non-cash expenses for depreciation and amortization and deferred compensation payments. Net cash provided by operating activities for fiscal year 2002 was primarily attributable to net income as adjusted for non-cash expenses for depreciation and amortization, deferred income taxes, deferred compensation and the write-off of debt issuance costs, and as adjusted to reclassify the cash payment for the redemption premium on the 12 1/2% senior subordinated notes to net cash used in financing activities.

Net cash used in investing activities was \$962 million for fiscal year 2004, \$754 million for fiscal year 2003, and \$610 million for fiscal year 2002. Net cash used in investing activities for fiscal year 2004 was primarily attributable to expenditures for property, equipment and leasehold improvements and the purchases of

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short-term investments in excess of maturities. Net cash used in investing activities for fiscal year 2003 was primarily attributable to expenditures for property, equipment and leasehold improvements and the purchases of short-term investments in excess of maturities. Net cash used in investing activities for fiscal year 2002 was primarily attributable to expenditures for property, equipment and leasehold improvements.

Net cash provided by (used in) financing activities was \$0 million for fiscal year 2004, \$9 million for fiscal year 2003, and (\$409) million for fiscal year 2002. Net cash provided by (used in) financing activities for fiscal year 2004 was primarily attributable to distributions to our shareholders and principal payments on our senior credit facilities offset by cash provided from employee stock option exercises and employee stock purchases. Net cash provided by financing activities for fiscal year 2003 was primarily attributable to cash provided from the sale of our common shares partially offset by distributions to our shareholders. Net cash used in financing activities for fiscal year 2002 was primarily attributable to the refinancing and overall reduction of all of our outstanding indebtedness, payment of distributions to our shareholders and payment of the redemption premium on the 12 1/2% senior subordinated notes.

### ***Liquidity Sources and Cash Requirements and Commitments***

On January 29, 2004, our board of directors amended our quarterly dividend policy and, pursuant to our amended dividend policy, we are paying and expect to continue to pay our shareholders a quarterly distribution of up to \$0.06 per share (\$0.24 annually) so long as the aggregate amount of the distributions does not exceed 50% of our cumulative consolidated net income plus 100% of net cash proceeds received from the issuance of capital for the period beginning June 30, 2001 and ending the most recent fiscal quarter for which financial statements are internally available. Our ability to continue to pay quarterly distributions will be subject to, among other things, general business conditions within the rigid disc drive industry, our financial results, the impact of paying distributions on our credit ratings, and legal and contractual restrictions on the payment of distributions by our subsidiaries to us or by us to our shareholders, including restrictions imposed by the covenants contained in the indenture governing our senior notes. Currently, the most significant restriction on our ability to pay dividends is under the credit agreement governing our senior secured credit facilities, which limits annual distributions to \$150 million. On July 19, 2004, our board of directors declared a quarterly distribution of \$0.06 per share to be paid on or before August 20, 2004 to our shareholders of record as of August 6, 2004.

Our principal sources of liquidity as of July 2, 2004 consisted of: (1) \$1.183 billion in cash, cash equivalents, and short-term investments, (2) a \$150 million revolving credit facility, of which \$37 million had been used for outstanding letters of credit and bankers' guarantees as of July 2, 2004, and (3) cash we expect to generate from operations during this fiscal year.

Since the closing of the November 2000 transactions, our principal liquidity requirements have been to service our debt and meet our working capital, research and development and capital expenditure needs. In addition, in the second half of fiscal year 2002 and through fiscal years 2003 and 2004, we made distributions to our shareholders.

We believe that our sources of cash will be sufficient to fund our operations and meet our cash requirements for at least the next 12 months. Our ability to fund these requirements and comply with the financial covenants under our debt agreements will depend on our future operations, performance and cash flow and is subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control. In addition, as part of our strategy, we intend to selectively pursue strategic alliances, acquisitions and investments that are complementary to our business. Any material future acquisitions, alliances or investments will likely require additional capital. We cannot assure you that additional funds from available sources will be available on terms acceptable to us, or at all.



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Our contractual cash obligations and commitments as of July 2, 2004 have been summarized in the table below (in millions):

	Total	Fiscal Year(s)			After 2009
		2005	2006- 2007	2008- 2009	
<b>Contractual Cash Obligations:</b>					
Long term debt	\$ 743	\$ 4	\$ 339	\$ 400	\$
Capital expenditures	176	176			
Operating leases (1)	151	15	25	9	102
Purchase obligations (2)	559	559			
<b>Subtotal</b>	<b>1,629</b>	<b>754</b>	<b>364</b>	<b>409</b>	<b>102</b>
<b>Commitments:</b>					
Letters of credit or bank guarantees	37	37			
<b>Total</b>	<b>\$ 1,666</b>	<b>\$ 791</b>	<b>\$ 364</b>	<b>\$ 409</b>	<b>\$ 102</b>

- (1) Includes total future minimum rent expense under non-cancelable leases for both occupied and abandoned facilities (rent expense is shown net of sublease income).
- (2) Purchase obligations are defined as contractual obligations for purchase of goods or services, which are enforceable and legally binding on us, and that specify all significant terms.

**Off-Balance Sheet Arrangements**

As of July 2, 2004, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

**Equity Compensation Plan Information**

The following table sets forth, for each of our existing equity compensation plans, the number of common shares issuable upon exercise of outstanding options, warrants and rights, the weighted-average exercise price of the outstanding options, warrants and rights, and the number of common shares remaining available for issuance under such plans as of the end of fiscal year 2004.

	(a)	(b)	(c)
<b>Equity Compensation Plan</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options,</b>	<b>Weighted-Average Exercise Price of Outstanding Options,</b>	<b>Number of Securities Remaining Available for Future Issuance</b>

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	<u>Warrants and Rights</u>	<u>Warrants and Rights</u>	<u>under Equity Compensation Plans (excluding securities reflected in column (a))</u>
Plans Approved by Shareholders	62,853,998 <sup>(1)</sup>	\$6.47 per share <sup>(2)</sup>	24,034,444 <sup>(3)</sup>
Plans Not Approved by Shareholders			
<b>Total</b>	<b>62,853,998</b>	<b>\$6.47 per share</b>	<b>24,034,444</b>

(1) This number includes 60,369,893 common shares that were subject to issuance upon the exercise of stock options granted under our 2001 Share Option Plan, and 2,484,105 common shares were purchased under our Employee Stock Purchase Plan (the ESPP ) on July 30, 2004, the purchase date for the purchase period that was in progress as of July 2, 2004. A maximum of 2,500,000 common shares were available for purchase under our ESPP in that purchase period.

(2) This value is calculated based only on the exercise price of options outstanding under the 2001 Share Option Plan. The exercise price for the rights awarded under the ESPP in the purchase period in progress on July 2, 2004 could not be determined as of July 2, 2004. On July 30, 2004, the purchase date for that purchase

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period, the weighted average exercise price for the common shares issued upon the exercise of outstanding rights pursuant to the ESPP was \$9.75 per share.

- (3) This number includes 9,014,310 common shares available for future issuance under our 2001 Share Option Plan and at least 15,020,134 common shares available for issuance under our ESPP. Our board of directors has approved and is proposing that our shareholders approve the Seagate Technology 2004 Stock Compensation Plan at our 2004 annual general meeting of shareholders. If approved by shareholders, the 2004 Stock Compensation Plan will become effective and 27,500,000 of our common shares will be available for future issuance under that plan, in addition to those shares available for future issuance under the 2001 Share Option Plan. In this event, a total of 51,534,444 of our common shares will be available for issuance under our equity compensation plans. In addition, the ESPP provides for automatic annual increases in the number of common shares reserved for issuance under the ESPP at the start of each of our fiscal years equal to the lesser of (1) 2,500,000 shares, (2) one half of one percent (0.5%) of the shares outstanding on the last day of the immediately preceding fiscal year, or (3) a lesser amount as determined by our board of directors.

## **Critical Accounting Policies**

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our consolidated financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and operating results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are highly uncertain at the time of estimation. Based on this definition, our most critical policies include: establishment of distributor sales program accruals, establishment of warranty accruals, and valuation of deferred tax assets. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other key accounting policies and accounting estimates relating to uncollectible customer accounts and valuation of inventory. We believe that these other accounting policies and other accounting estimates either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period.

*Establishment of Sales Program Accruals.* We establish certain distributor and OEM sales programs aimed at increasing customer demand. These programs are typically related to a distributor's level of sales, order size, advertising or point of sale activity or an OEM's level of sale activity or agreed upon rebate programs. We provide for these obligations at the time that revenue is recorded based on estimated requirements. These estimates are based on various factors, including estimated future price erosion, distributor sell-through levels, program participation, customer claim submittals and sales returns. During periods in which our distributors' inventories of our products are at higher than historical levels, such as the second fiscal quarter ended January 2, 2004, our estimates upon which our recorded contra-revenue is based are subject to a greater degree of subjectivity and the potential for actual results to vary is accordingly higher. Significant actual variations in any of the factors upon which we base our estimates could have a material effect on our operating results. In addition, our failure to accurately predict the level of future sales returns by our distribution customers could have a material impact on our financial condition and results of operations.

We made changes to our distributor sales programs commencing with our third fiscal quarter of 2004 that simplified the calculation of sales incentive allowances. Although these changes have the potential to reduce the level of estimation required in establishing sales program accruals in future periods, no assurance can be given that this will be the case, particularly as we implement our new programs.

*Establishment of Warranty Accruals.* We estimate probable product warranty costs at the time revenue is recognized. We generally warrant our products for a period of one to five years. We use estimated repair or replacement costs and use statistical modeling to estimate product return rates in order to determine our warranty obligation. We exercise judgment in determining the underlying estimates. Our judgment is subject to a greater

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degree of subjectivity with respect to newly introduced products because of a lack of past experience with those products upon which to base our estimates. Should actual experience in any future period differ significantly from our estimates, our future results of operations could be materially affected. The actual results with regard to warranty expenditures could have a material adverse effect on us if the actual rate of unit failure is greater than what we used in estimating the warranty expense accrual. On July 26, 2004, we announced the introduction of our five-year warranty on products shipped into our distribution and retail channels, and we expect that the impact of this change will increase our future warranty costs.

*Valuation of Deferred Tax Assets.* The recording of our deferred tax assets each period depends primarily on our ability to generate current and future taxable income in the United States and certain foreign jurisdictions. Each period we evaluate the need for a valuation allowance for our deferred tax assets and we adjust the valuation allowance so that we record net deferred tax assets only to the extent that we conclude it is more likely than not that these assets will be realized.

## **Recent Accounting Pronouncements**

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, ( SFAS 149 ) which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The adoption of SFAS 149 did not have a material impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, ( SFAS 150 ). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and was effective in our fiscal quarter ended October 3, 2003. The adoption of SFAS 150 did not have a significant impact on our results of operations or financial position.

In December 2003, the FASB issued a revision to FASB Statement No. 132, *Employers disclosures about Pensions and Other Postretirement Benefits*, ( SFAS 132-R ). This statement establishes standards that require companies to provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. In addition to expanded annual disclosures, companies are required to report the various elements of pension and other postretirement benefit costs on a quarterly basis. This statement is effective for fiscal years ending after December 15, 2003, and was effective for our fiscal quarter ended April 2, 2004. Because the revisions only effect disclosure requirements, the adoption of SFAS 132-R did not have an impact on our results of operations or financial position.

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### **Risk Factors**

#### **Risks Related to Our Business**

***Competition*** *Our industry is highly competitive and our products have experienced significant price erosion and market share variability.*

Even during periods when demand is stable, the rigid disc drive industry is intensely competitive and vendors typically experience substantial price erosion over the life of a product. Our competitors have historically offered existing products at lower prices as part of a strategy to gain or retain market share and customers, and we expect these practices to continue. We may need to reduce our prices to retain our market share, which could adversely affect our results of operations. Based on our recent experience in the industry with respect to new product introductions, we believe that the rate of increase in areal density, or the storage capacity per square inch on a disc, is slowing from its previous levels. This trend may contribute to increased average price erosion. To the extent that historical price erosion patterns continue, product life cycles may lengthen, our competitors may have more time to enter the market for a particular product and we may be unable to offset these factors with new product introductions at higher average prices. A second trend that may contribute to increased average price erosion is the growth of sales to distributors that serve producers of non-branded products in the personal storage sector. These customers generally have limited product qualification programs, which increases the number of competing products available to satisfy their demand. As a result, purchasing decisions for these customers are based largely on price and terms. Any increase in our average price erosion would have an adverse effect on our result of operations.

Moreover, a significant portion of our success historically has been a result of increasing our market share at the expense of our competitors. However, in the first fiscal quarter of 2004, our market share for our enterprise products was negatively affected by our customers' diversifying their sources of supply as the slowing areal density curve has resulted in longer product cycles and more time for our competitors to enter the market for particular products. Additionally, in the third fiscal quarter of 2004, our market share for notebook drive products was negatively affected by an oversupply condition in our customers' supply chain. Any significant further decline in our market share would adversely affect our results of operations.

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

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

#### **Captive**

Fujitsu Limited  
Hitachi Global Storage Technologies  
Samsung Electronics Incorporated  
Toshiba Corporation

#### **Independent**

Maxtor Corporation  
Western Digital Corporation

The term "independent" in this context refers to manufacturers that primarily produce rigid disc drives as a stand-alone product, and the term "captive" refers to rigid disc drive manufacturers who themselves or through affiliated entities produce complete computer or other systems that

contain rigid disc drives or other information storage products. Captive manufacturers are formidable competitors because they have the ability to determine pricing for complete systems without regard to the margins on individual components. Because components other than rigid disc drives generally contribute a greater portion of the operating margin on a complete computer system than do rigid disc drives, captive manufacturers do not necessarily need to realize a profit on the rigid disc drives included in a computer system and, as a result, may be willing to sell rigid disc drives to third parties at very low margins. Many captive manufacturers are also formidable competitors because they have more

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substantial resources than we do. In addition, Hitachi Global Storage Technologies (together with affiliated entities) and Samsung Electronics Incorporated also sell other products to our customers, including critical components like flash memory, application-specific integrated circuits, or ASICs, and flat panel displays, and may be willing to sell their disc drives at a lower margin to advance their overall business strategy. This may improve their ability to compete with us. To the extent we are not successful competing with captive or independent rigid disc drive manufacturers, our results of operations will be adversely affected.

In addition, in response to customer demand for high-quality, high-volume and low-cost rigid disc drives, manufacturers of rigid disc drives have had to develop large, in some cases global, production facilities with highly developed technological capabilities and internal controls. The development of large production facilities and industry consolidation can contribute to the intensification of competition. We also face indirect competition from present and potential customers who evaluate from time to time whether to manufacture their own rigid disc drives or other information storage products.

***Volatility of Quarterly Results*** *Our quarterly operating results fluctuate significantly from period to period, and this may cause our stock price to decline.*

In the past, our quarterly revenue and operating results fluctuated significantly from period to period. We expect this fluctuation to continue for a variety of reasons, including:

changes in the demand for the computer systems, storage subsystems and consumer electronics that contain our rigid disc drives, due to seasonality and other factors;

changes in purchases from period to period by our primary customers, particularly as our competitors are able to introduce and produce in volume comparable product technology;

competitive pressures resulting in lower selling prices;

delays or problems in the introduction of our new products due to inability to achieve high production yields, delays in customer qualification or initial product quality issues;

shifting trends in customer demand which, when combined with overproduction of particular products, particularly at times like now where the industry is served by multiple suppliers, results in supply/demand imbalances;

the impact of restructuring activities that the company may engage in;

adverse changes in the level of economic activity in the United States and other major regions in which we do business;

our high proportion of fixed costs, including research and development expenses;

announcements of new products, services or technological innovations by us or our competitors; and

increased costs or adverse changes in availability of supplies.

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

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

We are continually developing new products in the hope that we will be able to introduce technologically advanced rigid disc drives into the marketplace ahead of our competitors.



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We recently announced 12 new rigid disc drive products which will be introduced in the current fiscal year, many of which will address rigid disc drive applications for which we currently have no product offerings. Some of these new products introduce new form factors, such as our first 1-inch form factor rigid disc drive and our first 2.5-inch form factor rigid disc drive for enterprise applications. Some of these new products also introduce higher levels of areal density than our existing products. We believe that our near-term financial results, including our ability to achieve the results included in publicly announced forecasts will depend heavily on the successful introduction and customer acceptance of these new products.

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

In addition, the success of our new product introductions is dependent upon our ability to qualify as a primary source of supply with our OEM customers. In order for our products to be considered by our customers for qualification, we must be among the leaders in time-to-market with those new products. Once a product is accepted for qualification testing, any failure or delay in the qualification process or a requirement that we requalify can result in our losing sales to that customer until new products are introduced. The limited number of high-volume OEMs magnifies the effect of missing a product qualification opportunity. These risks are further magnified because we expect competitive pressures to result in declining sales and declining gross margins on our current generation products. We cannot assure you that we will be among the leaders in time-to-market with new products or that we will be able to successfully qualify new products with our customers in the future.

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

Increases in sales of notebook computers and in areal density are resulting in a shift to smaller form factor rigid disc drives for an expanding number of applications, including personal computers, enterprise storage applications and consumer electronic devices. Many of these applications have typically used rigid disc drives with a 3.5-inch form factor, which we currently manufacture. Notebook computers typically use 2.5-inch form factor rigid disc drives. We initiated volume shipments of our Momentus notebook disc drive to a number of OEMs in the second fiscal quarter of 2004. These shipments materially contributed to our results of operations in the second fiscal quarter. However, our recently introduced products only address a limited portion of the existing notebook market and in our third fiscal quarter of 2004, ended April 2, 2004, an oversupply of notebook disc drives in the supply chain led to a significant reduction in our shipments of Momentus which adversely impacted our results of operations. We recently announced our first 1-inch form factor rigid disc drive, additional capacity models of our Momentus notebook disc drive and a 2.5-inch form factor disc drive for enterprise storage applications. These products are scheduled for introduction during fiscal year 2005. If we do not successfully introduce these products or if we do not suitably adapt our technology and product offerings to successfully develop and introduce additional smaller form factor rigid disc drives, customers may decrease the amounts of our products that they purchase which would adversely affect our results of operations.

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

Our strategy involves, to a substantial degree, increasing revenue while at the same time reducing operating expenses. In this regard, we have engaged in ongoing, company-wide manufacturing efficiency activities intended to increase productivity and reduce costs. These activities have included closures and transfers of facilities, significant personnel reductions and efforts to increase automation. For example, in our fourth fiscal quarter of 2004, we undertook significant restructuring activities to reduce the costs of our operations and we



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continue to look at opportunities for further cost reductions, which may result in additional restructuring activities in the future. We cannot assure you that our efforts will result in the increased profitability, cost savings or other benefits that we expect. Moreover, the reduction of personnel and closure of facilities may adversely affect our ability to manufacture our products in required volumes to meet customer demand and may result in other disruptions that affect our products and customer service. In addition, the transfer of manufacturing capacity of a product to a different facility frequently requires qualification of the new facility by some of our OEM customers. We cannot assure you that these activities and transfers will be implemented on a cost-effective basis without delays or disruption in our production and without adversely affecting our customer relationships and results of operations.

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

Our rigid disc drives are components in computers, computer systems and storage subsystems and consumer electronic devices. The demand for these products has been volatile. In a weak economy, consumer spending tends to decline and retail demand for PCs and consumer electronic devices tends to decrease, as does enterprise demand for computer systems and storage subsystems. During economic slowdowns such as the one that began in 2001, demand for rigid disc drives, particularly in the enterprise sector was adversely impacted as a result of the weakened economy and because enterprises shifted their focus from making new equipment purchases to more efficiently using their existing information technology infrastructure through, among other things, adopting new storage architectures. Unexpected slowdowns in demand for computer systems and storage subsystems generally cause sharp declines in demand for rigid disc drive products.

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

***Seasonality Because we experience seasonality in the sales of our products, our results of operations will generally be adversely impacted during our fourth fiscal quarter.***

Because sales of computer systems, storage subsystems and consumer electronics tend to be seasonal, we expect to continue to experience seasonality in our business as we respond to variations in our customers' demand for rigid disc drives. In particular, we anticipate that sales of our products will continue to be lower during our fourth fiscal quarter than the rest of the year. In the desktop computer, notebook computer and consumer electronics sectors of our business, this seasonality is partially attributable to our customers' increased sales of PCs and consumer electronics during the winter holiday season. In the enterprise sector of our business, our sales are seasonal because of the capital budgeting and purchasing cycles of our end users. Because our working capital needs peak during periods in which we are increasing production in anticipation of orders that have not yet been received, our operating results will fluctuate seasonally even if the forecasted demand for our products proves accurate. Furthermore, it is difficult for us to evaluate the degree to which this seasonality may affect our business in future periods because our overall growth may have reduced the impact of this seasonality in recent periods. In addition, the pattern of seasonal changes in demand may change. For instance, we believe demand for our products used in consumer electronics may be peaking in our first fiscal quarter, which is earlier than in the past.

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

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The rigid disc drive industry operates on quarterly purchasing cycles, with much of the order flow in any given quarter coming at the end of that quarter. Our manufacturing process requires us to make significant

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product-specific investments in inventory in each quarter for that quarter's production. Because we typically receive the bulk of our orders late in a quarter after we have made our investments, there is a risk that our orders will not be sufficient to allow us to recapture the costs of our investment before the products resulting from that investment have become obsolete. We cannot assure you that we will be able to accurately predict demand in the future.

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

our inability to reduce our fixed costs to match sales in any quarter because of our vertical manufacturing strategy, which means that we make more capital investments than we would if we were not vertically integrated;

the timing of orders from and shipment of products to key customers;

unanticipated fluctuations in unit volume purchases from our customers, particularly our distributor customers who recently have accounted for an increasingly larger portion of our total sales;

our product mix and the related margins of the various products;

accelerated reduction in the price of our rigid disc drives due to technological advances and/or an oversupply of rigid disc drives in the market, a condition that is exacerbated when the industry is served by multiple suppliers and shifting trends in demand which can create supply demand imbalances;

manufacturing delays or interruptions, particularly at our major manufacturing facilities in China, Malaysia, Singapore and Thailand;

variations in the cost of components for our products;

limited access to components that we obtain from a single or a limited number of suppliers;

the impact of changes in foreign currency exchange rates on the cost of producing our products and the effective price of our products to foreign consumers; and

operational issues arising out of the increasingly automated nature of our manufacturing processes.

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

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

behavior of these distributors while other disc drive manufacturers have not. These actions have further increased the uncertainty as to demand within this market segment. To the extent that distributors reduce their purchases of our products or prices decline significantly in the distribution channel, our results of operations would be adversely affected.

*Longer Product Life Cycles* Lengthening of product life cycles can make planning product transitions difficult and may reduce the favorable impact of new product transitions.

In contrast to historical trends, based on our recent experience in the industry with respect to new product introductions, we believe that the current rate of increase in areal density is slowing from the rate of the last several years. We believe that this slowdown in the rate of increase in areal density will continue until a significant advance in technology for the electronic storage of data, such as perpendicular recording technology, becomes commercially available.

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When the rate of increase in areal density slows, it may contribute to increased average price erosion to the extent historical price erosion patterns continue, a limitation in our ability to introduce new products at higher prices and lengthened product life cycles which permits competitors more time to enter the market for a particular type of disc drive. In addition, the lengthening of product life cycles can make planning product transitions more difficult. To the extent that we prematurely discontinue a product, or do not timely introduce new products, our operating results may be adversely affected.

Because the rate of growth in areal density is slowing, the favorable impact of new product introductions on our results of operations may be minimized. Historically, the introduction of new products generally has had a favorable impact on our results of operations both because the new products are introduced at higher prices than existing competitive offerings and because advances in areal density technology have enabled lower manufacturing costs through a reduction in components such as read/write heads and rigid discs. However, in contrast to when the rate of growth in areal density is increasing, a slowing growth rate in areal density can limit the cost benefits of new products because it is technologically more difficult to reduce the number of read/write heads and rigid discs in a particular drive. In addition, given the environment of intense price competition, in the absence of significant capacity or reliability increases, it is difficult to obtain higher prices for new products.

***Industry Consolidation*** *Consolidation among captive manufacturers may serve to increase their resources and improve their access to customers, thereby making them more formidable competitors.*

Consolidation among captive manufacturers may provide them with competitive advantages over independent manufacturers, including us. For example, in December 2002, IBM merged its disc drive business with the disc drive business of Hitachi through the formation of Hitachi Global Storage Technologies, a separate company. Hitachi is the controlling shareholder of Hitachi Global Storage Technologies and is expected to assume full ownership at the end of 2005. As a part of this transaction, each of IBM and Hitachi agreed to multi-year supply commitments with the new company. Because IBM is one of our most significant customers and Hitachi is one of our most significant competitors, there is a significant risk that IBM will decrease the number of rigid disc drives purchased from us and increase the number purchased from the new company. Moreover, economies of scale and the combination of the two companies' technological capabilities, particularly in the enterprise sector of our industry, could make the new company a more formidable competitor than IBM or Hitachi operating alone.

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

To achieve consistent success with our OEM customers, it is important that we be an early provider of new types of rigid disc drives featuring leading, high-quality technology. Historically, our operating results have substantially depended upon our ability to be among the first-to-market with new product offerings. However, during a period of slowing areal density growth, such as we are in now, the importance of time-to-market may be less critical. Our market share and operating results in the future may be adversely affected, particularly if the areal density curve resumes its historical rate of growth, if we fail to:

consistently maintain our time-to-market performance with our new products;

produce these products in sufficient volume;

qualify these products with key customers on a timely basis by meeting our customers' performance and quality specifications; or

achieve acceptable manufacturing yields and costs with these products.

If delivery of our products is delayed, our OEM customers may use our competitors' products to meet their production requirements. If the delay of our products causes delivery of those OEMs' computer systems into which our products are integrated to be delayed, consumers and businesses may purchase comparable products from the OEMs' competitors.



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

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

Our customers have demanded new generations of rigid disc drive products as advances in computer hardware and software have created the need for improved storage products with features such as increased storage capacity, improved performance and reliability of smaller form factors. We, and our competitors, have developed improved products, and we will need to continue to do so in the future. For fiscal years 2004, 2003 and 2002, we had product development expenses of \$666 million, \$670 million and \$698 million, respectively. We cannot assure you that we will be able to successfully complete the design or introduction of new products in a timely manner, that we will be able to manufacture new products in sufficient volumes with acceptable manufacturing yields, that we will be able to successfully market these new products or that these products will perform to specifications on a long-term basis. In addition, the impact of slowing areal density growth may adversely impact our ability to be successful.

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

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

The rate of increase in areal density, or storage capacity per square inch on a disc, may be greater than the increase in our customers' demand for aggregate storage capacity. As a result, our customers' storage capacity needs may be satisfied with fewer rigid disc drives. These factors could decrease our sales, especially when combined with continued price erosion, which could adversely affect our results of operations.

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

We expect that in the future new personal computing devices and products will be developed, some of which, such as Internet appliances, may not contain a rigid disc drive. While we are investing development resources in designing information storage products for new applications, it is too early to assess the impact of these new applications on future demand for rigid disc drive products. We cannot assure you that we will be successful in developing other information storage products. In addition, there are currently no widely accepted standards in various technical areas that may be important to the future of our business, including the developing sector of intelligent storage solutions. Products using alternative technologies, such as semiconductor memory, optical storage and other storage technologies could become a significant source of competition to particular applications of our products.

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For example, semiconductor memory is much faster than rigid disc drives, but currently is volatile in that it is subject to loss of data in the event of power failure and is much more costly than rigid disc drive technologies. Flash EEPROM, a nonvolatile semiconductor memory, is currently much more costly than rigid disc drive

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technologies and, while it has higher read performance than rigid disc drives, it has lower write performance. Flash EEPROM could become competitive in the near future for applications requiring less storage capacity than that required in traditional markets for our products.

### ***High Fixed Costs Our vertical integration strategy entails a high level of fixed costs.***

Our vertical integration strategy entails a high level of fixed costs and requires a high volume of production and sales to be successful. During periods of decreased production, these high fixed costs have had, and could in the future have, a material adverse effect on our operating results and financial condition. For example, in 1998 our predecessor experienced a significant decrease in the demand for its products, and because our predecessor was unable to adequately reduce its costs to offset this decrease in revenue, its gross and operating margins suffered. In addition, a strategy of vertical integration has in the past and could in the future delay our ability to introduce products containing market-leading technology, because we may not have developed the technology and source of components for our products and do not have access to external sources of supply without incurring substantial costs.

Research and development expenses represent a significant portion of our fixed costs. As part of our vertical integration strategy, we explore a broad range of ways to improve rigid disc drives as well as possible alternatives to rigid disc drives for storing and retrieving electronic data. If we fail to develop new technologies in a timely manner, and our competitors succeed in doing so, our ability to sell our products could be significantly diminished. Conversely, if we over invest in technologies that can never be profitably manufactured and marketed, our results of operations could suffer. By way of example, we have incurred expenses in exploring new technologies for storing electronic data, including perpendicular recording technology, which involves a different orientation for the magnetic field than is currently used in rigid disc drives, and heat assisted magnetic recording technology, which uses heat generated by a laser to improve storage capacity. We believe these new technologies could significantly improve the storage capacity of rigid disc drives over the long term. To date, we have not yet developed a commercial product based on these technologies. Furthermore, based on our recent experience in the industry with respect to new product introductions, we believe that the rate of increase of areal density is slowing as compared to its previous levels, which has lengthened the life cycles of existing products and may further postpone returns on our investments in new technologies. If we have invested too much in new technologies, our results of operations could be adversely affected. In addition, as we replace our existing assets with new, higher cost assets, we expect that our depreciation expense will increase, which will contribute to our high level of fixed costs and reduce our earnings. This could cause the market price of our common shares to decline.

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

The cost, quality and availability of some equipment, components and raw materials used to manufacture rigid disc drives and other information storage products are critical to the successful manufacture of these products. The equipment we use to manufacture our products is frequently custom made and comes from a few suppliers. Particularly important components include read/write heads, recording media, application-specific integrated circuits, or ASICs, spindle motors and printed circuit boards. We rely on sole suppliers and a limited number of suppliers for some of these components, including the read/write heads and recording media that we do not manufacture, ASICs, spindle motors and printed circuit boards. In the past, we have experienced increased costs and production delays when we were unable to obtain the necessary equipment or sufficient quantities of some components and/or have been forced to pay higher prices for some components or raw materials, such as precious metals, that were in short supply in the industry in general.

Due to the weakened economy in general and in the technology sector of the economy in particular, the rigid disc drive industry has experienced economic pressure, which has resulted in consolidation among component



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manufacturers and may result in some component manufacturers exiting the industry or not making sufficient investments in research to develop new components. In addition, the recent increases in demand for our mobile computing products, such as notebook computers, could lead to shortages in the components used in smaller form factor rigid disc drives such as the glass substrates used to make the recording media for such drives. These events could affect our ability to obtain critical components for our products, including our recently introduced line of products for notebook computers, which in turn could have a material adverse effect on our prospects and results of operations.

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

it is likely that our suppliers would raise their prices and, if we could not pass these price increases to our customers, our operating margin would decline;

we might have to reengineer some products, which would likely cause production and shipment delays, make the reengineered products more costly and provide us with a lower rate of return on these products;

we would likely have to allocate the components we receive to certain of our products and ship less of others, which could reduce our revenues and could cause us to lose sales to customers who could purchase more of their required products from manufacturers that either did not experience these shortages or delays or that made different allocations; and

we might be late in shipping products, causing potential customers to make purchases from our competitors and, thus, causing our revenue and operating margin to decline.

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

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

For fiscal years 2004, 2003 and 2002, our top 10 customers accounted for approximately 62%, 63% and 63%, respectively, of our rigid disc drive revenue. Hewlett-Packard accounted for approximately 19% and 18% of our rigid disc drive revenue for fiscal years 2004 and 2003, respectively. Sales to Hewlett-Packard and Compaq together accounted for approximately 20% of our rigid disc drive revenue in fiscal year 2002. If any of our key customers were to significantly reduce their purchases from us, our results of operations would be adversely affected. While sales to major customers may vary from period to period, a major customer that permanently discontinues or significantly reduces its relationship with us could be difficult to replace. In line with industry practice, new customers usually require that we pass a lengthy and rigorous qualification process at the customer's cost. Accordingly, it may be difficult for us to attract new major customers.

***Customer Concentration*** *Consolidation among our customers could cause sales of our products to decline.*

Mergers, acquisitions, consolidations or other significant transactions involving our customers generally entail risks to our business. For example, IBM, which is one of our key customers, merged its disc drive business with the disc drive business of Hitachi through the formation of a new company with which IBM has entered into a multi-year supply agreement. As a result, IBM may decrease its purchases from us in favor of this new company. If a significant transaction involving any of our key customers results in the loss of or reduction in purchases by

these key customers, it could have a materially adverse effect on our business, results of operations, financial condition and prospects.

***OEM Purchase Agreements Our OEM customers are not obligated to purchase our products.***

Typically, our OEM purchase agreements permit OEMs to cancel orders and reschedule delivery dates without significant penalties. In the past, orders from many of our OEMs were cancelled and delivery schedules were delayed as a result of changes in the requirements of the OEMs customers. These order cancellations and

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delays in delivery schedules have had a material adverse effect on our results of operations in the past and may do so again in the future. Our OEMs and distributors typically furnish us with non-binding indications of their near term requirements, with product deliveries based on weekly confirmations. If actual orders from distributors and OEMs decrease from their non-binding forecasts, these variances could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

We have significant operations in foreign countries, including manufacturing facilities, sales personnel and customer support operations. For fiscal years 2004, 2003 and 2002, approximately 30%, 31% and 31%, respectively, of our rigid disc drive revenue were from sales to customers located in Europe and approximately 40%, 35% and 30%, respectively, were from sales to customers located in the Far East. We have manufacturing facilities in China, Malaysia, Northern Ireland, Singapore and Thailand, in addition to those in the United States. A substantial portion of our desktop rigid disc drive assembly occurs in our facility in China.

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

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

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

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

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

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

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

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



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

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

We have manufacturing facilities in parts of the world that periodically experience political unrest. This could disrupt our ability to manufacture important components as well as cause interruptions and/or delays in our ability to ship components to other locations for continued manufacture and assembly. Any such delays or interruptions could result in delays in our ability to fill orders and have an adverse effect on our results of operation and financial condition. U.S. and international responses to the terrorist attacks on September 11, 2001, the ongoing hostilities in Afghanistan and Iraq and the risk of hostilities with North Korea could exacerbate these risks.

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

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

*Conflicts of Interest of our Directors and Officers* Our directors and executive officers may have conflicts of interest because of their ownership of capital stock of, and their employment with, our parent company and our affiliates.

Many of our directors and executive officers hold ordinary shares of our parent company, New SAC. Ownership of the capital stock of our parent company by our directors and officers could create, or appear to create, potential conflicts of interest when our directors and officers are faced with decisions that could have different implications for us and for New SAC.

Some of our directors also serve on the board of New SAC. Several of our executive officers also serve as officers and/or directors of New SAC as well as of other affiliates of ours. In view of these overlapping relationships, conflicts of interest may exist or arise with respect to existing and future business dealings, including the relative commitment of time and energy by our directors and officers to us and to our parent company and affiliates, potential acquisitions of businesses or properties and other business opportunities, the issuance of additional securities, the election of new or additional directors and the payment of distributions by us. We cannot assure you that any conflicts of interest will be resolved in our favor.

*Risks Associated with Future Acquisitions* We may not be able to identify suitable strategic alliance, acquisition or investment opportunities, or successfully acquire and integrate companies that provide complementary products or technologies.

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Our growth strategy may involve pursuing strategic alliances with, and making acquisitions of or investments in, other companies that are complementary to our business. There is substantial competition for attractive strategic alliance, acquisition and investment candidates. We may not be able to identify suitable acquisition, investment or strategic partnership candidates. Even if we were able to identify them, we cannot assure you that we will be able to partner with, acquire or invest in suitable candidates, or integrate acquired technologies or operations successfully into our existing technologies and operations. Our ability to finance

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potential acquisitions will be limited by our high degree of leverage, the covenants contained in the indenture that governs our outstanding 8% senior notes, the credit agreement that governs our senior secured credit facilities and any agreements governing any other debt we may incur.

If we are successful in acquiring other companies, these acquisitions may have an adverse effect on our operating results, particularly while the operations of the acquired business are being integrated. It is also likely that integration of acquired companies would lead to the loss of key employees from those companies or the loss of customers of those companies. In addition, the integration of any acquired companies would require substantial attention from our senior management, which may limit the amount of time available to be devoted to our day-to-day operations or to the execution of our strategy. Furthermore, the expansion of our business involves the risk that we might not manage our growth effectively, that we would incur additional debt to finance these acquisitions or investments and that we would incur substantial charges relating to the write-off of in-process research and development, similar to that which we incurred in connection with several of our prior acquisitions. Each of these items could have a material adverse effect on our financial position and results of operations.

***Potential Loss of Licensed Technology*** *The closing of the November 2000 transactions may have triggered change of control or anti-assignment provisions in some of our license agreements, which could result in a loss of our right to use licensed technology.*

We have a number of cross-licenses with third parties that enable us to manufacture our products free from any infringement claims that might otherwise be made by these third parties against us. A number of these licenses contain change of control or anti-assignment provisions. We have taken steps to transfer these licenses in connection with the closing of the November 2000 transactions; however, we cannot assure you that these transfers will not be challenged. For example, Papst Licensing GmbH, IBM and Hitachi initially took the position that their license agreements did not transfer to our new business entities. Subsequently, we entered into new license agreements with IBM and Hitachi in December 2001. In September 2002, we settled a broader dispute with Papst that also resolved the claim by Papst that its license agreement was not properly transferred.

We received a letter dated November 20, 2002 from Read-Rite Corporation asserting that we do not currently have a license to its patented technology and that our rigid disc drive products infringe at least two of its patents. We have since received additional letters from Read-Rite Corporation making the same claims. Seagate Delaware entered into a Patent Cross License Agreement dated December 31, 1994, which covered the two patents referenced in the November 20, 2002 letter, as well as other intellectual property of Read-Rite Corporation. Prior to the November 20, 2002 letter, Read-Rite Corporation had not responded to our efforts to confirm that under the Patent Cross License Agreement we were entitled to a new license agreement in our own name and on materially the same terms as the 1994 agreement. In order to clarify the parties rights under the Patent Cross License Agreement, we filed a declaratory judgment action on May 7, 2003 in the Superior Court of California, County of Santa Clara, seeking a declaration that we are entitled to a cross-license, effective as of November 22, 2000, under terms substantially identical to those contained in the Patent Cross License Agreement. On June 11, 2003 Read-Rite Corporation answered the complaint putting forward a general denial and asserting various affirmative defenses. On June 17, 2003, Read-Rite Corporation filed a voluntary petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. Upon notice, our declaratory judgment action has been stayed. On July 23, 2003, the U.S. Bankruptcy Court approved Western Digital Corporation's bid to acquire the assets of Read-Rite Corporation, including the intellectual property that was the subject of Read-Rite's dispute with us, in a transaction that closed on July 31, 2003. We objected to Western Digital's assumption of the Patent Cross-License Agreement. On November 14, 2003, the Bankruptcy Trustee made a motion to assume or reject certain Read-Rite executory contracts, rejecting the Patent Cross-License Agreement. We have given notice of our election to retain the benefits of the Patent Cross-License Agreement to the extent permitted by Section 365(n) of the U.S. Bankruptcy Code.

To the extent that third party cross-licenses, including the Patent Cross License Agreement dated December 31, 1994 between Read-Rite Corporation and Seagate Delaware, are deemed not to have been properly assigned to us in the November 2000 transactions, our inability to either obtain new licenses or transfer existing



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licenses could result in delays in product development or prevent us from selling our products until equivalent substitute technology can be identified, licensed and/or integrated or until we are able to substantially engineer our products to avoid infringing the rights of third parties. We might not be able to renegotiate agreements, be able to obtain necessary licenses in a timely manner, on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, the loss of or inability to extend any of these licenses would increase the risk of infringement claims being made against us, which claims could have a material adverse effect on our business.

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

We cannot be certain that our products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the United States and some foreign countries have not been publicly disclosed until the patent is issued, and we may not be aware of currently filed patent applications that relate to our products or technology. If patents are later issued on these applications, we may be liable for infringement. We may be subject to legal proceedings and claims, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us, or our licensees in connection with their use of our products. We are currently subject to a suit by Convolve, Inc. and the Massachusetts Institute of Technology and a suit pending in Nanjing, China. In addition, as noted above, Read-Rite Corporation, in a letter dated November 20, 2002 and in correspondence since that date, asserted that we do not currently have a license to Read-Rite Corporation patented technology and that our rigid disc drive products infringe at least two Read-Rite Corporation patents.

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

***Dependence on Intellectual Property*** *If our intellectual property and other proprietary information were copied or independently developed by competitors, our operating results would be negatively affected.*

Our success depends to a significant degree upon our ability to protect and preserve the proprietary aspects of our technology. However, we may be unable to prevent third parties from using our technology without our authorization, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States, or protect us from independently developing or acquiring technology that is similar to ours. For example, in its bankruptcy proceedings under Chapter 7 of the U.S. Bankruptcy Code, Read-Rite Corporation's patents and other intellectual property rights were sold to Western Digital Corporation, who will use this intellectual property to compete against us. The use of our technology or similar technology by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business. If it became necessary for us to resort to litigation to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

***Limitations on Patent Protection*** *Our issued and pending patents may not adequately protect our intellectual property or provide us with any competitive advantage.*

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Although we have numerous U.S. and foreign patents and numerous pending patents that relate to our technology, we cannot assure you that any patents, issued or pending, will provide us with any competitive

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advantage or will not be challenged by third parties. Moreover, our competitors may already have applied for patents that, once issued, will prevail over our patent rights or otherwise limit our ability to sell our products in the United States or abroad. Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our proprietary technology. With respect to our pending patent applications, we may not be successful in securing patents for these claims. Our failure to secure these patents may limit our ability to protect the intellectual property rights that these applications were intended to cover.

***Disclosure of our Proprietary Technology*** *Confidentiality and non-disclosure agreements may not adequately protect our proprietary technology or trade secrets.*

We have entered into confidentiality agreements with our employees and non-disclosure agreements with customers, suppliers and potential strategic partners, among others. If any party to these agreements were to violate their agreement with us and disclose our proprietary technology to a third party, we may be unable to prevent the third party from using this information. Because a significant portion of our proprietary technology consists of specialized knowledge and technical expertise developed by our employees, we have a program in place designed to ensure that our employees communicate any developments or discoveries they make to other employees. However, employees may choose to leave our company before transferring their knowledge and expertise to our other employees. Violations by others of our confidentiality or non-disclosure agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline. Our trade secrets may otherwise become known or independently developed by others, and trade secret laws provide no remedy against independent development or discovery.

***Service Marks and Trademarks*** *Our failure to obtain trademark registrations or service marks, or challenges to those marks, could impede our marketing efforts.*

We have registered and applied for some service marks and trademarks, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee the approval of any of our pending applications by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in the United States and in other countries could limit our ability to use our trademarks and impede our marketing efforts in those jurisdictions.

***Environmental Matters*** *We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws.*

Our operations inside and outside the United States are subject to laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. In addition to the U.S. federal, state and local laws to which our domestic operations are subject, our extensive international manufacturing operations subject us to environmental regulations imposed by foreign governments.

Although our policy is to apply strict standards for environmental protection at our sites inside and outside the United States, we could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims if we were to violate or become liable under environmental laws or become non-compliant with environmental permits required at our facilities. Contaminants have been detected at some of our present and former sites, principally in connection with historical operations. In addition, we have been named as a potentially responsible party at several superfund sites. While we are not currently aware of any contaminated or superfund sites as to which material outstanding claims or obligations exist, the discovery of additional contaminants or the imposition of

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additional cleanup obligations at these or other sites could result in significant liability. In addition, the ultimate costs under environmental laws and the timing of these costs are difficult to predict. Liability under some environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. In other words, one liable party could be held liable for all costs at a site. Potentially significant expenditures could be required in order to comply with environmental laws that may be adopted or imposed in the future.



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

Our future performance depends to a significant degree upon the continued service of key members of management as well as marketing, sales and product development personnel. The loss of one or more of our key personnel would have a material adverse effect on our business, operating results and financial condition. We believe our future success will also depend in large part upon our ability to attract, retain and further motivate highly skilled management, marketing, sales and product development personnel. A significant portion of the incentive compensation for our senior management vested in calendar year 2003 and substantially all of this compensation will have vested by November 2004. We may not be able to provide our senior management with adequate additional incentives to remain employed by us after this time. We have experienced intense competition for personnel, and we cannot assure you that we will be able to retain our key employees or that we will be successful in attracting, assimilating and retaining personnel in the future.

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

Our operations are dependent upon our ability to protect our computer equipment and the information stored in our databases from damage by, among other things, earthquake, fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events. As our operations become more automated and increasingly interdependent, our exposure to the risks posed by these types of events will increase. A significant part of our operations is based in an area of California that has experienced power outages and earthquakes and is considered seismically active. We do not have a contingency plan for addressing the kinds of events referred to in this paragraph that would be sufficient to prevent system failures and other interruptions in our operations that could have a material adverse effect on our business, results of operations and financial condition.

***Potential Tax Legislation*** *Negative publicity about companies located in certain offshore jurisdictions may lead to new legislation that could increase our tax burden.*

Several members of the United States Congress have introduced legislation relating to the U.S. federal tax treatment of U.S. companies that have undertaken certain types of expatriation transactions. While we do not believe that this legislation, as currently proposed, would adversely affect us, the exact scope of the legislation and whether it will ultimately be enacted is unclear at this time. In addition, certain state legislatures have proposed similar legislation. Therefore, it is possible that federal or state legislation in this area, if enacted, could materially increase our future tax burden or otherwise affect our business.

## **Risks Related to Our Substantial Indebtedness**

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

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

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

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

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

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

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

covenants in our debt instruments limit our ability and the ability of our subsidiaries to pay distributions or make other restricted payments and investments.

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

Our business may not generate cash flow in an amount sufficient to enable us to pay the principal of, or interest on, our indebtedness or to fund our other liquidity needs, including working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances, and other general corporate requirements. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that:

our business will generate sufficient cash flow from operations;

we will continue to realize the cost savings, revenue growth and operating improvements that resulted from the execution of our long-term strategic plan; or

future borrowings will be available to us under our senior secured credit facilities or that other sources of funding will be available to us, in each case, in amounts sufficient to enable us to fund our liquidity needs.

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

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

Our existing debt instruments, including the indenture governing our outstanding 8% senior notes, impose, and the terms of any future debt may impose, operating and other restrictions on us. The indenture governing our 8% senior notes limits our ability to incur additional indebtedness if

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our consolidated coverage ratio, which is the ratio of the aggregate consolidated EBITDA of our subsidiary, Seagate Technology HDD Holdings, the issuer of our 8% senior notes, and its restricted subsidiaries, to the total interest expense of those entities, is less than or equal to 3.0 to 1.0 during any consecutive four-quarter period. Our existing debt instruments also limit, among other things, our ability to:

pay dividends or make distributions in respect of our shares;

redeem or repurchase shares;

make investments or other restricted payments;

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sell assets;

issue or sell shares of restricted subsidiaries;

enter into transactions with affiliates;

create liens;

enter into sale/leaseback transactions;

effect a consolidation or merger; and

make certain amendments to our deferred compensation plans.

These covenants are subject to a number of important qualifications and exceptions, including exceptions that permit us to make significant distributions of cash. In addition, the obligation to comply with many of the covenants under the indenture governing our 8% senior notes will cease to apply if the notes achieve investment grade status.

Our existing debt instruments also require us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

A breach of any of the restrictive covenants described above or our inability to comply with the required financial ratios could result in a default under our existing debt instruments. If a default occurs, the holders of our outstanding 8% senior notes may elect to declare all of our outstanding obligations, together with accrued interest and other fees, to be immediately due and payable. If our outstanding indebtedness were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that debt and any future indebtedness, which would cause the market price of our common shares to decline significantly.

## **Risks Related to Our Common Shares**

***Control by Our Sponsor Group*** *Because our sponsor group, through its ownership of New SAC, will continue to hold a controlling interest in us, the influence of our public shareholders over significant corporate actions will be limited.*

As of July 2, 2004, New SAC owns approximately 61.5% of our outstanding common shares. New SAC was formed in connection with the November 2000 transactions and is owned by our sponsor group and members of our management. Through their ownership of New SAC, as of July 2, 2004, affiliates of Silver Lake Partners, Texas Pacific Group, August Capital, J.P. Morgan Partners, LLC and investment partnerships affiliated with Goldman, Sachs & Co. indirectly own approximately 19.5%, 13.6%, 7.0%, 4.0% and 1.3%, respectively, of our outstanding common shares. The sponsors' and our managements' ownership of New SAC and New SAC's and the sponsors' ownership of us is the subject of

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shareholders agreements and other arrangements that result in the sponsors acting as a group with respect to all matters submitted to our shareholders. As a result, as long as New SAC or the members of our sponsor group continue to own over 50% of our outstanding common shares, they will continue to have the power to:

control all matters submitted to our shareholders;

elect all of our directors; and

exercise control over our business, policies and affairs.

Even if New SAC holds less than 50% of our outstanding common shares and loses certain contractual rights under our shareholders agreement, it will continue to have a significant influence over these matters. Also, New SAC is not prohibited from selling a controlling interest in us to a third party.

Accordingly, our ability to engage in significant transactions, such as a merger, acquisition or liquidation, is limited without the consent of New SAC, which is controlled by the members of our sponsor group. Conflicts of

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interest could arise between us, and New SAC or our sponsor group, and any conflict of interest may be resolved in a manner that does not favor us. The members of our sponsor group may continue to retain control of us for the foreseeable future, even if New SAC distributes its shares in us to the New SAC shareholders. The members of our sponsor group may decide not to enter into a transaction in which you would receive consideration for your common shares that is much higher than the cost to you or the then-current market price of those shares. In addition, the members of our sponsor group could elect to sell a controlling interest in us and you may receive less than the then-current fair market value or the price you paid for your shares. Any decision regarding their ownership of us that members of our sponsor group may make at some future time will be in their absolute discretion.

***Future Sales*** *Additional sales of our common shares by New SAC, our sponsors or our employees or issuances by us in connection with future acquisitions or otherwise could cause the price of our common shares to decline.*

If New SAC or after any distribution to our sponsors of our shares by New SAC our sponsors sell a substantial number of our common shares in the future, the market price of our common shares could decline. The perception among investors that these sales may occur could produce the same effect. New SAC and our sponsors have rights, subject to specified conditions, to require us to file registration statements covering common shares or to include common shares in registration statements that we may file. Specifically, any of New SAC, Silver Lake Partners, Texas Pacific Group or August Capital can unilaterally require that we file registration statements covering common shares held by New SAC. In addition, either Silver Lake Partners or Texas Pacific Group can unilaterally cause New SAC to distribute its shares in us to our sponsor group and New SAC's other shareholders. By exercising their registration or distribution rights and selling a large number of common shares, New SAC or any of the sponsors could cause the price of our common shares to decline. Furthermore, if we were to include common shares in a registration statement initiated by us, those additional shares could impair our ability to raise needed capital by depressing the price at which we could sell our common shares.

One component of our business strategy is to make acquisitions. In the event of any future acquisitions, we could issue additional common shares, which would have the effect of diluting your percentage ownership of the common shares and could cause the price of our common shares to decline.

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

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

actual or anticipated variations in our results of operations;

announcements of innovations, new products or significant price reductions by us or our competitors;

our failure to meet the performance estimates of investment research analysts;

the timing of announcements by us or our competitors of significant contracts or acquisitions;

general stock market conditions;

the occurrence of major catastrophic events; and

changes in financial estimates by investment research analysts.



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

We made quarterly cash distributions of \$0.04 per share on each of August 22, 2003 and November 21, 2003 to all of our shareholders of record as of August 8, 2003 and November 7, 2003, respectively, including New SAC. We made quarterly cash distributions of \$0.06 per share on each of February 27, 2004, May 21, 2004 and August 20, 2004 to all of our shareholders of record as of February 13, 2004, May 7, 2004 and August 6, 2004, respectively, including New SAC.

Our ability to pay quarterly distributions will be subject to, among other things, general business conditions within the rigid disc drive industry, our financial results, the impact of paying distributions on our credit ratings, and legal and contractual restrictions on the payment of distributions by our subsidiaries to us or by us to our shareholders, including restrictions imposed by the covenants contained in the indenture governing our senior notes and the credit agreement governing our senior secured credit facilities. Any reduction or discontinuation of quarterly distributions could cause the market price of our common shares to decline significantly. Moreover, in the event our payment of quarterly distributions is reduced or discontinued, our failure or inability to resume paying distributions at historical levels could result in a persistently low market valuation of our common shares.

***Taxation of Distributions*** *Certain U.S. shareholders may be ineligible for favorable U.S. federal income tax treatment on distributions on our common shares.*

Because we did not have any current or accumulated earnings and profits for U.S. federal income tax purposes for our taxable year ended July 2, 2004, distributions on our common shares during this period were treated as a return of capital rather than dividend income for U.S. federal income tax purposes. There can be no assurance, however, that we will not have current or accumulated earnings and profits for U.S. federal income tax purposes in future years. To the extent that we have current or accumulated earnings and profits for U.S. federal income tax purposes, distributions on our common shares will not be treated as a return of capital distribution and will be treated as dividend income.

Furthermore, we currently believe that we are a foreign personal holding company for U.S. federal income tax purposes. Under recent U.S. federal income tax legislation, U.S. shareholders who are individuals will not be eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15%) on distributions on our common shares if we qualify as a foreign personal holding company in the year in which such distributions were made or in the preceding taxable year. As a result, if distributions on our common shares are treated as dividend income because we have current or accumulated earnings and profits in the taxable year in which such distributions are made, U.S. shareholders who are individuals may not qualify for favorable U.S. federal income tax treatment under the new legislation.

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

Recently, several state and other governmental officials have threatened to take legislative and other actions against U.S. companies that have expatriated to specific foreign jurisdictions. For example, the California state treasurer has requested that certain pension funds eliminate from their investment portfolios all public equity and fixed income holdings of companies that have reincorporated in foreign jurisdictions. If we are included within the scope of such legislation or governmental action, it may reduce the demand for, and have a material adverse effect on the price of, our common shares.

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

Significant price and value fluctuations have occurred with respect to the publicly traded securities of rigid disc drive companies and technology companies generally. The price of our common shares is likely to be

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volatile in the future. In the past, following periods of decline in the market price of a company's securities, class action lawsuits have often been pursued against that company. If similar litigation were pursued against us, it could result in substantial costs and a diversion of management's attention and resources, which could materially adversely affect our results of operations, financial condition and liquidity.

***Limited Protection of Shareholder Interests*** *Holders of the common shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.*

Our corporate affairs are governed by our second amended and restated memorandum and articles of association, by the Companies Law (2004 Revision) and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholder than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ourselves have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the company. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

***Anti-Takeover Provisions Could Discourage or Prevent an Acquisition of Us*** *Provisions of our articles of association and Cayman Islands corporate law may impede a takeover, which could adversely affect the value of the common shares.*

Our articles of association permit our board of directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our board of directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

Unlike many jurisdictions in the United States, Cayman Islands law does not provide for mergers as that expression is understood under corporate law in the United States. While Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to in the Cayman Islands as a scheme of arrangement, the procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands exempted company must be approved at a shareholders' meeting by a majority of the company's shareholders who are present and voting

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(either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each class of the company's shareholders (excluding the shares owned by the parties to the scheme of

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arrangement) present and voting at the meeting. The Grand Court of the Cayman Islands must also sanction the convening of these meetings and the terms of the amalgamation. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect the creditors' interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

the statutory provisions as to majority vote have been complied with;

the shareholders have been fairly represented at the meeting in question;

the scheme of arrangement is such as a businessman would reasonably approve; and

the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

***Enforcement of Civil Liabilities*** *Holders of our common shares may have difficulty obtaining or enforcing a judgment against us because we are incorporated under the laws of the Cayman Islands.*

Because we are a Cayman Islands exempted company, there is uncertainty as to whether the Grand Court of the Cayman Islands would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands against us predicated upon the securities laws of the United States or any state thereof.

**Table of Contents****ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We invest in high credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk.

We mitigate default risk by maintaining a diversified portfolio and by investing in only high quality securities. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository. We maintain a highly liquid portfolio by investing only in marketable securities with active secondary or resale markets.

We have both fixed and floating rate debt obligations. We enter into debt obligations to support general corporate purposes including capital expenditures and working capital needs. We have used derivative financial instruments in the form of an interest rate swap agreement to hedge a portion of our floating rate debt obligations. Our last interest rate swap agreement matured in November 2002. We currently have no swap agreements.

The table below presents principal (or notional) amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations as of July 2, 2004. All investments mature in three years or less.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value July 2, 2004</u>
(in millions)								
<b>Assets</b>								
Cash equivalents:								
Fixed rate	\$ 336						\$ 336	\$ 335
Average interest rate	1.21%						1.21%	
Short-term investments:								
Fixed rate	\$ 38	\$ 78	\$ 343				\$ 459	\$ 458
Average interest rate	3.82%	3.09%	3.03%				3.11%	
Variable rate	\$ 304						\$ 304	\$ 304
Average interest rate	1.47%						1.47%	
Total investment securities	\$ 678	\$ 78	\$ 343				\$ 1,099	\$ 1,097
Average interest rate	1.47%	3.09%	3.03%				2.08%	
<b>Long-Term Debt</b>								
Fixed rate					\$ 400		\$ 400	\$ 414
Average interest rate					8.00%		8.00%	
Floating rate:								
Tranche B (LIBOR +2%)	\$ 4	\$ 3	\$ 336				\$ 343	\$ 343
	3.13%	3.13%	3.13%				3.13%	

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*Foreign Currency Exchange Risk.* We transact business in various foreign countries. Our primary foreign currency cash flows are in emerging market countries in Asia and in European countries. During the first three fiscal quarters of 2004, all foreign currency cash flow requirements were met using spot foreign exchange transactions. In the fourth fiscal quarter of 2004, we instituted a foreign currency hedging program to protect against the increase in value of foreign currency cash flows resulting from expenses over the next year. We hedge portions of our forecasted expenses denominated in foreign currencies with forward exchange contracts. When the U.S. dollar weakens significantly against the foreign currencies, the increase in the value of the future foreign currency expenditure is offset by gains in the value of the forward contracts designated as hedges. Conversely, as

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the U.S. dollar strengthens, the decrease in value of the future foreign currency cash flows is offset by losses in the value of the forward contracts. The table below provides information as of July 2, 2004 about our derivative financial instruments, comprised of foreign currency forward exchange contracts. The table is provided in U.S. dollar equivalent amounts and presents the notional amounts (at the contract exchange rates) and the weighted average contractual foreign currency exchange rates.

<b>(In millions, except average contract rate)</b>	<b>Notional Amount</b>	<b>Average Contract Rate</b>	<b>Estimated Fair Value(1)</b>
Foreign currency forward exchange contracts:			
Singapore Dollar	\$ 20	1.72	\$
Thai Baht	27	40.99	
	<u>\$ 47</u>		<u>\$</u>

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



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(in millions, except share and per share data)

	<b>July 2, 2004</b>	<b>June 27, 2003</b>
	<u>          </u>	<u>          </u>
<b>ASSETS (See Note 2)</b>		
Cash and cash equivalents	\$ 422	\$ 749
Short-term investments	761	445
Accounts receivable, net	690	611
Affiliate accounts receivable	1	
Inventories	449	319
Other current assets	138	158
	<u>          </u>	<u>          </u>
Total Current Assets	2,461	2,282
Property, equipment and leasehold improvements, net	1,301	1,111
Other assets, net	180	124
	<u>          </u>	<u>          </u>
Total Assets (See Note 2)	<u>\$ 3,942</u>	<u>\$ 3,517</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 740	\$ 640
Affiliate accounts payable		11
Accrued employee compensation	141	217
Accrued expenses	237	227
Accrued warranty	78	85
Accrued income taxes	48	179
Current portion of long-term debt	4	4
	<u>          </u>	<u>          </u>
Total Current Liabilities	1,248	1,363
Accrued warranty	47	49
Other liabilities	53	44
Long-term debt, less current portion	739	745
	<u>          </u>	<u>          </u>
Total Liabilities	2,087	2,201
Commitments and contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Preferred shares, \$0.00001 par value per share 100 million authorized; no shares issued or outstanding		
Common shares, \$0.00001 par value per share 1,250 million authorized; 459,595,663 issued and outstanding at July 2, 2004 and 438,870,267 issued and outstanding at June 27, 2003		
Additional paid-in capital	650	640
Deferred stock compensation	(6)	(9)
Accumulated other comprehensive income (loss)	(3)	
Retained earnings	1,214	685

Total Shareholders' Equity	1,855	1,316
Total Liabilities and Shareholders' Equity	\$ 3,942	\$ 3,517

*See notes to consolidated financial statements.*

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## SEAGATE TECHNOLOGY

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Fiscal Year Ended July 2, 2004	Fiscal Year Ended June 27, 2003	Fiscal Year Ended June 28, 2002
Revenue	\$ 6,224	\$ 6,486	\$ 6,087
Cost of revenue	4,765	4,759	4,494
Product development	666	670	698
Marketing and administrative	290	357	498
Amortization of intangibles			19
Restructuring, net	59	9	4
Total operating expenses	5,780	5,795	5,713
Income from operations	444	691	374
Interest income	17	16	25
Interest expense	(45)	(47)	(77)
Debt refinancing charges			(93)
Other, net	12		10
Other (expense), net	(16)	(31)	(135)
Income before income taxes	428	660	239
Provision for (benefit from) income taxes	(101)	19	86
Net income	\$ 529	\$ 641	\$ 153
Net income per share:			
Basic	\$ 1.17	\$ 1.53	\$ 0.38
Diluted	1.06	1.36	0.36
Number of shares used in per share calculations:			
Basic	452	418	401
Diluted	498	470	428
Dividends per share (1)	\$ 0.20	\$ 0.71	\$ 0.50

- (1) During the fiscal year ended July 2, 2004, the Company paid distributions of approximately \$90 million, or \$0.20 per share in the aggregate, to all its common shareholders, including New SAC. During the six months ended June 27, 2003, the Company paid distributions of approximately \$26 million, or \$0.06 per share in the aggregate, to all its common shareholders, including New SAC. Additionally, during the quarter ended December 27, 2002, immediately prior to the closing of its initial public offering, the Company paid a distribution of approximately \$262 million, or \$0.65 per share, to the holders of its then-outstanding shares, including New SAC. During the fiscal year ended June 28, 2002, the Company paid distributions of approximately \$200 million, or \$0.50 per share in the aggregate, to

the holders of its then-outstanding shares, including New SAC.

*See notes to consolidated financial statements.*

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## SEAGATE TECHNOLOGY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Fiscal Year Ended July 2, 2004	Fiscal Year Ended June 27, 2003	Fiscal Year Ended June 28, 2002
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 529	\$ 641	\$ 153
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	422	443	405
Deferred income taxes	16	(15)	62
VERITAS tax indemnification	(125)		
Deferred compensation charge			147
Debt refinancing charges			93
Other non-cash operating activities, net	1	34	9
Changes in operating assets and liabilities:			
Accounts receivable	(80)	(8)	(75)
Inventories	(130)	5	(57)
Accounts payable	89	(99)	225
Accrued expenses, employee compensation and warranty	(44)	63	(128)
Accrued income taxes	(6)	9	6
Accrued deferred compensation		(147)	
Other assets and liabilities	(37)	(44)	65
Net cash provided by operating activities	<u>635</u>	<u>882</u>	<u>905</u>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, equipment and leasehold improvements	(605)	(516)	(540)
Purchases of short-term investments	(4,143)	(3,408)	(1,037)
Maturities and sales of short-term investments	3,822	3,194	989
Sale of XIOtech, net of repayment of intercompany debt		8	
Sale of Reynosa facility		28	
Other investing activities, net	(36)	(60)	(22)
Net cash used in investing activities	<u>\$ (962)</u>	<u>\$ (754)</u>	<u>\$ (610)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of long-term debt, net of issuance costs	\$	\$	\$ 736
Repayment of long-term debt, including extinguishments of debt	(6)	(2)	(899)
Redemption premium on 12 1/2% senior notes			(50)
Issuance of common shares in initial public offering		270	
Proceeds from exercise of employee stock options and employee stock purchase plan	96	29	4
Distributions to shareholders	(90)	(288)	(200)

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Net cash provided by (used in) financing activities		9	(409)
Increase (decrease) in cash and cash equivalents	(327)	137	(114)
Cash and cash equivalents at the beginning of the period	749	612	726
Cash and cash equivalents at the end of the period	\$ 422	\$ 749	\$ 612
<b>Supplemental Disclosure of Cash Flow Information</b>			
Cash paid for interest	\$ 43	\$ 49	\$ 58
Cash paid for income taxes, net of refunds	13	27	18

*See notes to consolidated financial statements.*

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## SEAGATE TECHNOLOGY

## CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For Fiscal Years Ended July 2, 2004, June 27, 2003 and June 28, 2002

(in millions)

	Number of Preferred Shares	Par Value of Shares	Number of Common Shares	Par Value of Shares	Additional Paid-in Capital	Deferred Stock Compensation	Retained Earnings  (Accumulated Deficit) and Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 29, 2001	400	\$		\$	\$ 763	\$	\$ (110)	\$ 653
Distributions to shareholders					(200)			(200)
Push down adjustment by New SAC related to FAS 109					14			14
Issuance of common shares related to exercise of employee stock options			2		4			4
Comprehensive income:								
Unrealized loss on interest rate swap agreement							(4)	(4)
Recognition of unrealized loss on interest rate swap agreement upon extinguishment of former senior secured credit facilities							4	4
Net income							153	153
Comprehensive income								153
Compensation expense related to New SAC					17			17
Balance at June 28, 2002	400		2		598		43	641
Net income and comprehensive Income							642	642
Issuance of common shares related to exercise of employee stock options			13		29			29
Sale of XIOtech to New SAC in exchange for \$32 note payable distributed to shareholders					(1)			(1)
Distributions to shareholders					(288)			(288)
Issuance of common shares in initial public offering			24		270			270
	(400)		400					

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Conversion of preferred shares into common shares upon initial public offering							
Compensation expense related to New SAC				11			11
Deferred compensation				11	(11)		
Amortization of deferred compensation					2		2
Compensation expense related to executive terminations				10			10
				<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at June 27, 2003		439		640	(9)	685	1,316
Comprehensive income:							
Unrealized loss on marketable securities						(3)	(3)
Net income						529	529
						<u>          </u>	<u>          </u>
Comprehensive income:							526
							<u>          </u>
Issuance of common shares related to employee stock options and employee stock purchase plan		21		96			96
Distributions to shareholders				(90)			(90)
Compensation expense related to New SAC				2			2
Amortization of deferred compensation					3		3
Compensation expense related to executive terminations				2			2
				<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at July 2, 2004		\$ 460	\$	\$ 650	\$ (6)	\$ 1,211	\$ 1,855
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

*See notes to consolidated financial statements.*



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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

*Nature of Operations* In August 2000, Seagate Technology, which was then known as Seagate Technology Holdings and is referred to herein as the Company, was formed to be a holding company for the rigid disc drive operating business and the storage area networks operating business of Seagate Technology, Inc., a Delaware corporation, which is referred to herein as Seagate Delaware. In November 2002, the Company sold XIOtech Corporation, its wholly-owned indirect subsidiary that operated the Company's storage area networks operating business, to New SAC. See Note 10, Sale of XIOtech Corporation.

In December 2002, the Company completed the initial public offering of 72,500,000 of its common shares, 24,000,000 of which were sold by the Company and 48,500,000 of which were sold by New SAC, as selling shareholder, at a price of \$12 per share. Immediately prior to the closing of the initial public offering, the Company's then-outstanding 400 million preferred shares owned by New SAC were converted into common shares on a one-to-one basis. The Company's common shares began trading on December 11, 2002. In July 2003, the Company completed the secondary offering of 69,000,000 of its common shares, all of which were sold by New SAC, as selling shareholder, at a price of \$18.75 per share. As of July 2, 2004, New SAC owned 282,500,000 common shares of the Company, or approximately 61.5% of total outstanding common shares.

The Company designs, manufactures and markets products for storage, retrieval and management of data on computer and data communications systems. The Company sells its products to original equipment manufacturers ( OEM ) for inclusion in their computer systems or subsystems, and to distributors who typically sell to small OEMs, dealers, system integrators and other resellers.

*Critical Accounting Policies and Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

The Company establishes certain distributor and OEM sales programs aimed at increasing customer demand. These programs are typically related to a distributor's level of sales, order size, advertising or point of sale activity or an OEM's level of sale activity or agreed upon rebate programs. The Company provides for these obligations at the time that revenue is recorded based on estimated requirements. These estimates are based on various factors, including estimated future price erosion, distributor sell-through levels, program participation, customer claim submittals and sales returns. Significant actual variations in any of these factors could have a material effect on the Company's operating results. In addition, our failure to accurately predict the level of future sales returns by our distribution customers could have a material impact on our financial condition and results of operations.

The Company's warranty provision considers estimated product failure rates, trends and estimated repair or replacement costs. The Company uses a statistical model to help with its estimates and the Company exercises considerable judgment in determining the underlying estimates. Should actual experience in any future period differ significantly from its estimates, or should the rate of future product technological advancements fail to keep pace with the past, the Company's future results of operations could be materially affected. The actual results with

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regard to warranty expenditures could have a material adverse effect on the Company if the actual rate of unit failure or the cost to repair a unit is greater than that which the Company has used in estimating the warranty expense accrual.

The Company's recording of deferred tax assets each period depends primarily on the Company's ability to generate current and future taxable income in the United States. Each period the Company evaluates the need for a valuation allowance for the deferred tax assets and adjusts the valuation allowance so that net deferred tax

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assets are recorded only to the extent the Company concludes it is more likely than not that the assets will be realized.

The Company also has other key accounting policies and accounting estimates relating to uncollectible customer accounts and valuation of inventory. The Company believes that these other accounting policies and other accounting estimates either do not generally require it to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on its reported results of operations for a given period.

*Basis of Consolidation* The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries, after eliminations of intercompany transactions and balances.

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. Accordingly, fiscal year 2004 comprised 53 weeks and ended on July 2, 2004. Fiscal years 2003 and 2002 each comprised 52 weeks and ended on June 27, 2003 and June 28, 2002, respectively. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted. Fiscal year 2005 will be 52 weeks and will end on July 1, 2005.

*Foreign Currency Remeasurement and Translation* The U.S. dollar is the functional currency for the Company's foreign operations. Gains and losses on the remeasurement into U.S. dollars of amounts denominated in foreign currencies are included in net income (loss) for those operations whose functional currency is the U.S. dollar and translation adjustments are included in other comprehensive income (loss) and as accumulated other comprehensive income (loss), a separate component of shareholders' equity, for those operations whose functional currency is the local currency.

*Derivative Financial Instruments* The Company applies the requirements of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (SFAS 149). Both standards require that all derivatives be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships.

*Revenue Recognition, Sales Returns and Allowances, and Sales Incentive Programs* The Company's revenue recognition policy complies with Staff Accounting Bulletin No. 101/104, Revenue Recognition in Financial Statements. Revenue from sales of products, including sales to distribution customers, is recognized when title and risk of loss has passed to the buyer, which generally occurs upon shipment from the Company or third party warehouse facilities, persuasive evidence of an arrangement exists, including a fixed price to the buyer, and when collectibility is reasonably assured. Estimated product returns are provided in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists. The Company also adheres to the requirements of EITF 01-09 Accounting for Consideration Given by a Vendor to a Customer, (EITF 01-09) for sales incentive programs. The Company follows FTP 90-1 Accounting for Separately Priced Extended Warranty and Product Maintenance contracts for sales of extended warranties.

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In the third quarter of fiscal year 2002, the Company's North American distribution customers transitioned from a consignment model, under which the Company recognized revenue when distributors sold the Company's products to their customers, to a sell-in model, under which the Company recognizes revenue when its products are sold to distributors. During fiscal year 2002, this transition resulted in a one-time increase in total revenue, operating income and net income of approximately 1%, 3% and 7%, respectively.

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Estimated reductions to revenue for sales incentive programs, such as price protection, and sales growth bonuses, are recorded when revenue is recorded. Marketing development programs are either recorded as a reduction to revenue or as an addition to marketing expense depending on the contractual nature of the program and whether the conditions of EITF 01-09 have been met.

*Product Warranty* Enterprise products that are used in large scale servers and data warehousing systems are warranted for three to five years while personal storage products used in consumer and commercial desktop systems are warranted for one to three years. A provision for estimated future costs relating to warranty expense is recorded when revenue is recorded and is included in cost of revenue. The Company offers extended warranties on certain of its products. Deferred revenue in relation to extended warranties has not been material to date. Shipping and handling costs are also included in cost of revenue.

*Inventory* Inventories are valued at the lower of standard cost (which approximates actual cost using the first-in, first-out method) or market. Market value is based upon an estimated average selling price reduced by estimated cost of completion and disposal.

*Property, Equipment, and Leasehold Improvements* Land, equipment, buildings and leasehold improvements are stated at cost. Equipment and buildings are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the lease.

*Advertising Expense* The cost of advertising is expensed as incurred. Advertising costs were approximately \$25 million, \$28 million and \$29 million in fiscal years 2004, 2003 and 2002, respectively.

*Stock-Based Compensation* The Company accounts for employee stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion ( APBO ) No. 25, Accounting for Stock Issued to Employees ( APBO 25 ), and related interpretations.

*Impact of Recently Issued Accounting Standards* In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, ( SFAS 150 ). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for

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the issuer are required to be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and was effective in the Company's fiscal quarter ended October 3, 2003. The adoption of SFAS 150 did not have a significant impact on the Company's results of operations or financial position.

In December 2003, the FASB issued a revision to FASB Statement No. 132, Employers disclosures about Pensions and Other Postretirement Benefits, ( SFAS 132-R ). This statement establishes standards that require companies to provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. In addition to expanded annual disclosures, companies are required to report the various

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

elements of pension and other postretirement benefit costs on a quarterly basis. This statement is effective for fiscal years ending after December 15, 2003, and was effective for the Company's fiscal quarter ended April 2, 2004. Because the revisions only effect disclosure requirements, the adoption of SFAS 132-R did not have an impact on our results of operations or financial position.

*Cash, Cash Equivalents and Short-Term Investments* The Company considers all highly liquid investments with a remaining maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. The Company's short-term investments are primarily comprised of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are classified as cash equivalents or short-term investments and are stated at fair value with unrealized gains and losses included in accumulated other comprehensive income, which is a component of shareholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification method.

*Strategic Investments* The Company enters into certain strategic investments for the promotion of business and strategic objectives and typically does not attempt to reduce or eliminate the inherent market risks on these investments. Both marketable and non-marketable investments are included in other assets. Non-marketable investments are recorded at cost and are periodically analyzed to determine whether or not there are indicators of impairment. The Company's results of operations for fiscal years 2004 and 2003 included write-downs of \$2 million and \$10 million, respectively, in an investment in a private company.

*Concentration of Credit Risk* The Company's customer base for disc drive products is concentrated with a small number of OEMs and distributors. Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily accounts receivable, cash equivalents and short-term investments. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The allowance for noncollection of accounts receivable is based upon the expected collectibility of all accounts receivable. The Company places its cash equivalents and short-term investments in investment-grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer.

*Supplier Concentration* Certain of the raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry. If the Company were unable to procure certain of such materials, it would be required to reduce its manufacturing operations, which could have a material adverse effect upon its results of operations.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Earnings Per Share**

In accordance with SFAS 128, Earnings per Share, the following table sets forth the computation of basic and diluted net income per share for the fiscal years ended July 2, 2004 and June 27, 2003 (in millions, except per share data):

	Fiscal Years Ended		
	July 2, 2004	June 27, 2003	June 28, 2002
<b>Numerator:</b>			
Net Income	\$ 529	\$ 641	\$ 153
<b>Denominator:</b>			
Denominator for basic net income per share - weighted average number of preferred and common shares outstanding during the period	452	418	401
Incremental common shares attributable to exercise of outstanding options	46	52	27
Denominator for diluted net income per share	498	470	428
<b>Earnings per share:</b>			
Basic	\$ 1.17	\$ 1.53	\$ 0.38
Diluted	\$ 1.06	\$ 1.36	\$ 0.36

Options to purchase 3.7 million, 0.5 million and 10.8 million shares of common stock were outstanding during fiscal years 2004, 2003 and 2002, respectively, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

**Pro Forma Effects of Stock-Based Compensation on Earnings Per Share**

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements.





**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company continues to use the intrinsic value method under APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for employee stock options because the alternative fair value accounting method provided under SFAS 123 requires the use of option valuation models, such as the Black-Scholes option-pricing model used by the Company, that were not developed for use in valuing employee stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions, including the expected stock price volatility. The pro forma information under SFAS 123, as amended by SFAS 148, is as follows (in millions, except per share data):

	<b>Fiscal Years Ended</b>		
	<b>July 2, 2004</b>	<b>June 27, 2003</b>	<b>June 28, 2002</b>
Net income as reported	\$ 529	\$ 641	\$ 153
Add-back: Stock-based employee compensation expense included in net income	3	2	
Deduct: Total stock-based employee compensation expense determined under fair value method	(62)	(38)	(16)
Net income pro forma	<u>\$ 470</u>	<u>\$ 605</u>	<u>\$ 137</u>
Earnings per share:			
Basic as reported	<u>\$ 1.17</u>	<u>\$ 1.53</u>	<u>\$ 0.38</u>
Basic pro forma	<u>1.04</u>	<u>1.45</u>	<u>0.34</u>
Diluted as reported	<u>1.06</u>	<u>1.36</u>	<u>0.36</u>
Diluted pro forma	<u>0.95</u>	<u>1.30</u>	<u>0.32</u>

No tax effects were included in the determination of pro forma net income because the deferred tax asset resulting from stock-based employee compensation would be offset by an additional valuation allowance for deferred tax assets. The effects on pro forma disclosures of applying SFAS 123 may not be representative of the effects on pro forma disclosures in future periods because the Company only began granting options to employees in July 2001. See Note 3, Compensation Stock-Based Benefit Plans, for a discussion of the Company's assumptions used to estimate stock-based compensation expense under SFAS 123.

**Consummation of Secondary Public Offering**

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Under the Seagate Technology shareholders agreement among New SAC, the Company's financial sponsors and the Company, New SAC has demand registration rights to request from time to time that the Company register to sell shares of its common stock held by New SAC. New SAC exercised this right and, on July 30, 2003, the Company completed the secondary public offering of 69,000,000 of its common shares, of which 9,000,000 were sold pursuant to the underwriters' exercise of their over-allotment option, all of which were sold by New SAC, as selling shareholder, at a price of \$18.75 per share. New SAC received proceeds of approximately \$1.3 billion, after deducting underwriting discounts and commissions of approximately \$39 million. The Company incurred direct expenses aggregating approximately \$1 million related to the offering. New SAC distributed its net proceeds to holders of its ordinary shares including approximately \$245 million distributed to the Company's officers and employees who hold ordinary shares of New SAC.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Balance Sheet Information****Financial Instruments**

The following is a summary of the fair value of available-for-sale securities at July 2, 2004:

	Amortized	Fair
	Cost	Value
	(in millions)	
Money market mutual funds	\$ 60	\$ 60
U.S. government and agency obligations	401	398
Auction rate preferred stock	304	304
Corporate securities	335	335
	<u>1,100</u>	<u>1,097</u>
Total available-for-sale securities	\$ 1,100	\$ 1,097
		<u>336</u>
Included in cash and cash equivalents		\$ 336
Included in short-term investments		761
		<u>1,097</u>
		<u>1,097</u>

The following is a summary of the fair value of available-for-sale securities at June 27, 2003:

	Amortized	Fair
	Cost	Value
	(in millions)	
Money market mutual funds	\$ 234	\$ 234
U.S. government and agency obligations	171	171
Auction rate preferred stock	265	265
Corporate securities	459	459
	<u>1,129</u>	<u>1,129</u>
Total available-for-sale securities	\$ 1,129	\$ 1,129

Included in cash and cash equivalents	\$ 684
Included in short-term investments	445
	<u>\$ 1,129</u>

The fair value of the Company's investment in debt securities, by contractual maturity, is as follows:

	July 2, 2004	June 27, 2003
	(in millions)	
Due in less than 1 year	\$ 276	\$ 450
Due in 1 to 3 years	457	180
	<u>\$ 733</u>	<u>\$ 630</u>

*Fair Value Disclosures* The carrying value of cash and cash equivalents approximates fair value. The fair values of short-term investments, notes, marketable equity securities, debentures and interest rate swap agreements are estimated based on quoted market prices.

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The carrying values and fair values of the Company's financial instruments are as follows:

	July 2, 2004		June 27, 2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
(in millions)				
Cash equivalents	\$ 336	\$ 336	\$ 684	\$ 684
Short-term investments	761	761	445	445
8.0% senior subordinated notes, due 2009	(400)	(414)	(400)	(433)
Senior Credit Facilities:				
Libor plus 2% Term Loan B	(343)	(343)	(348)	(348)
Foreign currency forward exchange contracts (1)				

- (1) Carrying amount and estimated fair value approximated \$0.1 million in fiscal year 2004. There were no foreign currency option contracts in fiscal years 2004 and 2003, and no foreign currency forward exchange contracts in fiscal year 2003.

*Derivative Financial Instruments* The Company may enter into foreign currency forward exchange and option contracts to manage exposure related to certain foreign currency commitments, certain foreign currency denominated balance sheet positions and anticipated foreign currency denominated expenditures. The Company's policy prohibits it from entering into derivative financial instruments for trading purposes. During fiscal years 2004, 2003 and 2002, the Company did not enter into any fair value hedges or hedges of net investments in foreign operations.

In the fourth fiscal quarter of 2004, the Company instituted a foreign currency hedging program to protect against the increase in value of foreign currency cash flows resulting from expenses over the next fiscal year. The Company hedges portions of its forecasted expenses denominated in foreign currencies with forward exchange contracts. When the U.S. dollar weakens significantly against the foreign currencies, the increase in value of the future foreign currency expenditure is offset by gains in the value of the forward exchange contracts designated as hedges. Conversely, as the U.S. dollar strengthens, the decrease in value of the future foreign currency cash flows is offset by losses in the value of the forward exchange contracts. As at July 2, 2004, the notional value of the Company's outstanding currency contracts was approximately \$20 million in Singapore dollars and \$27 million in Thai baht. The Company did not have any foreign currency forward exchange or purchased currency option contracts during fiscal years 2003 and 2002.

The Company has both fixed and floating rate debt obligations. The Company enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Company has used derivative financial instruments in the form of an interest rate swap agreement to hedge a portion of our floating rate debt obligations. The Company's last interest rate swap agreement matured in November 2002, and it currently has no swap agreements.

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The Company transacts business in various foreign countries and its primary foreign currency cash flows are in emerging market countries in Asia and in some European countries. Net foreign currency transaction gains and losses included in the determination of net income (loss) were a gain of \$1 million for fiscal year 2004, a gain of \$1 million for fiscal year 2003, and a loss of \$8 million for fiscal year 2002, respectively.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Accounts Receivable**

	<b>July 2, 2004</b>	<b>June 27, 2003</b>
	<u>          </u>	<u>          </u>
	(in millions)	
Accounts Receivable:		
Accounts receivable	\$ 720	\$ 643
Allowance for non-collection	(30)	(32)
	<u>          </u>	<u>          </u>
	<b>\$ 690</b>	<b>\$ 611</b>
	<u>          </u>	<u>          </u>

Activity in the allowance for doubtful accounts is as follows:

	<b>Balance</b>	<b>Additions</b>		
	<b>at</b>	<b>Charged</b>		<b>Balance</b>
	<b>Beginning</b>	<b>to Costs</b>		<b>at End</b>
	<b>of</b>	<b>and</b>		<b>of</b>
	<b>Period</b>	<b>Expenses</b>	<b>Deductions(1)</b>	<b>Period</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	(in millions)			
<b>Seagate Technology</b>				
Fiscal year ended July 2, 2004	\$ 32	\$	\$ (2)	\$ 30
Fiscal year ended June 27, 2003	\$ 29	\$ 5	\$ 2	\$ 32
Fiscal year ended June 28, 2002	\$ 92	\$ 25	\$ 88	\$ 29

(1) Uncollectible accounts written off, net of recoveries.

**Inventories**

Inventories are summarized below:



	July 2, 2004	June 27, 2003
	(in millions)	
Inventories:		
Components	\$ 91	\$ 71
Work-in-process	39	38
Finished goods	319	210
	<u>\$ 449</u>	<u>\$ 319</u>

### Property, equipment and leasehold improvements

Property, equipment and leasehold improvements consisted of the following:

	Useful Life in Years	July 2, 2004	June 27, 2003
		(in millions)	
Land		\$ 23	\$ 20
Equipment	3 4	1,874	1,480
Building and leasehold improvements	Life of lease 30	360	330
Construction in progress		283	136
		<u>2,540</u>	<u>1,966</u>
Less accumulated depreciation and amortization		(1,239)	(855)
		<u>\$ 1,301</u>	<u>\$ 1,111</u>

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Equipment and leasehold improvements include assets under capitalized leases. Amortization of leasehold improvements is included in depreciation expense. Depreciation expense was \$416 million, \$390 million, and \$320 million for fiscal years 2004, 2003 and 2002, respectively.

**Intangibles**

Other intangible assets consist of licensed technology. Amortization of purchased intangibles is provided on a straight-line basis over the respective useful lives of the assets of 60 months. Accumulated amortization of intangibles was \$4 million and \$3 million at July 2, 2004 and June 27, 2003, respectively.

**Supplemental Cash Flow Information**

The components of depreciation and amortization expense are as follows:

	<b>Fiscal Years Ended</b>		
	<b>July 2, 2004</b>	<b>June 27, 2003</b>	<b>June 28, 2002</b>
		<b>(in millions)</b>	
Depreciation	\$ 416	\$ 390	\$ 320
Amortization:			
Intangibles	1	2	28
Deferred compensation	8	12	12
Other assets	(3)	39	45
	<b>\$ 422</b>	<b>\$ 443</b>	<b>\$ 405</b>

**Long-Term Debt and Credit Facilities**

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In the fourth fiscal quarter of 2002, the Company and its subsidiaries completed a refinancing of all its outstanding debt obligations. The refinancing was completed when the Company's wholly-owned subsidiaries, Seagate Technology HDD Holdings (HDD) and Seagate Technology (US) Holdings, Inc., entered into new senior secured credit facilities with a group of banks that permit up to \$500 million of borrowings consisting of a \$150 million revolving credit and a five-year \$350 million, LIBOR + 2% term loan facility that was drawn in full as part of the refinancing. At the same time, HDD issued \$400 million aggregate principal amount of 8% senior notes due 2009. In addition, Seagate Technology International (STI), a wholly-owned subsidiary of HDD, initiated a tender offer to purchase its outstanding 1/2% senior subordinated notes due 2007. All of the 12 1/2% senior subordinated notes were paid. In addition, STI and Seagate Technology (US) Holdings, Inc. repaid the remaining balance outstanding of \$679 million, including accrued interest, on its Term A and Term B bank loans.

Neither the credit agreement governing the new senior secured credit facilities nor the indenture governing the outstanding 8% senior notes due 2009 impose any restrictions on the ability of the Company's consolidated subsidiaries to transfer funds to HDD, a co-borrower under the new senior secured credit facilities and the issuer of the outstanding notes, in the form of dividends, loans or advances. The new senior secured credit facilities are secured by a first priority pledge of substantially all the tangible and intangible assets of HDD and many of its subsidiaries. In addition, Seagate Technology and many of its direct and indirect subsidiaries have guaranteed the obligations under the new senior secured credit facilities.

As a result of the refinancing, \$93 million was charged to operations in the fourth fiscal quarter of 2002. The \$93 million charge was comprised of a \$50 million redemption premium on the 12 1/2% senior subordinated notes, \$31 million write-off of capitalized debt issue costs related to the prior senior debt obligations (Term A and Term B loans) and the 12 1/2% senior subordinated notes, \$7 million write off of unamortized discount on the

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12½% senior subordinated notes, a \$4 million loss on the interest rate swap related to one of the term loans comprising the former senior credit facilities and \$1 million of other costs and expenses.

Long-term debt consisted of the following:

	July 2, 2004	June 27, 2003
	(in millions)	
LIBOR plus 2.0% term loan B	\$ 343	\$ 348
8.0% senior subordinated notes due 2009	400	400
Capitalized lease obligations with interest at 14% to 19.25% collateralized by by certain manufacturing equipment and buildings		1
	743	749
Less current portion	4	4
	\$ 739	\$ 745

At July 2, 2004, future minimum principal payments on long-term debt were as follows:

<u>Fiscal Year</u>	
2005	\$ 4
2006	3
2007	336
2008	
2009	400
Thereafter	
	\$ 743

As of July 2, 2004, the Company had \$37 million of outstanding standby letters of credit and bankers guarantees issued under its \$150 million revolving credit facility.

The Company is restricted in its ability to pay distributions to its shareholders by the covenants contained in the indenture governing its senior notes and the credit agreement governing its senior secured credit facilities. The covenants contained in the indenture governing the Company's senior notes limit the aggregate amount of restricted payments, including distributions to shareholders, to 50% of cumulative consolidated net income plus 100% of net cash proceeds received from the issuance of capital for the period beginning June 30, 2001 and ending the most recent fiscal quarter for which financial statements are internally available. Currently, the most significant restriction on the Company's ability to pay dividends is under the credit agreement governing the Company's senior secured credit facilities, which limits annual distributions to \$150 million. The Company's declaration of distributions is also subject to Cayman Islands law and the discretion of its board of directors.

### **3. Compensation**

#### **Tax-Deferred Savings Plan**

The Company has a tax-deferred savings plan, the Seagate 401(k) Plan (the 401(k) plan), for the benefit of qualified employees. The 401(k) plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to make contributions to the 401(k) plan on a monthly basis. The Company may make annual contributions at the discretion of its board of directors. During fiscal years 2004, 2003 and 2002, the Company made contributions of \$14 million, \$15 million and \$13 million, respectively.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock-Based Benefit Plans**

*Share Option Plan* In December 2000, the Company's board of directors adopted the Seagate Technology 2001 Share Option Plan (the "Seagate Technology Option Plan"). Under the terms of the Seagate Technology Option Plan, eligible employees, directors, and consultants can be awarded options to purchase common shares of the Company under vesting terms to be determined at the date of grant. In January 2002, the Seagate Technology Option Plan was amended to increase the maximum number of common shares issuable under the Seagate Technology Option Plan from 72 million to 100 million. No options to purchase the Company's common shares had been issued through June 29, 2001. From July 1, 2001 through July 2, 2004, options to purchase 90,985,690 common shares were granted to employees under this share option plan, net of cancellations. Options granted to exempt employees will generally vest as follows: 25% of the shares will vest on the first anniversary of the vesting commencement date and the remaining 75% will vest proportionately each month over the next 36 months. Options granted to non-exempt employees will vest on the first anniversary of the vesting commencement date. Options granted under the Seagate Technology Option Plan were granted at fair market value and expire ten years from the date of grant. The following is a summary of stock option activity for the Seagate Technology Option Plan:

	Options Outstanding		Shares Available for Future Grants
	Number of Shares	Weighted Average Price per Share	
(number of shares in millions)			
Balance June 29, 2001			100.0
Granted	80.5	2.73	(80.5)
Exercised	(2.3)	2.30	
Cancelled	(6.2)	2.33	6.2
Balance June 28, 2002	72.0	2.78	25.7
Granted	17.3	10.09	(17.3)
Exercised	(12.5)	2.38	
Cancelled	(3.7)	3.40	3.7
Balance June 27, 2003	73.1	4.55	12.1
Granted	4.6	22.04	(4.6)
Exercised	(15.7)	2.69	
Cancelled	(1.6)	5.70	1.6
Balance July 2, 2004	60.4	\$ 6.33	9.1

Options exercisable at the end of fiscal year 2004 were approximately 29,085,700 at a weighted average exercise price of \$3.56. Options exercisable at the end of fiscal year 2003 were approximately 26,545,585 at a weighted average exercise price of \$2.49. Options exercisable at the end of fiscal year 2002 were approximately 23,154,473 at a weighted average exercise price of \$2.30.

*Deferred Stock Compensation* In connection with certain stock options granted in fiscal year 2003, the Company recorded deferred stock compensation totaling \$10.7 million, representing the difference between the exercise price of the options and the deemed fair value of the Company's common shares on the dates the options were granted. This deferred stock compensation is being amortized over the vesting periods of the underlying stock options of 48 months. Through July 2, 2004, the Company has amortized approximately \$5 million of such compensation expense.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Stock Purchase Plan* The Company established an Employee Stock Purchase Plan ( ESPP plan ) in December 2002. A total of 20,000,000 shares of common stock have been authorized for issuance under the ESPP plan, plus an automatic annual increase on the first day of the Company's fiscal year beginning in 2003 equal to the lesser of 2,500,000 shares or 0.5% of the outstanding shares on the last day of the immediately preceding fiscal year, or such lesser number of shares as is determined by the Company's board of directors. In no event shall the total number of shares issued under the ESPP plan exceed 75,000,000 shares. The ESPP plan permits eligible employees who have completed thirty days of employment prior to the commencement of any offering period to purchase common stock through payroll deductions generally at 85% of the fair market value of the common stock. The ESPP plan has two six-month purchase periods and contains a rollover feature if the market price of the stock at the end of any six-month purchase period is lower than the stock price at the beginning of the offering period. In that case, the plan is immediately canceled after that purchase date, and a new one-year plan is established using the then-current stock price as the base purchase price.

On July 31, 2003, the purchase date for the ESPP's first purchase period, a total of 2,496,495 shares of the Company's common stock were issued. The weighted average exercise price for these shares issued upon the exercise of outstanding rights pursuant to the ESPP was \$10.20 per share. On January 30, 2004, the purchase date for the ESPP's second purchase period, a total of 2,483,371 shares of the Company's common stock were issued. The weighted average exercise price for these shares issued upon the exercise of outstanding rights pursuant to the ESPP was \$10.37 per share.

*Assumptions Used in Determining Pro Forma Information* See Note 1, Summary of Significant Accounting Policies, for pro forma information on net income and earnings per share required under SFAS 123, as amended by SFAS 148.

Up until the Company's initial public offering of its common stock in December 2002, the fair value of the Company's stock options was estimated using the Black-Scholes valuation method with minimum volatility. For all employee stock options issued subsequent to December 11, 2002, the Company estimated the fair value of stock options issued to employees using the Black-Scholes valuation method with a volatility factor based on the stock volatilities of its largest publicly traded competitors.

The following table summarizes information about options outstanding at July 2, 2004 (shares in millions).

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 2.30 - 3.00	30.2	7.0	\$ 2.30	24.3	\$ 2.30
3.00 - 6.00	8.8	7.6	5.00	.4	5.00
6.00 - 9.00	1.6	8.6	8.22		8.22



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9.00	12.00	14.8	8.5	10.14	4.1	10.13
12.00	15.00	.7	9.2	13.13	.1	13.55
15.00	18.00	.5	9.4	16.49	.1	16.44
18.00	21.00	.7	9.3	19.80	.1	19.65
21.00	24.00	1.4	9.1	21.46		21.20
24.00	27.00	1.6	9.2	26.41		
27.00	29.85	.1	9.3	28.95		
		<u>        </u>			<u>        </u>	
\$ 2.30	\$29.85	60.4	7.7	\$ 6.33	29.1	\$ 3.56
		<u>        </u>			<u>        </u>	

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair value of the Company's stock options granted to employees during fiscal years 2004 and 2003 was estimated using the following weighted average assumptions:

	2004		Post-IPO 2003		Pre-IPO 2003	
<b>Option Plan Shares</b>						
Expected life (in years)	3.0		3.0		3.0	
Risk-free interest rate	2.3	2.5%	2.1	3.0%	2.1	3.0%
Volatility	0.75	0.83	0.83		Minimum	
Expected dividend	0.5	2.0%	0.7	1.2%		
Fair value	\$11.45		\$4.80		\$4.80	
<b>ESPP Plan Shares</b>						
Expected life (in years)	0.5	1.0	0.5	1.0		
Risk-free interest rate	1.0	1.3%	1.2	1.3%		
Volatility	0.45	0.99	0.74	0.91		
Expected dividend	0.8	1.5%	1.2%			
Fair value	\$4.72		\$3.31			

**Deferred Compensation Plan**

On January 1, 2001, the Company adopted a deferred compensation plan for the benefit of eligible employees. This plan is designed to permit certain discretionary employer contributions, in excess of the tax limits applicable to the 401(k) plan and to permit employee deferrals in excess of certain tax limits. Company assets earmarked to pay benefits under the plan are held by a rabbi trust. The Company has adopted the provisions of Emerging Issues Task Force Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust" (EITF 97-14). Under EITF 97-14, the assets and liabilities of a rabbi trust must be accounted for as if they are assets and liabilities of the Company. In addition all earnings and expenses of the rabbi trust are recorded as other income or expense in the Company's financial statements. At July 2, 2004 and June 27, 2003, the deferred compensation amounts related to the rabbi trust were approximately \$61 million and \$42 million, respectively, and are included in current liabilities on the accompanying balance sheets.

**Post-Retirement Medical Plan**

In fiscal year 2000, Seagate Delaware adopted a post-retirement medical plan that offers medical coverage to eligible U.S. retirees and their eligible dependents. Substantially all U.S. employees become eligible for these benefits after 15 years of service and attaining age 60 and older. The Company's measurement date is March 31 of each year.



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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a reconciliation of the changes in the post-retirement medical plan's benefit obligation and a statement of the funded status as of July 2, 2004 and June 27, 2003:

	July 2, 2004	June 27, 2003
	—	—
	(in millions)	
<i>Change in Benefit Obligation</i>		
Benefit obligation at beginning of year	\$ 28	\$ 26
Service and interest cost	2	2
Benefits and expenses paid	(1)	—
	—	—
Benefit obligation at end of year	\$ 29	\$ 28
	—	—
<i>Funded Status of the Plan</i>		
Unamortized actuarial gain	\$ (5)	\$ (6)
Accrued benefit liability recognized in the balance sheet at end of year	29	28
	—	—
Accrued benefit cost	\$ 24	\$ 22
	—	—

Net periodic benefit cost for the fiscal years ended July 2, 2004 and June 27, 2003 was as follows:

	2004	2003
	—	—
	(in millions)	
Service cost	\$ 1	\$ 1
Interest cost	1	1
	—	—
Net periodic benefit cost	\$ 2	\$ 2
	—	—

*Weighted-Average Actuarial Assumptions:*

A discount rate of 5.75% was used in the determination of the accumulated benefit obligation.

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The Company's future medical benefit costs were estimated to increase at an annual rate of 11% during 2004, decreasing to an annual growth rate of 5% in 2010 and thereafter. The Company's cost was capped at 200% of the fiscal year 1999 employer cost and, therefore, was not subject to medical and dental trends after the capped cost was attained. A 1% change in these annual trend rates would not have a significant impact on the accumulated post-retirement benefit obligation at July 2, 2004, or the 2004 benefit expense. Claims are paid as incurred.

In the fourth quarter of fiscal year 2004, the Company discontinued subsidizing its post-retirement medical plan for new retirees subsequent to July 2, 2004. As a result, the benefit obligation accrued to date for current company employees will be eliminated and the Company estimates that it will record a reduction in operating expenses of approximately \$18 million in its first fiscal quarter of 2005 related to this reduction in the benefit obligation.

#### **4. Income Taxes**

Certain U.S. subsidiaries of the Company are included in certain unitary and combined U.S. state tax returns with certain U.S. affiliates of New SAC and have entered into a tax sharing agreement effective November 23, 2000. Pursuant to the terms of the state tax sharing agreement ( State Tax Allocation Agreement ), hypothetical U.S. state tax returns (with certain modifications) are calculated as if the U.S. subsidiaries of the Company were filing on a separate return basis. The Company's U.S. subsidiaries are required to reimburse participating New

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SAC U.S. affiliates to the extent the Company's U.S. subsidiaries utilize the tax attributes of these U.S. affiliates of New SAC to reduce their separately computed income tax liabilities within 30 days of the close of the fiscal year such affiliates would have otherwise been able to utilize their own tax attributes. If New SAC's participating U.S. affiliates utilize tax attributes of the Company's U.S. subsidiaries, the Company's U.S. subsidiaries will be reimbursed for those tax attributes within 30 days of the close of the fiscal year during which the Company's U.S. subsidiaries would have otherwise been able to utilize the tax attributes to reduce their separately computed tax liabilities. As of July 2, 2004, there were no outstanding balances for taxes due to or from any New SAC affiliates.

The provision for (benefit from) income taxes consisted of the following:

	Fiscal Year Ended July 2, 2004	Fiscal Year Ended June 27, 2003	Fiscal Year Ended June 28, 2002
		(in millions)	
Current Tax Expense (Benefit):			
U.S. Federal	\$ (107)	\$	\$
U.S. State	(17)		
Foreign	7	34	24
	(117)	34	24
Deferred Tax Expense (Benefit):			
U.S. Federal	\$ 16	\$ (18)	\$ 66
U.S. State	3	(3)	8
Foreign	(3)	6	(12)
	16	(15)	62
Provision for (Benefit from) income taxes	\$ (101)	\$ 19	\$ 86

Income before income taxes consisted of the following:

Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
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	July 2,  2004	June 27,  2003	June 28,  2002
		(in millions)	
U.S.	\$ 14	\$ 198	\$ (83)
Foreign	414	462	322
	<u>\$ 428</u>	<u>\$ 660</u>	<u>\$ 239</u>

For the fiscal year ended July 2, 2004, the pro forma information assuming a tax provision based on a separate state return basis is as follows (in millions):

Income before income taxes	\$ 428
Provision for (benefit from) income taxes	(101)
Net Income	<u>\$ 529</u>

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities were as follows:

	July 2, 2004	June 27, 2003
	(in millions)	
<b>Deferred Tax Assets</b>		
Accrued warranty	\$ 51	\$ 53
Inventory valuation accounts	21	28
Receivable reserves	13	17
Accrued compensation and benefits	53	48
Depreciation	106	103
Restructuring allowance	14	4
Other accruals	37	37
Acquisition related items	2	2
Net operating losses and tax credit carry-forwards	288	189
Other assets	14	9
	<u>599</u>	<u>490</u>
Total Deferred Tax Assets	599	490
Valuation allowance	(541)	(416)
	<u>\$ 58</u>	<u>\$ 74</u>
Net Deferred Tax Assets	\$ 58	\$ 74
<b>As Reported on the Balance Sheet</b>		
Other current assets	\$ 15	\$ 49
Other assets, net	43	25
	<u>\$ 58</u>	<u>\$ 74</u>
Net Deferred Tax Assets	\$ 58	\$ 74

At July 2, 2004, the Company had recorded \$58 million of deferred tax assets. The realization of the deferred tax assets is primarily dependent on the Company generating sufficient U.S. taxable income in fiscal years 2005 and 2006. Although realization is not assured, the Company's management believes that it is more likely than not these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease, when the Company reevaluates the underlying basis for its estimates of future U.S. and certain foreign taxable income.

In fiscal year 2004, the valuation allowance increased by \$125 million. In fiscal years 2003 and 2002, the valuation allowance decreased by \$70 million and \$20 million, respectively. Approximately \$125 million of the valuation allowance as of July 2, 2004 was attributable to the U.S. income tax benefits of stock option deductions, the benefit of which will be credited to additional paid-in capital when, and if, realized.



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At July 2, 2004, the Company had U.S. and foreign net operating loss carryforwards of approximately \$433 million and \$124 million, respectively, which will expire at various dates beginning in 2005, if not utilized. At July 2, 2004, the Company had U.S. tax credit carryforwards of \$74 million, which will expire at various dates beginning in 2006, if not utilized.

Utilization of the U.S. net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating loss or tax credit carry-forwards before utilization.

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The applicable statutory rate in the Cayman Islands was zero for Seagate Technology for fiscal years ended July 2, 2004, June 27, 2003 and June 28, 2002. For purposes of the reconciliation between the provision for (benefit from) income taxes at the statutory rate and the effective tax rate, a notional U.S. 35% rate is applied as follows:

	Fiscal Year	Fiscal Year	Fiscal Year
	Ended	Ended	Ended
	July 2,	June 27,	June 28,
	2004	2003	2002
	_____	_____	_____
	(in millions)		
Provision at U.S. notional statutory rate	\$ 150	\$ 231	\$ 84
State income tax provision (benefit), net of U.S. notional income tax benefit		(3)	5
Reversal of accrued income taxes VERITAS indemnification	(125)		
Valuation allowance	13	(87)	83
Foreign earnings not subject to U.S. notional income tax	(139)	(127)	(89)
Other individually immaterial items		5	3
	_____	_____	_____
Provision for (benefit from) income taxes	\$ (101)	\$ 19	\$ 86
	_____	_____	_____

A substantial portion of the Company's Asia Pacific manufacturing operations in China, Malaysia, Singapore and Thailand operate under various tax holidays and tax incentive programs, which expire in whole or in part during fiscal years 2005 through 2015. Certain of the tax holidays may be extended if specific conditions are met. The net impact of these tax holidays and tax incentive programs was to increase the Company's net income by approximately \$89 million in fiscal year 2004 (\$0.18 per share, diluted), to increase the Company's net income by approximately \$89 million (\$0.19 per share, diluted) in fiscal year 2003, and to increase the Company's net income by approximately \$74 million (\$0.17 per share, diluted) in fiscal year 2002.

As a result of the purchase of the operating assets of Seagate Delaware and the ensuing corporate structure, the Company now consists of a foreign parent holding company with various foreign and U.S. subsidiaries. Dividend distributions received from the Company's U.S. subsidiaries may be subject to U.S. withholding taxes when, and if, distributed. Deferred tax liabilities have not been recorded on unremitted earnings of the Company's foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal income tax if remitted to the foreign parent holding company.

On July 31, 2001, Seagate Delaware and the Internal Revenue Service filed a settlement stipulation with the United States Tax Court in complete settlement of the remaining disputed tax matter reflected in the statutory notice of deficiency dated June 12, 1998. The settlement stipulation was expressly contingent upon Seagate Delaware and the Internal Revenue Service entering into a closing agreement in connection with certain tax matters arising in all or some part of the open tax years of Seagate Delaware and New SAC. The Internal Revenue Service completed its review of Seagate Delaware's federal tax returns for the periods prior to the acquisition date of the operating assets and submitted its conclusions to the

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congressional Joint Committee on Taxation for review. On March 15, 2004, VERITAS Software Corporation ( VERITAS ) received written notification from the Internal Revenue Service that the congressional Joint Committee on Taxation had completed its review and had taken no exception to the Internal Revenue Service's conclusions. On April 6, 2004, Seagate Delaware and the Internal Revenue Service filed a revised settlement stipulation with the United States Tax Court in connection with the statutory notice of deficiency which reflected the parties' agreement to fully resolve the remaining tax matters included in the statutory notice of deficiency. On June 28, 2004, the revised settlement stipulation was made final by the United States Tax Court and the case has been closed.

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the fiscal year ended July 2, 2004, the Company recorded a \$125 million income tax benefit from the reversal of accrued income taxes relating to tax indemnification amounts due to VERITAS pursuant to the Indemnification Agreement between Seagate Delaware, New SAC and VERITAS. The \$125 million tax indemnification amount had been recorded by the Company in connection with the purchase of the operating assets of Seagate Delaware and represented U.S. tax liabilities previously accrued by Seagate Delaware for periods prior to the acquisition date of the operating assets. As a result of the conclusion of the tax audits with no additional tax liabilities due, the Company determined that the \$125 million accrual for the tax indemnification was no longer required and it was reversed in the third fiscal quarter of 2004.

Certain of Seagate Delaware's foreign and state tax returns remain under examination by various taxing authorities. The Internal Revenue Service is currently examining the Company's federal income tax returns for fiscal years ending in 2001 and 2002. The timing of the settlement of these examinations is uncertain. We believe that adequate amounts of tax have been provided for any final assessment that may result.

**5. Restructuring Costs**

During fiscal year 2004, the Company recorded \$59 million in restructuring charges. Of the \$59 million, \$39 million was incurred in the quarter ended July 2, 2004 and was associated with the Company's planned workforce reduction first announced in April 2004 and implemented in June 2004. The \$39 million restructuring charge was comprised of employee termination costs relating to a workforce reduction, primarily in its U.S. and Far East operations, of approximately 2,407 employees, 1,626 of whom had been terminated as of July 2, 2004. The Company expects the restructuring activities related to the charge taken in its fourth fiscal quarter of 2004 to be substantially completed by August 2004.

The remaining \$20 million in restructuring charges were incurred through the nine months ended April 2, 2004 and a result of a restructuring plan established to continue the alignment of the Company's global workforce with existing and anticipated future market requirements, primarily in its U.S. design centers and Far East operations. The restructuring costs were comprised of employee termination costs relating to a reduction in the Company's workforce of approximately 649 employees, 626 of whom had been terminated as of July 2, 2004. These restructuring activities were substantially complete at July 2, 2004.

During fiscal year 2003, the Company recorded \$19 million in restructuring charges. The Company also reduced a restructuring accrual previously recorded by its predecessor in fiscal year 1998 by \$10 million due to a change in estimated lease obligations. These combined actions resulted in a net restructuring charge of \$9 million for fiscal year 2003.

Of the \$19 million of restructuring charges the Company recorded in fiscal year 2003, \$17 million was incurred in the fiscal quarter ended September 27, 2002 as a result of a restructuring plan, which the Company refers to as the fiscal year 2003 restructuring plan, established to continue the alignment of the Company's global workforce and manufacturing capacity with existing and anticipated future market requirements, primarily in its Far East operations. The restructuring charge was comprised of employee termination costs relating to a reduction in its workforce of approximately 3,750 employees. The fiscal year 2003 restructuring plan was substantially complete at June 27, 2003. The remaining \$2 million restructuring charge was incurred in the fiscal quarter ended June 27, 2003 and was comprised of employee termination costs relating to a workforce reduction of approximately 686 employees in the Company's Thailand operations. These restructuring activities

were completed in July 2003.

During fiscal year 2002, the Company recorded \$13 million in restructuring charges and reversed \$9 million of restructuring charges recorded in prior fiscal years resulting in a net restructuring charge of \$4 million. The

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

restructuring plan implemented in fiscal year 2002 (the fiscal year 2002 restructuring plan ) was established to align the Company's global workforce and manufacturing capacity with existing and anticipated future market requirements, primarily in its IT operations and in its Far East operations in China. The restructuring charges were comprised of \$10 million for employee termination costs, \$2 million for contract cancellations and \$1 million for the write-off of excess manufacturing equipment. The fiscal year 2002 restructuring plan was substantially complete prior to the end of the first quarter of fiscal year 2003.

The following table summarizes the Company's restructuring activities for fiscal years ended July 2, 2004, June 27, 2003 and June 28, 2002:

	Severance and Benefits	Excess Facilities	Equipment	Contract Cancellations	Other	Total
	—	—	—	—	—	—
	(in millions)					
Accrual balances, June 29, 2001	\$ 34	\$ 11	\$	\$ 5	\$ 9	\$ 59
Restructuring charge	10		1	2		13
Cash payments	(37)	(7)		(1)	(3)	(48)
Non-cash charges			(1)			(1)
Adjustments and reclassifications	(3)	5		(5)	(6)	(9)
	—	—	—	—	—	—
Accrual balances, June 28, 2002	4	9		1		14
	—	—	—	—	—	—
Restructuring charge	19					19
Cash payments	(18)					(18)
Adjustments and reclassifications		(9)		(1)		(10)
	—	—	—	—	—	—
Accrual balances, June 27, 2003	5					5
	—	—	—	—	—	—
Restructuring charge	59					59
Cash payments	(36)					(36)
Non-cash charges	(1)					(1)
	—	—	—	—	—	—
Accrual balances, July 2, 2004	\$ 27	\$	\$	\$	\$	\$ 27
	—	—	—	—	—	—

**6. Business Segment and Geographic Information**

Prior to the Company's sale of XIOtech Corporation to New SAC on November 4, 2002, the Company had two operating segments: rigid disc drives and storage area networks, however, only the rigid disc drive business was a reportable segment. See Note 10, Sale of XIOtech Corporation. The operating results for XIOtech are included in the Company's consolidated results of operations through the date that XIOtech was sold to New SAC in November 2002 and are included in the other category below. The Company has identified its Chief Executive Officer,

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or CEO, as the Chief Operating Decision Maker. Gross profit from operations is defined as revenue less cost of revenue.

In each of fiscal years 2004 and 2003, Hewlett-Packard Corporation accounted for more than 10% of consolidated revenue. In fiscal year 2002, on a combined basis Compaq Computer Corporation and Hewlett-Packard Corporation (Hewlett-Packard Corporation acquired Compaq Computer Corporation in May 2002) accounted for more than 10% of consolidated revenue. No other customer accounted for more than 10% of consolidated revenues in any year presented.

Long-lived assets consist of property, equipment and leasehold improvements, capital leases, equity investments, goodwill and other intangibles, and other non-current assets as recorded by the Company's operations in each area.

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The following tables summarize the Company's operations by business segment:

	<b>Fiscal Years Ended</b>		
	<b>July 2, 2004</b>	<b>June 27, 2003</b>	<b>June 28, 2002</b>
	(in millions)		
<b><u>Revenue and Gross Profit</u></b>			
Revenue:			
Rigid Disc Drives	\$ 6,224	\$ 6,464	\$ 6,023
Other		24	74
Eliminations		(2)	(10)
Consolidated	<u>\$ 6,224</u>	<u>\$ 6,486</u>	<u>\$ 6,087</u>
Gross Profit:			
Rigid Disc Drives	\$ 1,459	\$ 1,715	\$ 1,558
Other		12	35
Consolidated	<u>\$ 1,459</u>	<u>\$ 1,727</u>	<u>\$ 1,593</u>
<b><u>Total Assets</u></b>			
Rigid Disc Drives	\$ 3,942	\$ 3,522	
Eliminations		(5)	
Consolidated	<u>\$ 3,942</u>	<u>\$ 3,517</u>	

On a separate basis, in conformity with accounting principles generally accepted in the United States, XIOTech had net losses of \$9 million and \$51 million in fiscal years 2003 and 2002, respectively.

The following table summarizes the Company's operations by geographic area:

	<b>Fiscal Years Ended</b>		
	<b>July 2,</b>	<b>June 27,</b>	<b>June 28,</b>



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	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(in millions)		
<b>Revenue from external customers (1):</b>			
United States	\$ 1,866	\$ 2,151	\$ 2,398
The Netherlands	1,558	1,562	1,438
Singapore	2,319	2,137	1,627
Other	481	636	624
	<u>        </u>	<u>        </u>	<u>        </u>
Consolidated	\$ 6,224	\$ 6,486	\$ 6,087
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Long-lived assets:</b>			
United States	\$ 574	\$ 504	\$ 805
Singapore	438	287	204
Other	469	444	124
	<u>        </u>	<u>        </u>	<u>        </u>
Consolidated	\$ 1,481	\$ 1,235	\$ 1,133
	<u>        </u>	<u>        </u>	<u>        </u>

(1) Revenue is attributed to countries based on the shipping location.

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Equity**

**Share Capital**

The Company's authorized share capital is \$13,500 and consists of 1,250,000,000 common shares, par value \$0.00001, of which 459,595,663 shares were outstanding as of July 2, 2004 and 100,000,000 preferred shares, par value \$0.00001, of which none were issued or outstanding as of July 2, 2004.

*Common shares* Holders of common shares are entitled to receive dividends and distributions 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 common shares. Holders of shares are entitled to one vote per share on all matters upon which the common shares are entitled to vote, including the election of directors.

*Preferred shares* The Company is authorized to issue up to a total of 100 million shares of preferred stock in one or more series, without stockholder approval. The Board of Directors is authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. The Board of Directors can also increase or decrease the number of shares of a series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of the common stock. The issuance of preferred stock, 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 common stock and the voting and other rights of the holders of common stock. As of July 2, 2004, there were no shares of preferred stock outstanding.

**Distributions**

During fiscal year 2004, pursuant to its quarterly dividend policy, the Company made cash distributions to its shareholders aggregating approximately \$90 million, or \$0.20 per share. Of the \$90 million paid, New SAC received approximately \$57 million. New SAC in turn distributed the \$57 million it received to its ordinary shareholders, including approximately \$11 million paid to officers and employees of the Company who held ordinary shares of New SAC (see Note 13, Related Party Transactions - Distributions to New SAC).

**8. Commitments**

*Leases* The Company leases certain property, facilities and equipment under non-cancelable lease agreements. Land and facility leases expire at various dates through 2027 and contain various provisions for rental adjustments including, in certain cases, a provision based on increases in the Consumer Price Index. All of the leases require the Company to pay property taxes, insurance and normal maintenance costs.

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Future minimum lease payments for operating leases with initial or remaining terms of one year or more were as follows at July 2, 2004 (lease payments are shown net of sublease income):

	<b>Operating Leases</b>
	<b>(in millions)</b>
2005	\$ 15
2006	20
2007	5
2008	5
2009	4
After 2009	102
	<b>\$ 151</b>

Total rent expense for all land, facility and equipment operating leases was approximately \$23 million, \$24 million and \$23 million for fiscal years 2004, 2003 and 2002, respectively. Total sublease rental income for fiscal years 2004, 2003 and 2002 was \$6 million, \$8 million and \$8 million, respectively. The Company subleases a portion of its facilities that it considers to be in excess of current requirements. Total future lease income to be recognized for the Company's existing subleases is approximately \$16 million.

*Capital Expenditures* The Company's commitments for construction of manufacturing facilities and equipment approximated \$176 million at July 2, 2004.

**9. Legal, Environmental, and Other Contingencies****Intellectual Property Litigation**

*Convolve, Inc. and Massachusetts Institute of Technology ( MIT ) v. Seagate Technology LLC, et al.* Between 1998 and 1999, Convolve, Inc., a small privately held technology consulting firm founded by an MIT Ph.D., engaged in discussions with Seagate Delaware with respect to the potential license of technology that Convolve claimed to own. During that period, the parties entered into non-disclosure agreements. The Company declined Convolve's offer of a license in late 1999. On July 13, 2000, Convolve and MIT filed suit against Compaq Computer Corporation and the Company in the U.S. District Court for the Southern District of New York, alleging patent infringement, misappropriation of trade secrets, breach of contract, tortious interference with contract and fraud relating to Convolve and MIT's Input Shaping® and Convolve's Quick and Quiet™ technology. The plaintiffs claim their technology is incorporated in Seagate's sound barrier technology, which was publicly

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announced on June 6, 2000. The complaint seeks injunctive relief, \$800 million in compensatory damages and unspecified punitive damages. The Company answered the complaint on August 2, 2000 and filed counterclaims for declaratory judgment that two Convolv/ MIT patents are invalid and not infringed and that it owns any intellectual property based on the information that the Company disclosed to Convolv. The court denied plaintiffs' motion for expedited discovery and ordered plaintiffs to identify their trade secrets to defendants before discovery could begin. Convolv served a trade secrets disclosure on August 4, 2000, and the Company filed a motion challenging the disclosure statement. On May 3, 2001, the court appointed a special master to review the trade secret issues. The special master resigned on June 5, 2001, and the court appointed another special master on July 26, 2001. After a hearing on the Company's motion challenging the trade secrets disclosure on September 21, 2001, the special master issued a report and recommendation to the court that the trade secret list was insufficient. Convolv revised the trade secret list, and the court entered an order on January 1, 2002, accepting the special master's recommendation that this trade secret list was adequate. On November 6, 2001, the U.S. Patent and Trademark Office ( USPTO ) issued U.S. Patent No. 6,314,473 to

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Convolve. Convolve filed an amended complaint on January 16, 2002, alleging defendants' infringement of this patent, and the Company answered and filed counterclaims on February 8, 2002. Discovery is in process. On July 26, 2002, the Company filed a Rule 11 motion challenging the adequacy of plaintiffs' pre-filing investigation on the first two patents alleged in the complaint and seeking dismissal of plaintiffs' claims related to these patents and reimbursement of attorney's fees. The court denied the Company's motion on May 23, 2003. Briefing on claims construction issues has been completed and a claims construction (Markman) hearing has been requested. No trial date has been set. The Company believes that the claims are without merit, and it intends to defend against them vigorously. On May 6, 2003, the USPTO issued to Convolve U.S. Patent No. 6,560,658 B2, entitled "Data Storage Device with Quick and Quiet Modes." Convolve has indicated that it will seek leave of the court to add this patent to the lawsuit. This latest patent is a continuation of a patent currently in the lawsuit (U.S. Patent No. 6,314,473). The Company similarly believes any claims that may relate to this continuation patent would be without merit, regardless of whether such claims were added to the ongoing litigation or asserted against the Company in a separate lawsuit. Judge John Martin, who was assigned to this case, has announced his retirement from the federal bench. The case was reassigned to Judge George B. Daniels. On October 14, 2003, the Special Master resigned from the case due to Convolve's claim that he had a conflict of interest. Magistrate Judge James C. Francis IV was appointed to handle all discovery matters. Plaintiffs have indicated that they will dismiss claims regarding U.S. Patent No. 5,638,267 from the case. The claims construction hearing on U.S. Patent Nos. 4,916,635 and 6,314,473 was held on March 30 and 31, 2004. The Company awaits the court's order.

*Shao Tong, et al. v. Seagate International (Wuxi) Co., Ltd.* In July 2002, the Company was sued in the People's Court of Nanjing City, China, by an individual, Shao Tong, and a private Chinese company, Nanjing Yisike Network Safety Technique Co., Ltd. The complaint alleged that two of the Company's personal storage disc drive products infringe Chinese patent number ZL94111461.9, which prevents the corruption of systems data stored on rigid disc drives. The suit, which sought to stop the Company from manufacturing the two products and claimed immaterial monetary damages, was dismissed by the court on procedural grounds on November 29, 2002. On December 3, 2002, the plaintiffs served the Company with notice that they had refiled the lawsuit. The new complaint contained identical infringement claims against the same disc drive products, claimed immaterial monetary damages and attorney's fees and requested injunctive relief and a recall of the products from the Chinese market. Manufacture of the accused products ceased in May 2003. At a hearing on March 10, 2003, the court referred the matter to an independent technical advisory board for a report on the application of the patent claims to the two products. On June 10, 2003, the Company presented its non-infringement case to the technical panel. The panel issued a technical advisory report to the court finding no infringement. The court heard oral arguments on the technical advisory report in September 2003, issued an order that Seagate products did not infringe the patent and rejected plaintiffs' lawsuit. Plaintiffs filed an appeal with the Jiangsu High Court, and the Company filed its opposition brief on January 21, 2004. The People's Republic of China Patent Reexamination Board (the "PRB") declared patent ZL94111461.9 invalid on March 28, 2004. The patentee has three months to appeal the PRB's decision. The Jiangsu High Court stayed the appeal on the infringement case pending a final judgment on patent invalidity. On June 22, 2004, Shao Tong filed a lawsuit in the Beijing Intermediate People's Court against the PRB challenging its patent invalidity decision. The Company believes the claims are without merit, and intends to defend against them vigorously.

*Read-Rite Corporation.* In order to clarify the Company's rights under a Patent Cross-License Agreement between Seagate Delaware and Read-Rite Corporation, the Company filed a declaratory judgment action on May 7, 2003 in the Superior Court of California, County of Santa Clara, seeking a declaration that it is entitled to a cross-license, effective as of November 22, 2000, under terms substantially identical to those contained in the Patent Cross License Agreement. On June 11, 2003, Read-Rite Corporation answered the complaint putting forward a general denial and asserting various affirmative defenses. On June 17, 2003, Read-Rite Corporation filed a voluntary petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. Upon notice, the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company's declaratory judgment action has been stayed. On July 23, 2003, the U.S. Bankruptcy Court approved Western Digital Corporation's bid to acquire the assets of Read-Rite Corporation, including intellectual property that was the subject of Read-Rite's dispute with the Company, in a transaction that closed on July 31, 2003. The Company objected to Western Digital's assumption of the Patent Cross-License Agreement. On November 14, 2003, the Bankruptcy Trustee made a motion to assume or reject certain Read-Rite executory contracts, rejecting the Patent Cross-License Agreement. The Company has given notice of its election to retain the benefits of the Patent Cross-License Agreement to the extent permitted by Section 365(n) of the U.S. Bankruptcy Code.

**Securities and Exchange Commission's Request for Information**

In October 2003, the Company received from the SEC a request for all third-party research analyst reports regarding Seagate Technology published during the period commencing January 1, 2000 through August 30, 2003. By early December 2003 the Company had provided all information requested by the SEC. There are no outstanding requests from the SEC for further information. The additional information furnished related to the allegations of the former employee who has claimed the Company terminated him in violation of the Minnesota Whistleblower Act. Nothing has come to the Company's attention during this process that changes its view regarding the lack of merit of those claims. There is no procedural requirement that the SEC completes any investigation within certain timeframes or makes any announcements with respect to the status of an investigation.

The former employee has alleged that the Company dismissed him because he asserted that the Company had incorrectly reallocated certain expenses between costs of goods sold and research and development costs in its financial statements. The reallocations, which the Company did record, were related to a broad company restructuring that changed the focus of activities at various locations as between manufacturing and research and development. These reallocations had no impact on either revenues or earnings and were detailed in the Company's financial statements contained in its initial public offering prospectus. Moreover, the Company reviewed the reallocations, as well as its financial statement disclosures regarding them, with its independent auditors and the members of the audit committee of its board of directors at the time of the Company's initial public offering in light of the employee's allegations. Based upon the Company's review, which included an investigation by independent counsel and independent accountants reporting to its audit committee, the Company believes that all reallocations were appropriate, the associated disclosure was complete, and that all of the employee's allegations are without merit.

**Environmental Matters**

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





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Other Matters**

The Company is involved in a number of other judicial and administrative proceedings incidental to its business, and it 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.

**10. Sale of XIOtech Corporation**

On November 4, 2002, the Company sold XIOtech Corporation, the wholly-owned indirect subsidiary that operated the Company's storage area networks business, to New SAC. New SAC in turn sold 51% of XIOtech to a third party in a transaction in which XIOtech sold newly issued shares to this third party. As a result, New SAC has retained an interest of less than 20% of XIOtech.

In consideration of the Company's sale of XIOtech to New SAC, the Company received a \$32 million promissory note from New SAC. The amount of this promissory note was equal to the estimated fair value of XIOtech as of the date of the sale, net of intercompany indebtedness. Immediately after the sale of XIOtech to New SAC, the Company made an in-kind pro rata distribution of the entire promissory note to the holders of its then-outstanding shares, including New SAC, which at the time owned approximately 99.4% of its outstanding shares. That portion of the note distributed back to New SAC was cancelled, and New SAC immediately paid off the remaining 0.6% of the promissory note held by the Company's minority shareholders. As a result of the sale of XIOtech, the Company will no longer consolidate XIOtech's operations with its operations.

Because New SAC at the time owned approximately 99.4% of the Company's outstanding shares, the Company's sale of XIOtech to New SAC was recorded as a dividend of an amount equal to the net book value of XIOtech of \$1 million rather than as a sale for the fair value of the promissory note. As of November 4, 2002, XIOtech's balance sheet consisted of \$33 million of current assets, \$6 million of non-current assets, \$36 million of current liabilities (which included \$19 million of intercompany indebtedness), and \$2 million of long-term liabilities.

**11. Guarantees**

**Intellectual Property Indemnification Obligations**

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

**Product Warranty**

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of one to five years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine its warranty

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obligation. Changes in the Company's product warranty liability during the fiscal years ended July 2, 2004 and June 27, 2003 were as follows:

	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b>Ended</b>	<b>Ended</b>
	<b>July 2,</b>	<b>June 27,</b>
	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
	(in millions)	
Balance, beginning of period	\$ 134	\$ 160
Warranties issued	69	81
Repairs and replacements	(143)	(125)
Changes in liability for pre-existing warranties, including expirations	65	18
	<u>          </u>	<u>          </u>
Balance, end of period	<u>\$ 125</u>	<u>\$ 134</u>

The Company offers extended warranties on certain of its products. Deferred revenue in relation to extended warranties has not been material to date.

**12. Related Party Transactions****Affiliate Transactions**

Historically, the Company has provided substantial services to other affiliated companies. Upon the closing of the stock purchase agreement by New SAC, these services continue to be provided by the Company through New SAC. The services provided generally include general management, treasury, tax, financial reporting, benefits administration, insurance, information technology, legal, accounts payable and receivable and credit functions, among others. The Company charges for these services through corporate expense allocations. The amount of corporate expense allocations depends upon the total amount of allocable costs incurred by the Company on behalf of the affiliated company less amounts charged as specified cost or expense rather than by allocation. Such costs have been proportionately allocated to the affiliated companies based on detailed inquiries and estimates of time incurred by the Company's corporate marketing and general administrative departmental managers. Management believes that the allocations charged to other affiliated companies are reasonable. Allocations charged to other affiliated companies' marketing and administrative expenses for fiscal years 2004, 2003 and 2002 were approximately \$2 million, \$4 million and \$4 million, respectively. XIOtech Corporation and Certance Holdings ( Certance ) are affiliates of Seagate Technology. The Company recorded revenue from XIOtech and Certance of \$8 million and \$3 million in fiscal year 2004, \$23 million and \$5 million in fiscal year 2003, and \$8 million and \$7 million in fiscal year 2002, respectively. The amounts receivable from XIOtech and Certance were \$1 million from each

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at July 2, 2004 and \$1 million and \$5 million, respectively, at June 27, 2003. Purchases and sales to other affiliated companies were not material for any of the periods presented.

Certain members of our board of directors are also on the boards of directors of Microsoft Corporation, Flextronics International Ltd., United Parcel Service, Inc., and E2open, Inc. The Company sells disc drives to Microsoft and Flextronics for use in their products. The Company recorded net revenue of \$113 million, \$136 million and \$124 million in fiscal years 2004, 2003 and 2002, respectively, for sales to Microsoft and Flextronics. With respect to such sales, at July 2, 2004, the Company had accounts receivable and accounts payable of \$23 million and \$7 million, respectively, and at June 27, 2003, the Company had accounts receivable and accounts payable of \$15 million and \$0 million, respectively. The Company made payments to United Parcel Service of \$114 million, \$120 million and \$92 million in fiscal years 2004, 2003 and 2002, respectively. At July 2, 2004 and June 27, 2003, the Company had accounts payable to United Parcel Service of \$10 million and \$17 million, respectively. Purchases from E2open, Inc. were \$2 million, \$1 million, and \$2 million for fiscal

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

years 2004, 2003, and 2002, respectively. At both July 2, 2004 and June 27, 2003, the Company had no outstanding accounts payable to E2open, Inc. One member of our board of directors became Chairman and Chief Executive Officer of Motorola, Inc. on January 5, 2004. The Company recorded revenue of \$16 million from sales to Motorola for the period from January 5, 2004 to July 2, 2004 and had accounts receivable of \$4 million from Motorola at July 2, 2004. Another individual who has been a member of our board of directors since April 29, 2004 is also a director of LSI Logic Corp. The Company recorded revenue of \$3 million from sales to LSI Logic for the period from April 29, 2004 to July 2, 2004 and had accounts receivable of \$5 million from LSI Logic at July 2, 2004.

**Employee Receivables**

At July 2, 2004, amounts receivable from two officers totaled \$0.7 million while amounts from an additional 17 officers and/or employees totaled \$1.2 million. At June 27, 2003, amounts receivable from three officers totaled \$1.8 million while amounts receivable from an additional 11 officers and/or employees totaled \$0.8 million. Individual loans were made to these employees to assist them with relocation costs and/or beginning employment at the Company. At July 2, 2004, the loans totaling \$0.7 million bear interest at 8% per year and are due in lump sum payments, including unpaid interest, in fiscal year 2006. Under the terms of these loans, \$0.3 million of the \$0.7 million, as well as accrued and unpaid interest, will be forgiven if these officers remain employed for a specified period of time. In the periods in which these officers fulfill their employment obligations, the amount of principal and interest, which are forgiven ratably over the required employment term, will be charged to compensation expense. The loans totaling \$1.2 million generally are non-interest bearing and are due in lump sum payments at the end of a five-year period.

**Distributions to New SAC**

During fiscal year 2004, pursuant to its quarterly dividend policy, the Company made cash distributions to its shareholders aggregating approximately \$90 million. Of the \$90 million paid, New SAC received approximately \$57 million. New SAC in turn distributed the \$57 million it received to its ordinary shareholders, including approximately \$11 million paid to officers and employees of the Company who held ordinary shares of New SAC.

In July 2003, the Company completed the secondary public offering of 69,000,000 of its common shares, of which 9,000,000 were sold pursuant to the underwriters' exercise of their over-allotment option, all of which were sold by New SAC, as selling shareholder, at a price of \$18.75 per share. New SAC received proceeds of approximately \$1.3 billion, after deducting underwriting discounts and commissions of approximately \$39 million. The Company incurred direct expenses aggregating approximately \$1 million related to the offering. New SAC distributed its net proceeds to holders of its ordinary shares including approximately \$245 million distributed to the Company's officers and employees who hold ordinary shares of New SAC.

In February 2003 and May 2003, pursuant to its quarterly dividend policy, the Company made cash distributions to its shareholders aggregating approximately \$26 million. Of the \$26 million paid, New SAC received approximately \$21 million. New SAC in turn distributed the \$21 million it received to its ordinary shareholders, including approximately \$5 million paid to officers and employees of the Company who held ordinary

shares of New SAC.

On December 9, 2002, prior to the initial public offering of common stock of the Company, New SAC converted all its then-outstanding 400 million preferred shares into common shares of the Company. On December 13, 2002, the Company completed the initial public offering of 72,500,000 of its common shares, 24,000,000 of which were sold by the Company and 48,500,000 of which were sold by New SAC, its parent company, as selling shareholder, at a price of \$12 per share. The Company received proceeds from its sale of the

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**SEAGATE TECHNOLOGY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

24,000,000 newly issued common shares of approximately \$270 million after deducting underwriting fees, discounts and commissions. Immediately prior to the closing of the Company's initial public offering, it paid a return of capital distribution of approximately \$262 million, or \$0.65 per share, to the holders of its then-outstanding shares, including New SAC, which received \$259 million. The Company also paid a lump sum of approximately \$12 million to members of its sponsor group in exchange for the discontinuation of an annual monitoring fee of \$2 million. This payment was charged to marketing and administrative expense during the quarter ended December 27, 2002. New SAC received proceeds of approximately \$557 million from the sale of 48,500,000 common shares in the Company's initial public offering, after deducting underwriting discounts and commissions. New SAC distributed the \$557 million net proceeds from the offering and the \$259 million return of capital distribution from the Company to its preferred and ordinary shareholders, including a total payment of approximately \$38 million to officers and employees of the Company who held preferred and ordinary shares of New SAC. The distribution by New SAC to its preferred stock holders triggered the requirement by the Company to pay its remaining deferred compensation plan obligation to its participating officers and employees totaling \$147 million, which was paid in December 2002.

On May 20, 2002, the Company made a distribution to its shareholders, including New SAC, to enable New SAC to make a distribution to its preferred shareholders. The aggregate amount of the shareholder distribution was approximately \$167 million. Of this amount, approximately \$166 million was paid to New SAC. New SAC in turn made a distribution to its preferred shareholders in May 2002 of the entire \$166 million, including the distribution of \$5 million to officers and employees of the Company who held preferred shares of New SAC. The payment of this distribution on preferred shares by New SAC triggered a required payment by the Company under its deferred compensation plan of \$32 million that was paid in May 2002.

On March 19, 2002, the Company paid a distribution of \$33 million to its shareholders, including New SAC, to enable New SAC to make a distribution of approximately \$33 million to its shareholders, which allowed members of the Company's sponsor group to satisfy tax obligations. Approximately \$32 million of this amount was paid to New SAC. New SAC had previously distributed \$32 million to its ordinary shareholders, including the distribution of approximately \$7 million paid to officers and employees of the Company that held ordinary shares of New SAC.

**13. Condensed Consolidating Financial Information**

On May 13, 2002, Seagate Technology HDD Holdings, or HDD, issued \$400 million in aggregate principal amount of 8% senior notes due 2009. HDD is the Company's wholly-owned direct subsidiary, and the Company has guaranteed HDD's obligations under the 8% senior notes, on a joint and several, full and unconditional basis. The following tables present parent guarantor, subsidiary issuer and combined non-guarantors condensed consolidating balance sheets of the Company and its subsidiaries at July 2, 2004 and June 27, 2003 and the condensed consolidating results of operations and cash flows for the fiscal years ended July 2, 2004, June 27, 2003 and June 28, 2002. The information classifies the Company's subsidiaries into Seagate Technology-parent company guarantor, HDD-subsi-dary issuer, and the combined non-guarantors based upon the classification of those subsidiaries under the terms of the 8% senior notes. The Company is restricted in its ability to obtain funds from its subsidiaries by dividend or loan under both the indenture governing the 8% senior notes and the credit agreement governing the senior secured credit facilities. Under each of these instruments, dividends paid by HDD or its restricted subsidiaries would constitute restricted payments, and loans between the Company and HDD or its restricted subsidiaries would constitute affiliate transactions.

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Balance Sheet**

July 2, 2004

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	\$ 14	\$	\$ 408	\$	\$ 422
Short-term investments			761		761
Accounts receivable, net			690		690
Affiliate accounts receivable			1		1
Intercompany receivable			4	(4)	
Inventories			449		449
Intercompany loan receivable		292		(292)	
Other current assets			138		138
<b>Total Current Assets</b>	<b>14</b>	<b>292</b>	<b>2,451</b>	<b>(296)</b>	<b>2,461</b>
Property, equipment and leasehold improvements, net			1,301		1,301
Equity investment in HDD	1,842			(1,842)	
Equity investments in Non-Guarantors		2,195		(2,195)	
Other assets		9	171		180
<b>Total Assets</b>	<b>\$ 1,856</b>	<b>\$ 2,496</b>	<b>\$ 3,923</b>	<b>\$ (4,333)</b>	<b>\$ 3,942</b>
Accounts payable	\$	\$	\$ 740	\$	\$ 740
Intercompany payable		4		(4)	
Accrued employee compensation			141		141
Accrued expenses		6	309		315
Accrued income taxes			48		48
Intercompany loan payable			292	(292)	
Current portion of long-term debt		2	2		4
<b>Total Current Liabilities</b>		<b>12</b>	<b>1,532</b>	<b>(296)</b>	<b>1,248</b>
Other liabilities	1		99		100
Long-term debt, less current portion		642	97		739



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Total Liabilities	1	654	1,728	(296)	2,087
Shareholders' Equity	1,855	1,842	2,195	(4,037)	1,855
Total Liabilities and Shareholders' Equity	\$ 1,856	\$ 2,496	\$ 3,923	\$ (4,333)	\$ 3,942

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Balance Sheet

June 27, 2003

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
Cash and cash equivalents	\$ 45	\$	\$ 704	\$	\$ 749
Short-term investments			445		445
Accounts receivable, net			611		611
Intercompany receivable			14	(14)	
Inventories			319		319
Intercompany loan receivable		310		(310)	
Other current assets			158		158
<b>Total Current Assets</b>	<b>45</b>	<b>310</b>	<b>2,251</b>	<b>(324)</b>	<b>2,282</b>
Property, equipment and leasehold improvements, net			1,111		1,111
Equity investment in HDD	1,288			(1,288)	
Equity investments in Non-Guarantors		1,619		(1,619)	
Other assets		12	112		124
<b>Total Assets</b>	<b>\$ 1,333</b>	<b>\$ 1,941</b>	<b>\$ 3,474</b>	<b>\$ (3,231)</b>	<b>\$ 3,517</b>
Accounts payable	\$	\$	\$ 640	\$	\$ 640
Affiliate accounts payable			11		11
Intercompany payable	1		13	(14)	
Accrued employee compensation			217		217
Accrued expenses	8	5	299		312
Accrued income taxes			179		179
Intercompany loan payable			310	(310)	
Current portion of long-term debt		2	2		4
<b>Total Current Liabilities</b>	<b>9</b>	<b>7</b>	<b>1,671</b>	<b>(324)</b>	<b>1,363</b>
Other liabilities	8		85		93
Long-term debt, less current portion		646	99		745

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Total Liabilities	<u>17</u>	<u>653</u>	<u>1,855</u>	<u>(324)</u>	<u>2,201</u>
Shareholders' Equity	<u>1,316</u>	<u>1,288</u>	<u>1,619</u>	<u>(2,907)</u>	<u>1,316</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,333</u>	<u>\$ 1,941</u>	<u>\$ 3,474</u>	<u>\$ (3,231)</u>	<u>\$ 3,517</u>

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Operations

Fiscal Year Ended July 2, 2004

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	\$	\$	\$ 6,224	\$	\$ 6,224
Cost of revenue			4,765		4,765
Product development			666		666
Marketing and administrative	2		288		290
Restructuring			59		59
Total operating expenses	2		5,778		5,780
Income (loss) from operations	(2)		446		444
Interest income		4	17	(4)	17
Interest expense		(41)	(8)	4	(45)
Equity in income of HDD	531			(531)	
Equity in income of Non-Guarantors		568		(568)	
Other, net			12		12
Other income (expense), net	531	531	21	(1,099)	(16)
Income before income taxes	529	531	467	(1,099)	428
Provision for (benefit from) income taxes			(101)		(101)
Net income	\$ 529	\$ 531	\$ 568	\$ (1,099)	\$ 529

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Cash Flows

Fiscal Year Ended July 2, 2004

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
<b>Net Income</b>	\$ 529	\$ 531	\$ 568	\$ (1,099)	\$ 529
<b>Adjustments to reconcile net income to net cash from operating activities:</b>					
Depreciation and amortization			422		422
VERITAS tax indemnification			(125)		(125)
Equity in income of HDD	(531)			531	
Equity in income (loss) of Non-Guarantors		(568)		568	
Other non-cash operating activities, net			17		17
Changes in operating assets and liabilities, net	(14)	(1)	(193)		(208)
<b>Net cash provided by (used in) operating activities</b>	(16)	(38)	689		635
<b>Investing Activities</b>					
Acquisition of property, equipment and leasehold improvements			(605)		(605)
Purchase of short-term investments			(4,143)		(4,143)
Maturities and sales of short-term investments			3,822		3,822
Other investing activities, net		3	(39)		(36)
<b>Net cash used in investing activities</b>		3	(965)		(962)
<b>Financing Activities</b>					
Repayment of long-term debt		(4)	(2)		(6)
Issuance of common shares	96				96
Loan from HDD to Non-Guarantor		(13)	13		
Loan repayment from Non-Guarantor to HDD		31	(31)		
Investment by Parent in HDD	(21)	21			
Distribution to shareholders	(90)				(90)
<b>Net cash provided by (used in) financing activities</b>	(15)	35	(20)		

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Decrease in cash and cash equivalents	(31)		(296)		(327)
Cash and cash equivalents at the beginning of the period	45		704		749
Cash and cash equivalents at the end of the Period	\$ 14	\$	\$ 408	\$	\$ 422

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Operations

Fiscal Year Ended June 27, 2003

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	\$	\$	\$ 6,486	\$	\$ 6,486
Cost of revenue			4,759		4,759
Product development			670		670
Marketing and administrative	1	3	353		357
Restructuring			9		9
Total operating expenses	1	3	5,791		5,795
Income (loss) from operations	(1)	(3)	695		691
Interest income		24	15	(23)	16
Interest expense		(43)	(27)	23	(47)
Equity in income of HDD	651			(651)	
Equity in income (loss) of Non-Guarantors	(9)	673		(664)	
Other, net					
Other income (expense), net	642	654	(12)	(1,315)	(31)
Income before income taxes	641	651	683	(1,315)	660
Provision for income taxes			19		19
Net income	\$ 641	\$ 651	\$ 664	\$ (1,315)	\$ 641

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Cash Flows

Fiscal Year Ended June 27, 2003

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Income</b>	\$ 641	\$ 651	\$ 664	\$ (1,315)	\$ 641
<b>Adjustments to reconcile net income to net cash from operating activities:</b>					
Depreciation and amortization			443		443
Equity in income of HDD	(651)			651	
Equity in income (loss) of Non-Guarantors	9	(673)		664	
Other non-cash operating activities, net			19		19
Changes in operating assets and liabilities, net	18	(148)	(91)		(221)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash provided by (used in) operating activities</b>	17	(170)	1,035		882
<b>Investing Activities</b>					
Acquisition of property, equipment and leasehold improvements			(516)		(516)
Purchase of short-term investments			(3,408)		(3,408)
Maturities and sales of short-term investments			3,194		3,194
Sale of XIOtech, net of repayment of intercompany debt			8		8
Sale of Reynosa facility			28		28
Other investing activities, net			(60)		(60)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash used in investing activities</b>			(754)		(754)
<b>Financing Activities</b>					
Repayment of long-term debt		(1)	(1)		(2)
Issuance of common shares	299				299
Loan from HDD to Non-Guarantor		(310)	310		
Loan repayment from Non-Guarantor to HDD		452	(452)		
Distribution from HDD to Parent	360	(360)			
Investment by Parent in HDD	(343)	343			
Distribution to shareholders	(288)				(288)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	28	124	(143)		9



**Net cash provided by (used in) financing activities**

Increase (decrease) in cash and cash equivalents	45	(46)	138	137
Cash and cash equivalents at the beginning of the period		46	566	612
Cash and cash equivalents at the end of the Period	\$ 45	\$	\$ 704	\$ 749

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Operations****Fiscal Year Ended June 28, 2002**

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
Revenue	\$	\$	\$ 6,087	\$	\$ 6,087
Cost of revenue			4,494		4,494
Product development			698		698
Marketing and administrative			498		498
Amortization of intangibles			19		19
Amortization of intangibles			4		4
Total operating expenses			5,713		5,713
Income from operations			374		374
Interest income		2	25	(2)	25
Interest expense		(6)	(73)	2	(77)
Equity in income of HDD	203			(203)	
Equity in income (losses) of Non-Guarantors	(50)	207		(157)	
Income from operations			(93)		(93)
Other, net			10		10
Other income (expense), net	153	203	(131)	(360)	(135)
Income before income taxes	153	203	243	(360)	239
Provision for income taxes			86		86
Net income	\$ 153	\$ 203	\$ 157	\$ (360)	\$ 153

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## SEAGATE TECHNOLOGY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Consolidating Statement of Cash Flows

Fiscal Year Ended June 28, 2002

(in millions)

	Seagate Technology Parent Company Guarantor	HDD Subsidiary Issuer	Combined Non- Guarantors	Eliminations	Seagate Technology Consolidated
<b>Net Income</b>	\$ 153	\$ 203	\$ 157	\$ (360)	\$ 153
<b>Adjustments to reconcile net income to net cash from operating activities:</b>					
Depreciation and amortization			405		405
Deferred compensation charge			147		147
Debt refinancing charges			93		93
Equity in income of HDD	(203)			203	
Equity in income of Non-Guarantors	50	(207)		157	
Other non-cash operating activities, net			71		71
Change in operating assets and liabilities, net		4	32		36
<b>Net cash provided by operating activities</b>			905		905
<b>Investing Activities</b>					
Acquisition of property, equipment and leasehold improvements			(540)		(540)
Purchase of short-term investments			(1,037)		(1,037)
Maturities and sales of short-term investments			989		989
Other investing activities, net			(22)		(22)
<b>Net cash used in investing activities</b>			(610)		(610)
<b>Financing Activities</b>					
Issuance of long-term debt, net of issuance costs		636	100		736
Repayment of long-term debt			(899)		(899)
Redemption premium on 12½% senior notes			(50)		(50)
Loan from Non-Guarantor to HDD		33	(33)		
Repayment of loan from Non-Guarantor to HDD		(33)	33		
Loan from HDD to Non-Guarantor		(301)	301		
Loan to Parent	33	(33)			
Loan payment from Parent	(33)	33			
	258	(258)			

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Distributions from HDD to Seagate Technology				
Distributions to shareholders	(200)			(200)
Exercise of employee stock options	4			4
Capital contributions to HDD	(4)	4		
Capital contributions to Non-Guarantors	(58)	(35)	93	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash provided by (used in) financing activities</b>		46	(455)	(409)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Increase (decrease) in cash and cash equivalents		46	(160)	(114)
Cash and cash equivalents at the beginning of the period			726	726
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at the end of the period	\$	\$ 46	\$ 566	\$ 612
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Table of Contents****SEAGATE TECHNOLOGY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. Supplementary Financial Data (Unaudited)****Quarterly Data****Fiscal Year 2004**

Unaudited, in millions except per share data	1st	2nd	3rd	4th
Revenue	\$ 1,740	\$ 1,760	\$ 1,388	\$ 1,336
Gross margin	468	461	301	229
Income (loss) from operations	210	218	53	(37)
Net income (loss)	198	205	159	(33)
Net income (loss) per share:				
Basic	\$ 0.44	\$ 0.46	\$ 0.35	\$ (0.07)
Diluted	0.40	0.41	0.32	(0.07)

The results for the first quarter of fiscal year 2004 include an \$11 million restructuring charge. The results for the second quarter include a \$4 million restructuring charge. The results for the third quarter include a \$125 million income tax benefit and a \$6 million restructuring charge. The results for the fourth quarter include a \$39 million restructuring charge and a \$2 million write-down of an investment in a private company.

**Fiscal Year 2003**

Unaudited, in millions except per share data	1st	2nd	3rd	4th
Revenue	\$ 1,579	\$ 1,734	\$ 1,620	\$ 1,553
Gross margin	372	493	434	428
Income from operations	119	219	182	171
Net income	110	198	174	160
Net income per share:				
Basic	\$ 0.27	\$ 0.49	\$ 0.41	\$ 0.37
Diluted	0.24	0.43	0.37	0.33

The results for the first quarter of fiscal year 2003 include a \$7 million net restructuring charge. The results for the second quarter include an \$8 million write-down of an investment in a private company. The results for the fourth quarter include a \$2 million restructuring charge and a \$2 million write-down of an investment in a private company.

**15. Subsequent Events**

**Registration of Common Shares**

On July 20, 2004, the Company filed a registration statement on Form S-3 with respect to 60,000,000 common shares of the Company owned by New SAC. After this registration statement is declared effective by the SEC, New SAC may sell all 60,000,000 of these shares to the public. The Company will not receive any of the proceeds from the potential sale of these shares. After such sale or sales of these common shares is completed, New SAC will own 222,500,000 shares, or approximately 48.4% of the Company's outstanding common stock (based upon the Company's outstanding common shares as of July 2, 2004).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Seagate Technology

We have audited the accompanying consolidated balance sheets of Seagate Technology as of July 2, 2004 and June 27, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows of Seagate Technology for the fiscal years ended July 2, 2004, June 27, 2003 and June 28, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seagate Technology at July 2, 2004 and June 27, 2003, and the consolidated results of operations and cash flows of Seagate Technology for the fiscal years ended July 2, 2004, June 27, 2003 and June 28, 2002, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

San Jose, California

July 20, 2004

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 July 2, 2004. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the fourth fiscal quarter ended July 2, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***PART III***

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this Item 10 concerning our executive officers and directors is set forth in Part I of this report under Item 1. Business Executive Officers and Directors

**Audit Committee**

The board of directors maintains a standing Audit Committee. The Audit Committee consists of three of our independent directors as required by Sections 303A.06 and 303A.07 of the NYSE Rules, which will be effective for Seagate Technology as of October 28, 2004. These individuals are Messrs. Kiernan and Thompson and Ms. Marshall. The board of directors has determined that each of these committee members is an independent director under Section 303A.02 of the NYSE Rules. In addition, each of these committee members meets the independence and experience requirements for membership of the audit committee under the existing rules of the New York Stock Exchange and Rule 10A-3(b)(1) promulgated by the SEC under the Securities and Exchange Act of 1934. Mr. Kiernan currently serves as the Chairman of the Audit Committee. The board of directors has determined that Mr. Kiernan is an audit committee financial expert as defined under the rules of the SEC.

Mr. Bradley served on the Audit Committee until he resigned from the committee effective as of April 29, 2004 and Ms. Marshall was named to the committee on the same date.

**Code of Business Conduct and Ethics**



Our board of directors has adopted a Code of Business Conduct and Ethics that is applicable to all of our directors and employees, including our Chief Executive Officer, Chief Financial Officer, principal accounting officer and controller. Our Code of Business Conduct and Ethics is available through our website at [www.seagate.com](http://www.seagate.com).

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the related rules of the SEC require our directors and officers, and any person who beneficially owns more than ten percent of our common shares, to file reports of securities ownership on Form 3 and changes in ownership on Form 4 or 5 with the SEC. Such

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officers, directors and greater than ten percent shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms that they file.

Based solely on its review of copies of such reports furnished to us, the absence of a Form 3 or Form 5 or written representations that no Form 5 was required, we believe that all Section 16(a) filing requirements applicable to its officers, directors and beneficial owners of more than 10% of our common shares during the fiscal year ended July 2, 2004 were satisfied, with one exception. One Form 4, covering one transaction in October 2003, was inadvertently filed late for Mark Kryder, one of our senior vice presidents.

**ITEM 11. EXECUTIVE COMPENSATION****Compensation of Named Executive Officers**

The following table sets forth information regarding compensation paid by us for services rendered during the past three fiscal years for our Chief Executive Officer and for each of our four other most highly compensated executive officers who were serving as executive officers at the end of fiscal year 2004. We collectively refer to these five persons as the named executive officers .

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation (\$) <sup>(4)</sup>
		Salary (\$)	Bonus (\$)	Restricted Stock Award(s)	Number of Securities Underlying Options Granted	
				New SAC (\$) <sup>(1)(2)</sup>	Seagate Technology (#) <sup>(3)</sup>	
Stephen J. Luczo	2004	1,038,463				6,718
Chairman and Former Chief Executive Officer <sup>(5)</sup>	2003	1,000,002	2,300,000			6,208
	2002	966,972	1,929,944		450,326	5,341
William D. Watkins	2004	997,888				3,076
President and Former Chief Operating Officer <sup>(6)</sup>	2003	850,013	2,000,000		1,500,000	3,076
	2002	850,013	1,600,000	142,500 <sub>(1)(7)</sub>	652,174	3,082
Charles C. Pope	2004	719,033			1,000,000	8,424
Executive Vice President and Chief Financial Officer	2003	550,014	1,200,000			7,462
	2002	541,183	1,000,000	85,500 <sub>(1)(8)</sub>	391,304	6,928

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David A. Wickersham	2004	525,397			8,718
	2003	495,203	550,000	1,000,000	4,438
Chief Operating Officer and Executive Vice President, Global Disc Storage Operations <sup>(9)</sup>	2002	376,080	525,000	529,565	3,877
Brian S. Dexheimer	2004	509,627			121,071
	2003	495,203	550,000	1,000,000	126,585
Executive Vice President, Worldwide Sales, Marketing and Customer Service	2002	375,609	525,000	529,565	43,221

- (1) The amounts listed in this column represent the dollar value of any restricted ordinary shares of New SAC and any restricted preferred shares of New SAC awarded to the named executive officers in each fiscal year presented. These values were calculated by multiplying the fair market value, as determined by the board of directors of New SAC, of an ordinary or preferred share of New SAC, in each case as of the date of the award, by the number of shares of that class awarded to the named executive officers. New SAC's board of directors determined the fair market values to be approximately \$11.39 per ordinary share and

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approximately \$45.36 per preferred share as of the date of the award. This determination was based on New SAC's board of directors' best estimate as to the amount of consideration that would be paid by a willing buyer to a willing seller for an ordinary or preferred share if neither party was acting under compulsion and both parties had reasonable knowledge of the relevant facts. The valuation of New SAC's ordinary and preferred shares at any given date is dependent on numerous factors such as operating conditions, management expertise and other factors both internal and external to New SAC as of the date of valuation. All of New SAC's preferred shares were redeemed by New SAC in March 2003.

- (2) As of July 2, 2004, the named executive officers held unvested, restricted ordinary shares of New SAC, as follows: (a) Mr. Luczo held 9,750 shares (including shares transferred by him for estate planning purposes) having an aggregate value of \$2,944,500; (b) Mr. Watkins held 7,552 shares (including shares transferred by him for estate planning purposes) having an aggregate value of \$2,280,704; (c) Mr. Pope held 4,948 shares (including shares transferred by him for estate planning purposes) having an aggregate value of \$1,494,296; (d) Mr. Wickersham held 1,075 shares having an aggregate value of \$324,650; and (e) Mr. Dexheimer held 1,075 shares (including shares transferred by him for estate planning purposes) having an aggregate value of \$324,650. In each case, the aggregate value of these restricted shares as at July 2, 2004 was calculated based on the fair market value of the ordinary shares of New SAC on July 2, 2004, which New SAC determined was approximately \$302 per ordinary share. As holders of restricted ordinary shares, Messrs. Luczo, Watkins, Pope, Wickersham and Dexheimer will receive the same distributions as other holders of New SAC ordinary shares, when, if and as declared by New SAC's board of directors.
- (3) During fiscal year 2004, options to purchase 1,000,000 of our common shares were granted to Mr. Pope on August 6, 2003. Of these options, 200,000 vested on August 6, 2004 and the remaining 800,000 options vest proportionately over the 48 months commencing September 6, 2004. During fiscal year 2003, the following options were granted to the named executive officers: options to purchase 1,500,000 of our common shares were granted to Mr. Watkins on February 14, 2003 and options to purchase 1,000,000 of our common shares were granted to each of Messrs. Wickersham and Dexheimer on February 3, 2003. Of Mr. Watkins' 1,500,000 options, 200,000 vest on February 14, 2005; an additional 250,000 options vest proportionately over the 12 months commencing March 14, 2005; an additional 300,000 options vest proportionately over the 12 months commencing March 14, 2006; an additional 350,000 options vest proportionately over the 12 months commencing March 14, 2007; and an additional 400,000 options vest proportionately over the 12 months commencing March 14, 2008. Of the 1,000,000 options granted to each of Messrs. Wickersham and Dexheimer, 200,000 options vest on February 3, 2005 and the remaining 800,000 options vest proportionately over the 48 months commencing March 3, 2005. The numbers in this column for fiscal year 2002 represent options to purchase our common shares that were granted on July 24, 2001. One-quarter of these options vested on November 22, 2001. The remaining options are vesting and will continue to vest proportionately each month over the 36 months following November 22, 2001. Each of the named executive officers is eligible to receive grants of options to purchase our common shares and common shares of Certance Holdings, a Cayman Islands exempted company incorporated with limited liabilities and a direct subsidiary of New SAC, and was eligible to receive grants of options to purchase common shares of Crystal Decisions, Inc., a Delaware corporation, which was an indirect subsidiary of New SAC until its sale to a third party in December 2003. Since November 22, 2000, no grants to purchase shares of any of these entities were made to the named executive officers other than a grant to purchase 20,000 shares of Crystal Decisions common stock made on May 12, 2003 to Mr. Luczo.
- (4) The amounts in this column for fiscal year 2004 include a \$2,500 contribution by us to the 401(k) account of each named executive officer and a premium payment toward a term life insurance policy of \$58 for each of Messrs. Luczo, Pope, Wickersham and Dexheimer and \$576 for Mr. Watkins. In addition, the amount listed for: (a) Mr. Luczo includes a \$1,392 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$2,768; (b) Mr. Pope includes a \$1,730 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$4,136; (c) Mr. Wickersham includes a \$1,519 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$4,641; and (d) Mr. Dexheimer includes a \$843 premium payment toward a universal life insurance policy, a cash surrender value on that

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life insurance policy of \$1,004 and forgiveness of an aggregate of \$116,666 of principal and interest due on a promissory note, pursuant to its terms, as set forth in more detail under the heading Item 13. Certain Relationships and Related Transactions Transactions Involving Our Management. The amounts in this column for fiscal year 2003 include a \$2,500 contribution by us to the 401(k) account of each named executive officer and a premium payment toward a term life insurance policy of \$58 for each of Messrs. Luczo, Pope, Wickersham and Dexheimer and \$576 for Mr. Watkins. In addition, the amount listed for: (a) Mr. Luczo includes a \$1,430 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$2,221; (b) Mr. Pope includes a \$1,695 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$3,209; (c) Mr. Wickersham includes a \$1,499 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$431; and (d) Mr. Dexheimer includes a \$694 premium payment toward a universal life insurance policy and forgiveness of an aggregate of \$123,333 of principal and interest due on a promissory note, pursuant to its terms. The amounts in this column for fiscal year 2002 include a \$2,500 contribution by us to the 401(k) account of each named executive officer and a premium payment toward a term life insurance policy of \$58 for each of Messrs. Luczo, Pope, Wickersham and Dexheimer and \$582 for Mr. Watkins. In addition, the amount listed for: (a) Mr. Luczo includes a \$1,082 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$1,701; (b) Mr. Pope includes a \$1,466 premium payment toward a universal life insurance policy and a cash surrender value on that life insurance policy of \$2,904; (c) Mr. Wickersham includes a \$1,319 premium payment toward a universal life insurance policy; and (d) Mr. Dexheimer includes a \$663 premium payment toward a universal life insurance policy and forgiveness of \$40,000 of interest due on a promissory note, pursuant to its terms.

- (5) Mr. Luczo resigned as our Chief Executive Officer effective as of July 2, 2004, but will continue to be the Chairman of our board of directors. His employment agreement with us has been amended and restated to significantly reduce his compensation in light of these changes. See Employment Agreements and Other Agreements.
- (6) Mr. Watkins was appointed as our Chief Executive Officer effective as of July 3, 2004 and will continue in his role as President.
- (7) Under its 2001 Restricted Share Plan, New SAC issued 12,500 ordinary shares to Mr. Watkins on July 24, 2001. A quarter of these shares vested on July 24, 2002 and three-quarters are vesting and will continue to vest proportionately each month over the 36 months following July 24, 2002.
- (8) Under its 2001 Restricted Share Plan, New SAC issued 7,500 ordinary shares to Mr. Pope on July 24, 2001. A quarter of these shares vested on July 24, 2002 and three-quarters are vesting and will continue to vest proportionately each month over the 36 months following July 24, 2002.
- (9) Mr. Wickersham was appointed as our Chief Operating Officer effective in April 2004 and will continue in his role as Executive Vice President, Global Disc Storage Operations.

**Table of Contents****Option Grants in Fiscal Year 2004**

The following table sets forth certain information concerning options to purchase our common shares that were granted to the named executive officers between June 27, 2003 and July 2, 2004.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term <sup>(3)</sup>	
	Number of Securities	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share) <sup>(2)</sup>	Expiration Date	5% (\$)	10% (\$)
					Underlying Options Granted (#) <sup>(1)</sup>	
	Stephen J. Luczo					
William D. Watkins						
Charles C. Pope	1,000,000	23.25%	\$ 21.42	8/6/2013	\$ 13,470,923	\$ 34,137,963
David A. Wickersham						
Brian S. Dexheimer						

- (1) No options were granted to the named executive officers during fiscal year 2004 other than the grant of options to purchase 1,000,000 of our common shares to Mr. Pope on August 6, 2003. Of these options, 200,000 vested on August 6, 2004 and the remaining 800,000 options vest proportionately over the 48 months commencing September 6, 2004.
- (2) On the date of grant, our board of directors determined the fair market value of one of our common shares as determined pursuant to our 2001 Share Option Plan under which such options are granted. Generally the fair market value is equal to the mean of the high and low selling prices of one of our common shares as reported on the date of determination on the New York Stock Exchange.
- (3) Potential gains are net of exercise price but before taxes associated with exercise. These amounts represent certain assumed rates for appreciation only, based on SEC rules, and do not represent our estimate or projection of the price of our common shares in the future. Actual gains, if any, on stock option exercises depend upon the actual future performance of the common shares and the continued employment of the option holders throughout the vesting period. Accordingly, the potential realizable values set forth in this table may not be achieved.

**Aggregate Option Exercises in Fiscal Year 2004 and Option Values as at Fiscal Year-End 2004**

The following table sets forth information regarding the number of shares acquired and value realized for options exercised by the named executive officers during the fiscal year ended July 2, 2004 and the number and aggregate dollar value of unexercised options held at the end of fiscal year 2004.

Name	Shares Acquired on	Value Realized (\$)	Number of Securities Underlying Unexercised	Value of Unexercised
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	<u>Exercise (#)</u>		<u>Options at Fiscal Year-End</u>		<u>in-the-Money Options</u>	
					<u>at Fiscal Year-End<sup>(1)</sup></u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Stephen J. Luczo			228,412	46,914	\$ 2,718,103	\$ 558,277
William D. Watkins			584,232	1,567,942	\$ 6,952,361	\$ 9,778,510
Charles C. Pope			195,649	1,040,765	\$ 2,328,223	\$ 485,104
David A. Wickersham	150,000	\$ 3,066,625	591,060	788,505	\$ 5,165,633	\$ 4,246,191
Brian S. Dexheimer	215,652	\$ 2,866,597	505,408	788,505	\$ 4,356,524	\$ 4,246,191

- (1) For all unexercised in-the-money options, the values are based upon the fair market value of common shares at July 2, 2004 of \$14.20 per share, which was the average of the high and low trading price of our common shares on the New York Stock Exchange on that date.

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### **Compensation of Directors**

Each non-management director is granted options to purchase 100,000 of our common shares at fair market value as at the date of grant, upon his or her election to our board of directors. These options vest over a period of four years from the date of grant. Upon re-election to our board of directors each year, each non-management director who has been a director for at least six months prior to his or her re-election is granted options to purchase 25,000 of our common shares at fair market value as at the date of grant. These options will vest over a period of four years from the date of grant. Each of our non-management directors also receives annual cash compensation of \$50,000 (payable in equal quarterly installments). In addition, the chairman of the Audit Committee (currently Mr. Kiernan) receives an additional annual cash retainer of \$50,000 (payable in equal quarterly installments). The other audit committee members receive additional cash compensation of \$2,500 for each quarterly meeting of the Audit Committee that they attend in person. Management directors receive no additional compensation for their services as a director. All members of our board of directors are reimbursed for their reasonable out-of-pocket travel expenses incurred in attending meetings of the board of directors and its committees; no additional compensation is provided for attendance at board or committee meetings. These provisions are subject to change by our board of directors.

### **Employment Agreements and Other Agreements**

*2001 Employment Agreements.* Each of Messrs. Watkins, Pope, Wickersham, Dexheimer and a number of other senior executives is party to an employment agreement with our indirect subsidiary, Seagate Technology (US) Holdings, Inc., entered into in February 2001 (the 2001 Employment Agreements ). Each of these agreements relates to the employment of the named executive officers on our behalf and has a three-year term that commenced on November 22, 2000, subject to automatic, successive one year renewals after that first term.

These executives are also entitled to participate in our employee benefits programs. These programs include health, life and disability insurance and retirement and fringe benefits.

Under the 2001 Employment Agreements, in the event an executive's employment is terminated by us without cause or by the executive with good reason, as each term is defined in the employment agreements, the executive will receive, subject to compliance with the restrictive covenants described below, the following:

continued payment of base salary and target bonus; and

continued participation in our health, dental and life insurance programs,

for a specified period following the termination of his employment. Messrs. Watkins, Pope, Wickersham and Dexheimer will receive these severance benefits for one year following the termination of their employment.

Under the 2001 Employment Agreements, the executives are subject to customary confidentiality, nondisclosure, noncompete and nonsolicitation covenants during the term of employment and for the period in which the executive would receive severance in the event that the executive's employment is terminated.



*Amended and Restated Employment Agreement.* Mr. Luczo was also party to a 2001 Employment Agreement. However, as a result of Mr. Luczo's resignation as our Chief Executive Officer, Seagate Technology (US) Holdings, Inc. has entered into an amended and restated employment agreement with Mr. Luczo dated as of July 3, 2004, which supersedes his previous employment agreement. Pursuant to his amended and restated employment agreement, Mr. Luczo is employed by us on an at will basis, and will receive an annual salary of \$1. His employment may be terminated, or he may choose to leave, at any time and for any reason. Mr. Luczo is also entitled to participate in certain of our health and life insurance programs. Mr. Luczo is also subject to customary confidentiality, nondisclosure, noncompete and nonsolicitation covenants during the time he is employed by us and for a period of two years following the termination of his employment. Mr. Luczo will not receive any severance benefits under his amended and restated employment agreement, in the event his employment is terminated.

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We list below a chart showing the named executives' base salaries and target bonuses, set by our compensation committee for fiscal year 2005 if specified performance goals are met.

<u>Executive</u>	<u>Base Salary</u>	<u>Target Bonus</u>
William D. Watkins	\$ 1,000,000	150% of Base Salary
Charles C. Pope	\$ 700,000	125% of Base Salary
David A. Wickersham	\$ 600,000	125% of Base Salary
Brian S. Dexheimer	\$ 500,000	125% of Base Salary
Stephen J. Luczo	\$ 1	

An executive may elect to defer the payment of all or a portion of his bonus.

*Restricted Share Agreements and Share Option Agreements.* Each of Messrs. Luczo, Watkins, Pope, Wickersham, Dexheimer and a number of other senior executives are party to Restricted Share Agreements with our controlling shareholder New SAC, and to Share Option Agreements with us. Under the terms of these agreements, in the event that an executive's employment is terminated by us without cause or by the executive with good reason, as such terms are defined in the agreements, any unvested restricted shares of New SAC and any unvested options to acquire our shares will immediately vest in full and, in the case of options, become fully exercisable.

*Management Retention Agreements.* We are party to management retention agreements with each of Messrs. Luczo, Watkins, Pope, Wickersham, Dexheimer and a number of other key executive officers. As of July 2, 2004, these management retention agreements provide that if the executive's employment is terminated by us without cause or by the executive with good reason in connection with a change of control transaction, and if, as a result of such termination, severance benefits provided to the executive are subject to excise tax, Messrs. Luczo, Watkins, Pope, Wickersham and Dexheimer may receive a payment from us of up to that amount sufficient to pay such excise tax arising from payment of the severance benefits and an additional payment from us of up to an amount sufficient to pay the excise tax and federal and state income taxes arising from such initial excise tax payment.

**Compensation Committee Interlocks and Insider Participation**

We have a separately designated compensation committee of the board of directors. The members of our compensation committee during fiscal year 2004 were Messrs. Bonderman, Davidson and Marquardt. Mr. Bonderman resigned as a director of Seagate Technology on April 29, 2004. Mr. Coulter was appointed to our compensation committee on the same date. None of these individuals were officers or employees of Seagate Technology or any of its subsidiaries, at any time during the fiscal year ended July 2, 2004, nor have any of these individuals ever been officers of Seagate Technology or any of its subsidiaries. No executive officers of Seagate Technology served on the compensation committee of any other entity, or as a director of an entity, that employs any of the members of our compensation committee during fiscal year 2004.

Mr. Davidson is a managing member of Silver Lake Partners, Messrs. Bonderman and Coulter are principals of Texas Pacific Group and Mr. Marquardt is a principal of August Capital. Silver Lake Partners, Texas Pacific Group and August Capital are members of our sponsor group and are parties to various agreements with Seagate Technology. These agreements are described in more detail under the heading "Item 13. Certain Relationships and Related Transactions."



**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our outstanding common shares on August 27, 2004 by (1) each person who is known by us to own beneficially more than 5% of our outstanding voting power, (2) each director and named executive officer, and (3) all of our directors and executive officers as a group. To our knowledge, unless it is otherwise stated in the footnotes, each person listed below has sole voting and investment power with respect to his or her shares beneficially owned. For purposes of the tables below, a person or group of persons is deemed to have beneficial ownership of any shares that such person has the right to acquire within 60 days after August 27, 2004. For purposes of computing the percentage of outstanding common shares held by each person or group of persons, any shares that such person or persons has the right to acquire within 60 days after August 27, 2004, are deemed to be outstanding but are not included as outstanding for the purpose of computing the percentage ownership of any other person.

As of August 27, 2004, affiliates of Silver Lake Partners, Texas Pacific Group, August Capital, J.P. Morgan Partners, LLC and investment partnerships affiliated with Goldman Sachs & Co. indirectly own 19.4%, 13.5%, 7.0%, 4.0%, and 1.3%, respectively, of our outstanding common shares through their ownership of New SAC. Certain members of our management indirectly own, in the aggregate, 9.8% of our outstanding common shares through their ownership of New SAC. The sponsor group's and managements' ownership of New SAC is the subject of a shareholders agreement and other arrangements that result in the sponsors acting as a group with respect to all matters submitted to our shareholders.

Name and Address of Beneficial Owner	Number of Common Shares Beneficially Owned	Percentage of Class Beneficially Owned <sup>(1)</sup>
<b>5% Holders:</b>		
New SAC	282,500,000 <sup>(2)</sup>	61.0%
c/o M&C Corporate Services Limited		
P.O. Box 309GT		
Ugland House		
South Church Street		
George Town, Grand Cayman		
Cayman Islands		
Affiliates of Silver Lake Partners, L.P.	282,500,000 <sup>(3)</sup>	61.0%
c/o Silver Lake Partners, L.P.		
2725 Sand Hill Road, Suite 150		
Menlo Park, California 94025		
TPG SAC Advisors III Corp.	282,500,000 <sup>(4)</sup>	61.0%
c/o Texas Pacific Group		
301 Commerce Street Suite 3300		

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Fort Worth, Texas 76102		
Affiliates of August Capital III, L.P.	282,500,000 <sup>(5)</sup>	61.0%
2480 Sand Hill Road Suite 101		
Menlo Park, California 94025		
Capital Group International, Inc.	40,694,016 <sup>(6)</sup>	8.8%
333 South Hope Street, 55th Floor		
Los Angeles, California 90071		
FMR Corp.	32,606,940 <sup>(7)</sup>	7.0%
82 Devonshire Street		
Boston, Massachusetts 02109		

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Name and Address of Beneficial Owner	Number of Common Shares Beneficially Owned	Percentage of Class Beneficially Owned <sup>(1)</sup>
<b>Directors and named executive officers:</b>		
William D. Watkins <sup>(8)</sup>	639,818 <sup>(9)</sup>	*
Charles C. Pope <sup>(8)</sup>	616,979 <sup>(10)</sup>	*
David A. Wickersham <sup>(8)</sup>	704,630 <sup>(11)</sup>	*
Brian S. Dexheimer <sup>(8)</sup>	700,202 <sup>(12)</sup>	*
Stephen J. Luczo <sup>(8)</sup>	441,910 <sup>(13)</sup>	*
William W. Bradley <sup>(8)</sup>	31,249 <sup>(14)</sup>	*
James G. Coulter <sup>(15)</sup>	<sup>(16)</sup>	
James A. Davidson <sup>(17)</sup>	<sup>(18)</sup>	
Glenn H. Hutchins <sup>(17)</sup>	<sup>(19)</sup>	
Donald E. Kiernan <sup>(8)</sup>	35,416 <sup>(20)</sup>	*
David F. Marquardt <sup>(21)</sup>	<sup>(22)</sup>	
Lydia M. Marshall <sup>(8)</sup>	<sup>(23)</sup>	
Gregorio Reyes <sup>(8)</sup>	<sup>(24)</sup>	
John W. Thompson <sup>(8)</sup>	<sup>(25)</sup>	
Edward J. Zander <sup>(8)</sup>	47,916 <sup>(26)</sup>	*
<b>All directors, director nominees and executive officers as a group (22 persons)</b>	<b>5,590,210<sup>(27)</sup></b>	<b>1.2%</b>

\* Less than 1% of our common shares outstanding.

- (1) Percentage of class beneficially owned is based on 462,944,029 common shares outstanding as of August 27, 2004, together with applicable options to purchase common shares for each shareholder exercisable on August 27, 2004 or within 60 days thereafter. Each common share is entitled to one vote. We have determined beneficial ownership in accordance with the rules of the SEC based on factors, including voting and investment power, with respect to shares subject to applicable community property laws. Common shares issuable upon the exercise of options currently exercisable or exercisable within 60 days after August 27, 2004 are deemed outstanding for computing the percentage ownership of the person holding the options, but are not deemed outstanding for computing the percentage of any other person.
- (2) Messrs. Coulter, Davidson, Hutchins, Luczo, Marquardt, and Watkins, in their capacities as directors of New SAC, may be deemed to have shared voting or dispositive power over the 282,500,000 common shares held by New SAC. Each of them, however, disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.
- (3) Includes the 282,500,000 common shares beneficially owned by New SAC, over which affiliates of Silver Lake Partners, L.P. may be deemed, as a result of their ownership of 31.8% of New SAC's total outstanding shares, to have shared voting or dispositive power. The affiliates of Silver Lake Partners, L.P., however, disclaim this beneficial ownership, except to the extent of any pecuniary interest therein. The affiliates of Silver Lake Partners, L.P. are Silver Lake Partners Cayman, L.P., Silver Lake Investors Cayman, L.P. and Silver Lake Technology Investors Cayman, L.P. The sole general partner of each of Silver Lake Partners Cayman, L.P. and Silver Lake Investors Cayman, L.P. is Silver Lake Technology Associates Cayman, L.P. and the sole general partner of each of Silver Lake Technology Associates Cayman, L.P., and Silver Lake Technology Investors Cayman, L.P. is Silver Lake (Offshore) AIV GP LTD. The shareholders of Silver Lake (Offshore) AIV GP LTD are James A. Davidson, Glenn H. Hutchins, David J. Roux, Integral Capital Partners SLP, LLC and Alan Austin. All persons identified above disclaim beneficial ownership of those shares, except to the extent of any pecuniary interest therein.
- (4) Includes the 282,500,000 common shares beneficially owned by New SAC. The shareholders of TPG SAC Advisors III Corp. may be deemed to have shared voting or dispositive power over those shares. TPG SAC Advisors III Corp. is the sole general partner of TPG SAC GenPar, L.P., which is the sole general partner of SAC Investments, L.P., which owns approximately 22.1% of New SAC's total outstanding shares. The



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shareholders of TPG SAC Advisors III Corp. are James G. Coulter, David Bonderman, William S. Price, Justin Chang and John Marren. Each of them, however, disclaims beneficial ownership of those shares, except to the extent of any pecuniary interest therein.

- (5) Includes the 282,500,000 common shares beneficially owned by New SAC. The members of August Capital Management III, L.L.C. may be deemed to have shared voting or dispositive power of those shares. August Capital Management III, L.L.C. is the general partner of August Capital III, L.P., which, together with its affiliates, owns approximately 11.4% of New SAC's outstanding shares. The members of August Capital Management III, L.L.C. are Andrew S. Rapaport, John Johnston, David F. Marquardt and Andrew Anker. Each of them, however, disclaims beneficial ownership of those shares, except to the extent of any pecuniary interest therein.
- (6) Based solely on information reported by Capital Group International Inc.'s subsidiaries (together "CGII") on Forms 13F filed with the SEC on August 13, 2004 for the quarter ended June 30, 2004. CGII has shared investment power with respect to all of such shares, sole voting authority with respect to 38,279,216 shares, shared voting authority with respect to none of such shares and no voting authority with respect to 2,414,800 shares. The foregoing information has been included solely in reliance upon, and without independent investigation of, the disclosures contained in CGII's Forms 13F.
- (7) Based solely on information reported by FMR Corp. ("FMR") on a Form 13F filed with the SEC on August 16, 2004 for the quarter ended June 30, 2004. FMR has shared investment power with respect to all of such shares, sole voting authority with respect to 1,697,470 shares, shared voting power over none of the shares and no voting authority with respect to 30,909,470 shares. The foregoing information has been included solely in reliance upon, and without independent investigation of, the disclosures contained in FMR's Form 13F.
- (8) The business address of each of these individuals is our office at 920 Disc Drive, Scotts Valley, California 95066.
- (9) Includes 638,579 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004. Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Watkins may be deemed, in his capacity as a director and the chief operating officer of New SAC, to have shared voting or dispositive power. Mr. Watkins disclaims this beneficial ownership, except to the extent of any pecuniary interest therein. Mr. Watkins owns 179,132 ordinary shares of New SAC, which represents approximately 1.6% of New SAC's total outstanding shares.
- (10) Includes 616,479 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004, including 30,978 common shares subject to options that are currently exercisable held by the Christopher Charles Pope Trust 2002, 30,978 common shares subject to options that are currently exercisable held by the Heidi Rachelle Pope Trust 2002, 30,978 common shares subject to options that are currently exercisable held by the Heather Gloria Pope Trust 2002, 30,978 common shares subject to options that are currently exercisable held by the Holly Anne Pope 2002 Trust and 30,978 common shares subject to options that are currently exercisable held by the Curtis Dean Pope Trust 2002.
- (11) Includes 701,854 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004.
- (12) Includes 616,202 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004, including 18,500 common shares subject to options that are currently exercisable held by the Dexheimer Generation Skipping Trust and 20,000 common shares subject to options that are currently exercisable held by the Dexheimer Grantor Retained Annuity Trust. Mr. Dexheimer disclaims beneficial ownership of the 18,500 common shares subject to options that are held by the Dexheimer Generation Skipping Trust.



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- (13) Includes 265,938 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004, including 59,880 common shares subject to options that are currently exercisable held by the Luczo 2002 Perpetual Family Trust. Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Luczo may be deemed, in his capacity as a director and the chief executive officer of New SAC, to have shared voting or dispositive power. Mr. Luczo disclaims this beneficial ownership, except to the extent of any pecuniary interest therein. Mr. Luczo owns 556,904 ordinary shares of New SAC, which represents approximately 4.9% of New SAC's total outstanding shares.
- (14) Includes 31,249 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004.
- (15) Mr. Coulter is a shareholder of TPG SAC Advisors III Corp., which is the sole general partner of TPG SAC GenPar, L.P., which is the sole general partner of SAC Investments, L.P., which owns shares of New SAC. Mr. Coulter is also a shareholder of each of TPG Advisors III, Inc. and T3 Advisors, Inc., each of which controls the investment funds that are the limited partners of SAC Investments, L.P. In addition, James G. Coulter, David Bonderman, Justin T. Chang, John W. Marren and William S. Price are principals of Texas Pacific Group and are shareholders of TPG SAC Advisors III Corp. As a result of the above, each of these individuals may be deemed to share beneficial ownership of the shares owned by SAC Investments, L.P. Each of them disclaims this beneficial ownership, except to the extent of any pecuniary interest therein. The business address of each of these individuals is c/o TPG SAC Advisors III Corp. at the address listed in the table.
- (16) Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Coulter may be deemed, in his capacity as a director of New SAC, to have shared voting or dispositive power. Mr. Coulter disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.
- (17) Messrs. Davidson and Hutchins are (a) shareholders and directors of Silver Lake (Offshore) AIV GP LTD, which is the sole general partner of Silver Lake Technology Associates Cayman, L.P. and Silver Lake Technology Investors Cayman, L.P. Silver Lake Technology Associates Cayman, L.P. is the sole general partner of each of Silver Lake Partners Cayman, L.P. and Silver Lake Investors Cayman, L.P., which we refer to as the Silver Lake funds, which together with Silver Lake Technology Investors Cayman, L.P. own shares of New SAC and (b) limited partners of Silver Lake Technology Associates Cayman, L.P. Mr. Hutchins is also a limited partner of Silver Lake Technology Investors Cayman, L.P. In addition, Messrs. Davidson and Hutchins are founders and managing members of Silver Lake Partners, L.P., an affiliate of each of the Silver Lake funds. As a result of the above, Messrs. Davidson and Hutchins may be deemed to share beneficial ownership of the shares owned by the Silver Lake funds. Each of them disclaims this beneficial ownership, except to the extent of any pecuniary interest therein. The business address of each of these individuals is c/o Silver Lake Partners, L.P. at the address listed in the table.
- (18) Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Davidson may be deemed, in his capacity as a director of New SAC, to have shared voting or dispositive power. Mr. Davidson disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.
- (19) Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Hutchins may be deemed, in his capacity as a director of New SAC, to have shared voting or dispositive power. Mr. Hutchins disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.
- (20) Includes 35,416 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004.
- (21) Mr. Marquardt is an Investment Member of August Capital Management III, L.L.C., which is the general partner of each of August Capital III, L.P., August Capital Strategic Partners III, L.P. and August



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Capital III Founders Fund, L.P. As a result, he may be deemed to share beneficial ownership of these entities ownership of shares of New SAC. He disclaims this beneficial ownership, except to the extent of any pecuniary interest therein. The business address of Mr. Marquardt is c/o August Capital Management, L.L.C. at the address listed in the table.

- (22) Does not include the 282,500,000 common shares beneficially owned by New SAC, over which Mr. Marquardt may be deemed, in his capacity as a director of New SAC, to have shared voting or dispositive power. Mr. Marquardt disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.
- (23) In connection with her appointment to our Board of Directors, Ms. Marshall was granted options to purchase 100,000 of our common shares at an exercise price of \$12.76 per share. A quarter of the option shares will vest on April 29, 2005. The remaining option shares will vest proportionally each month over the 36 months following April 29, 2005.
- (24) In connection with his appointment to our Board of Directors, Mr. Reyes was granted options to purchase 100,000 of our common shares at an exercise price of \$12.65 per share. A quarter of the option shares will vest on April 23, 2005. The remaining option shares will vest proportionally each month over the 36 months following April 23, 2005.
- (25) Mr. Thompson directly owns 10,000 ordinary shares of New SAC which he purchased for cash. In addition, Mr. Thompson was issued 1,000 ordinary shares of New SAC on March 21, 2001 and an additional 2,000 ordinary shares of New SAC on July 24, 2001. These shares were issued under New SAC's 2001 Restricted Share Plan and vest proportionately each month over the 48 months following November 22, 2000.
- (26) Includes 47,916 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004.
- (27) Includes 4,968,667 common shares subject to options that are currently exercisable or which will become exercisable within 60 days of August 27, 2004, including 484,953 common shares subject to options that are currently exercisable which are held by various family trusts established by certain of the executive officers. Mr. Dexheimer disclaims beneficial ownership of the 18,500 common shares subject to options that are held by the Dexheimer Generation Skipping Trust. Does not include the 282,500,000 common shares beneficially owned by New SAC, over which each of Messrs. Coulter, Davidson, Hutchins, Luczo, Marquardt and Watkins may be deemed, in his capacity as a director of New SAC, to have shared voting or dispositive power. Each of these directors disclaims this beneficial ownership, except to the extent of any pecuniary interest therein.

The information required by this Item 12 concerning our equity compensation plans is set forth under the heading Equity Compensation Plan Information within Item 7 of this report.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **New SAC Shareholders Agreement**

We are the successor to the rigid disc drive and storage area networks divisions of Seagate Delaware, which were acquired in a series of transactions by our controlling shareholder, New SAC, in November 2000. We refer to these transactions as the November 2000 transactions .

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As of the date of the closing of the November 2000 transactions, our controlling shareholder, New SAC, entered into a shareholders agreement with our sponsor group and specified members of our management (the management group), which results in the sponsors and the management group acting as a group with respect to all matters submitted to our shareholders. The New SAC shareholders agreement will terminate in the event that 50% or more of New SAC's shares are sold or distributed to the public or are actively traded on a national securities exchange.

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*Corporate Governance.* New SAC's board of directors consists of nine members, three of whom are designated by Silver Lake Partners, two of whom are designated by Texas Pacific Group, one of whom is an executive officer of New SAC whose appointment is reasonably acceptable to a majority of the directors, one of whom is an independent director proposed by Silver Lake Partners, approved by Texas Pacific Group and reasonably acceptable to a majority of the directors, one of whom is the chief executive officer of New SAC and one of whom is a director elected pursuant to the provisions of New SAC's governing documents. There is currently one vacancy on New SAC's board of directors. The consent of at least seven members of New SAC's board of directors is required before New SAC may voluntarily commence a bankruptcy proceeding, enter into a material business combination, sell a material amount of assets, enter into a material transaction with a member of our sponsor group or any of its affiliates, authorize, issue or sell equity securities or options or warrants to purchase equity securities, pay dividends or redeem equity securities or amend its memorandum and articles of association. Accordingly, our ability to engage in some transactions requiring shareholder approval will effectively be limited without the consent of specified members of our sponsor group. In addition, the consent of eight directors is required to increase or decrease the size of New SAC's board, and the consent of seven directors is required for the exercise of the drag-along rights described below, and the consent of at least five directors, with no management directors participating, is required to terminate the chief executive officer of New SAC or appoint a replacement for that position.

*Preemptive Rights.* The parties to the New SAC shareholders agreement have preemptive rights allowing them to acquire for cash, in proportion to their respective shareholdings in New SAC, additional securities proposed to be issued and sold by New SAC, excluding shares issued upon the exercise of outstanding options granted under employee benefit plans or similar arrangements. If a shareholder fails to exercise its preemptive rights, New SAC has the right to sell these additional securities.

*Transfer Restrictions; Tag-Along Rights; Drag-Along Rights.* No party to the New SAC shareholders agreement was permitted to sell, transfer or otherwise dispose of any of New SAC's shares until the earlier of November 22, 2003 or 180 days after an initial public offering of New SAC, without the prior consent of both Silver Lake Partners and Texas Pacific Group, subject to customary exceptions. Since November 22, 2003, each shareholder party to the agreement has a right of first offer to acquire any New SAC shares that another shareholder party to the New SAC shareholders agreement proposes to sell or otherwise transfer, and any third-party buyer will be subject to approval of New SAC's board of directors, excluding those directors affiliated with the transferring shareholder. In addition, each shareholder party to the New SAC shareholders agreement and each member of the management group has customary tag-along rights, which are the rights to include its shares, on the same terms and conditions, in any sale by a shareholder party to the agreement to a third party, on a proportional basis based on relative ownership levels at that time. Since November 22, 2003, any shareholders party to the New SAC shareholders agreement holding a majority of the outstanding shares of New SAC also have drag-along rights, meaning that if such shareholder or shareholders receive an offer from a third party to purchase a majority of New SAC's outstanding shares or enter into a business combination, such shareholder or shareholders will have the right to cause New SAC's other shareholders to join in the sale or business combination on the same terms and conditions.

*Registration Rights.* Subject to specified limitations, New SAC agreed in the New SAC shareholders agreement to include its shares owned by the shareholders party to the New SAC shareholders agreement, on a proportional basis, in any public offering, other than the initial public offering of its shares, by granting all shareholders party to the agreement unlimited piggyback registration rights, shareholders holding at least 20% of New SAC's outstanding shares three demand registrations, and any single shareholder holding at least 10% of New SAC's outstanding shares one demand registration right with respect to that shareholder. In addition, subject to certain conditions, all shareholders party to the New SAC shareholders agreement have an unlimited number of registration rights on Form S-3. New SAC has agreed to pay all registration expenses relating to these registrations and to indemnify the selling shareholders.

*Distribution Upon Initial Public Offering of Certain Subsidiaries; New Shareholders Agreement.* At any time 190 days after the initial public offering of the shares of designated subsidiaries of New SAC, excluding us,

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Silver Lake Partners or Texas Pacific Group, or both, can require that New SAC distribute to its shareholders who are parties to the New SAC shareholders agreement the remaining shares of the newly public subsidiary held by New SAC. Under the terms of the New SAC shareholders agreement, upon the distribution of a newly public subsidiary's shares pursuant to this provision, the newly public subsidiary is required to enter into a new agreement with the shareholders of New SAC who are parties to the New SAC shareholders agreement, on substantially the same terms as the New SAC shareholders agreement. Although this provision would have allowed Silver Lake Partners or Texas Pacific Group, or both, to cause a distribution of our common shares held by New SAC at any time after June 21, 2003, in connection with our initial public offering, Silver Lake Partners and Texas Pacific Group agreed not to exercise this right in the future. Instead, members of our sponsor group have entered into a new agreement, the material terms of which are summarized below. See Seagate Technology Shareholders Agreement .

### **Seagate Technology Shareholders Agreement**

The Seagate Technology shareholders agreement, to which New SAC, members of our sponsor group and certain members of our management, among others, are party, became effective upon the closing of our initial public offering on December 13, 2002 and was amended on April 23, 2004 and September 2, 2004. The principal terms of this agreement are summarized below. Except as discussed below, this agreement, as amended, will terminate on the date on which New SAC owns 50% or less of our issued and outstanding shares.

*Corporate Governance.* The Seagate Technology shareholders agreement gives Silver Lake Partners the right to designate two of our directors and Texas Pacific Group the right to designate one of our directors. The remaining directors must be nominated by our nominating and corporate governance committee and approved by a majority of the directors present at a duly convened meeting of the board of directors or by the unanimous written consent of the directors. The consent of at least seven members of our board of directors will be required before we may voluntarily commence a bankruptcy proceeding, enter into a business combination with any entity with consolidated assets that exceed 15% of our consolidated assets, sell assets in excess of 15% of our consolidated assets, authorize, issue or sell our equity securities or options or warrants to purchase our equity securities in excess of 15% of our outstanding shares, pay dividends in excess of 15% of our net income in the prior fiscal year (provided that such consent is not required to declare and pay our regular quarterly dividend of up to \$0.06 per share), redeem equity securities in excess of 5% of our shareholders' equity or amend our memorandum and articles of association. Accordingly, members of our sponsor group, acting together, may limit our ability to engage in transactions requiring shareholder approval or the approval of our board of directors. In addition, the consent of at least ten directors is required to increase or decrease the size of our board of directors, and the consent of at least seven directors, other than the Chief Executive Officer and the other management director participating, is required to terminate our Chief Executive Officer or appoint a replacement for that position. Notwithstanding these provisions, the parties to the Seagate Technology shareholders agreement have agreed that the composition and operation of our board of directors will be revised as necessary to permit us to comply with applicable law and the rules of the New York Stock Exchange. The provisions relating to the composition and operation of our board of directors will terminate on the date on which New SAC owns 50% or less of our issued and outstanding shares.

*Transfer Restrictions; Tag-Along Rights.* Prior to June 14, 2004, New SAC was not permitted to transfer any of our shares without the prior consent of Silver Lake Partners, Texas Pacific Group and our Chief Executive Officer. In addition, without the consent of Silver Lake Partners and Texas Pacific Group, prior to June 14, 2004 none of Stephen J. Luczo, our Chairman and former Chief Executive Officer, William D. Watkins, our President and Chief Executive Officer, or Charles C. Pope, our Chief Financial Officer could transfer any of our shares that they acquire through the exercise of employee stock options (other than the same day sales of such number of shares which generates net sales proceeds equal to the exercise price and tax obligations generated by such exercise). Between June 14, 2004 and December 14, 2006, New SAC will distribute all or part of our shares held by New SAC to the New SAC shareholders upon the request of either Silver Lake Partners or Texas Pacific Group. After December 14, 2006, any member of our sponsor group may request that New SAC distribute all of

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our shares that it continues to hold, if any, to New SAC's shareholders. In no event will New SAC make more than one distribution in any three-month period. Each of Silver Lake Partners, Texas Pacific Group, August Capital and Integral Capital Partners have customary tag-along rights with respect to any transfer by Silver Lake Partners, Texas Pacific Group or August Capital of shares representing 3% of our outstanding common shares.

*Registration Rights.* Subject to specified limitations, we have agreed to include any of our common shares owned by New SAC or any shareholder of New SAC, on a proportional basis, in any public offering of our common shares that takes place after June 12, 2003, by granting these persons unlimited piggyback registration rights, granting New SAC six demand registrations, granting each of Silver Lake Partners and Texas Pacific Group three demand registrations and granting August Capital one demand registration. In addition, after June 14, 2004, if our shares are held by New SAC, any of Silver Lake Partners, Texas Pacific Group or August Capital may exercise their demand rights by requiring that New SAC register any of our shares held by it.

On July 20, 2004, we filed a registration statement on Form S-3 with respect to 60 million of our common shares owned by New SAC, pursuant to New SAC's exercise of its demand registration rights under the Seagate Technology shareholders agreement. After the sale of the common shares covered by that registration statement, it is expected that affiliates of Silver Lake Partners, Texas Pacific Group, August Capital, J.P. Morgan Partners, LLC and investment partnerships affiliated with Goldman, Sachs & Co. will indirectly own approximately 15.3%, 10.6%, 5.5%, 3.2% and 1.1%, respectively, of our outstanding common shares through their ownership of New SAC (based on the number of our common shares outstanding as of August 27, 2004).

## **Consulting and Financial Service Fees**

We reimburse Silver Lake Partners for the fees and expenses incurred by them in providing us with specific consulting and financial services that we request of them from time to time. During fiscal year 2004 no such reimbursements were required to be made. Silver Lake Partners owns shares of New SAC representing approximately 31.8% of New SAC's total outstanding ordinary shares, and two of New SAC's board of directors (Messrs. Davidson and Hutchins) and two members of our board of directors (Messrs. Davidson and Hutchins) are principals of Silver Lake Partners. Texas Pacific Group owns shares of New SAC representing approximately 22.1% of New SAC's total outstanding ordinary shares, and one of New SAC's and our board members (Mr. Coulter) is a principal of Texas Pacific Group. August Capital owns shares of New SAC representing approximately 11.4% of New SAC's total outstanding ordinary shares, and one of New SAC's and our board members (Mr. Marquardt) is a co-founder of August Capital.

## **Indemnification Agreement and Reimbursement Agreement**

As part of the November 2000 transactions, at the same time that New SAC acquired the operating subsidiaries of Seagate Delaware, Seagate Delaware and VERITAS Software Corporation entered into an agreement and plan of merger and reorganization, under which VERITAS agreed to acquire the remainder of Seagate Delaware. In connection with this transaction, on March 29, 2000, New SAC entered into an indemnification agreement with Seagate Delaware and VERITAS. Under the indemnification agreement, New SAC and its subsidiaries jointly and severally agreed to indemnify Seagate Delaware and VERITAS and their affiliates from and against specified losses relating to taxes and other liabilities incurred as a result of the ownership and operation by Seagate Delaware and its predecessors or affiliates, other than VERITAS and its subsidiaries, of their businesses, properties and assets prior to, and certain conduct by New SAC and its affiliates after, the closing of the November 2000 transactions. In addition, Seagate Delaware, VERITAS and their affiliates jointly and severally agreed to indemnify New SAC and its subsidiaries from and against specified losses relating to taxes and other liabilities incurred as a result of their ownership and operation of their businesses, properties and assets prior to, and certain conduct by them after, the closing of the November 2000 transactions.

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On the closing of the November 2000 transactions, VERITAS deposited \$150 million of cash into an escrow account, which could be applied by New SAC to satisfy certain tax liabilities that were assumed by New SAC as



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part of the November 2000 transactions that relate to and for which New SAC would become liable, if at all, on completion of the tax audits of Seagate Delaware for those taxable periods beginning on or after July 1, 1999 and ending on or before the closing of the November 2000 transactions. To the extent that any part of the \$150 million were not utilized to satisfy these tax liabilities, it would be required to be paid out to the former Seagate Delaware stockholders.

In July 2002, we and those of our affiliates that were parties to the indemnification agreement entered into a reimbursement agreement for the purpose of allocating the respective liabilities and obligations under the indemnification agreement. Under the reimbursement agreement, if we and our affiliates became obligated to indemnify Seagate Delaware, VERITAS or any of their affiliates for tax liabilities under the indemnification agreement, Seagate Technology HDD Holdings (one of our subsidiaries) would be responsible for the first \$125 million of the tax liabilities, and any amount exceeding \$125 million would then be allocated among Seagate Technology HDD Holdings and certain of our affiliates on a pro rata basis, in accordance with the portion of the purchase price allocated to each entity in connection with the November 2000 transactions. For indemnification obligations other than tax liabilities under the indemnification agreement, the responsible entity would reimburse any entity that satisfied the obligation on its behalf to the extent that the claim is attributable to the responsible entity.

## **Transactions With Our Affiliates**

*Tax Allocation Agreement.* Our U.S. subsidiaries are or were included in certain U.S. state unitary and combined returns with Certance (US) Holdings, an indirect subsidiary of New SAC and one of our affiliates, and with Crystal Decisions, Inc., which was an indirect subsidiary of New SAC, and one of our affiliates, until its sale to a third party in December 2003. We entered into a state tax allocation agreement with these two entities effective as of November 23, 2000. Under the terms of the state tax allocation agreement, each company computes hypothetical tax returns (with certain modifications) as if the company was not included in combined returns with the other New SAC affiliates. Each company must pay the positive amount of any such hypothetical taxes. If the hypothetical tax returns show entitlement to refunds, including any refunds attributable to carrybacks, then the other New SAC affiliates will pay the company the amount of such refunds within 30 days of the close of the fiscal year the New SAC affiliate otherwise would have been able to utilize the net operating losses or tax credits on a separate return filing basis. As of September 3, 2004, there were no tax related amounts owed to or due from any New SAC affiliates.

*Supply Agreement with Xiotech Corporation.* On November 4, 2002, we sold Xiotech, one of our indirect subsidiaries, to New SAC. New SAC in turn sold 51% of Xiotech to a third party in a transaction in which Xiotech also sold newly issued shares to this third party. As a result, New SAC has retained an interest of less than 20% of Xiotech.

In connection with our sale of Xiotech, we entered into a supply agreement with Xiotech dated November 4, 2002 and amended on June 15, 2004, under which Xiotech may purchase rigid disc drives from us, and, as a result, we are one of Xiotech's largest suppliers. In fiscal year 2004, Xiotech made an aggregate of approximately \$8 million in purchases from us. Based upon current and expected purchasing volumes, we expect to continue to be a significant supplier to Xiotech. We are a guarantor on the real estate lease of Xiotech's corporate headquarters, which has annual rental payments of approximately \$1.4 million and expires in April 2007. Xiotech also reimburses us for the cost (approximately \$425,000 per year) of renting certain facilities used by them pursuant to a lease agreement which expires in June 2006.

*Rebranding of Certance Holdings.* In October 2002, we entered into an agreement with Seagate Removable Storage Solutions Holdings, now known as Certance Holdings, a direct subsidiary of New SAC, pursuant to which it and its subsidiaries agreed to discontinue their use of the Seagate brand and logo. In exchange, we agreed to reimburse Certance Holdings and its subsidiaries for up to \$1.5 million of out-of-pocket costs incurred in the course of rebranding their business. In fiscal year 2004 we reimbursed Certance Holdings for approximately \$585,000 of such expenses.



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**Transactions Involving Our Management**

Brian S. Dexheimer, who is one of our executive vice presidents, borrowed \$500,000 from our indirect subsidiary, Seagate Technology LLC, pursuant to a promissory note dated October 10, 2000. The principal of, and the accrued but unpaid interest on, this note will be due and payable on October 10, 2005. Interest on this note accrues at a rate of 8% per year but will be forgiven every year so long as Mr. Dexheimer remains employed by Seagate Technology LLC. Additionally, \$83,333 of the principal of the note will be forgiven on the second, third and fourth anniversaries of the effective date of the note as long as Mr. Dexheimer remains employed by Seagate Technology LLC. In the event that Mr. Dexheimer voluntarily resigns or is terminated for cause before October 10, 2005, all of the unforgiven principal plus any accrued interest will become immediately due and payable. If, however, Mr. Dexheimer is terminated as a result of a reduction in workforce initiated by Seagate Technology LLC or becomes deceased, then the principal amount of the note will be due and payable on October 10, 2005 and all interest will be forgiven. The maximum aggregate amount outstanding under this loan during fiscal year 2004 was \$450,000. As of September 3, 2004, \$333,334 of the principal amount of this loan was outstanding.

Patrick J. O Malley III, who is one of our senior vice presidents, borrowed \$500,000 from Seagate Technology LLC pursuant to a promissory note dated October 10, 2000. The principal of, and the accrued but unpaid interest on, this note will be due and payable on October 10, 2005. Interest on this note accrues at a rate of 8% per year but will be forgiven every year so long as Mr. O Malley remains employed by Seagate Technology LLC. Additionally, \$83,333 of the principal of the note will be forgiven on the second, third and fourth anniversaries of the effective date of the note as long as he remains employed by Seagate Technology LLC. In the event that Mr. O Malley voluntarily resigns or is terminated for cause before October 10, 2005, all of the unforgiven principal plus any accrued interest will become immediately due and payable. If, however, Mr. O Malley is terminated as a result of a reduction in workforce initiated by Seagate Technology LLC or becomes deceased, then the principal of the note will be due and payable on October 10, 2005, and all interest will be forgiven. The maximum aggregate amount outstanding under this loan during fiscal year 2004 was \$450,000. As of September 3, 2004, \$333,334 of the principal amount of this loan was outstanding.

Jeremy Tennenbaum, a former executive vice president of ours, borrowed \$1.2 million from Seagate Technology LLC pursuant to a promissory note dated February 12, 2001. The maximum aggregate amount outstanding under this loan during fiscal year 2004 was \$1,080,000. Effective August 13, 2004, Mr. Tennenbaum was terminated as a result of a reduction in workforce initiated by Seagate Technology LLC. Pursuant to the terms of the note, the outstanding principal balance of \$0.8 million will be due and payable on February 16, 2006, and all interest due on the note, which was accruing at a rate of 8% per year, has been forgiven.

Patrick Waite, a son of Donald L. Waite, our former Chief Administrative Officer, was employed by us as a Vice President of Finance until his resignation on February 20, 2004. His compensation for fiscal year 2004, up to the date of his resignation, was \$120,582.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Fees Paid to Independent Auditors**

The aggregate fees paid or accrued by Seagate Technology for professional services provided by Ernst & Young LLP in fiscal years 2004 and 2003 are set forth below.

**Fiscal Year**

	2004	2003
	(in thousands)	
Audit Fees	\$ 2,417	\$ 3,918
Audit-Related Fees	1,843	390
Tax Fees	2,885	2,647
All Other Fees	21	554
<b>Total</b>	<b>\$ 7,166</b>	<b>\$ 7,509</b>

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*Audit Fees.* This category includes the audit of our annual consolidated financial statements, the review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for fiscal years 2004 and 2003. This category also includes statutory audits required by non-U.S. jurisdictions and fees incurred in connection with the registration statements filed to register our common shares.

*Audit-Related Fees.* This category consists of assurance and related services provided by Ernst & Young LLP that were reasonably related to the performance of the audit or review of our financial statements and which are not reported above under *Audit Fees*. The services corresponding to the fees disclosed under this category include, for fiscal year 2004, Sarbanes-Oxley internal controls-related advisory activities; for fiscal years 2004 and 2003, benefit plan audits and advice on accounting matters that arose during those years in connection with the preparation of our financial statements; and for fiscal year 2003, the quarterly review and annual audit of the financial statements of one of our subsidiaries.

*Tax Fees.* This category consists of professional services provided by Ernst & Young LLP for tax services, including tax compliance, tax advice, tax planning and expatriate tax services.

*All Other Fees.* This category consists of fees for the use of Ernst & Young LLP's online accounting research tool for fiscal year 2004, and fees for advice on a state unclaimed funds audit for fiscal years 2003 and 2004.

In fiscal year 2004, 100% of all fees paid to Ernst & Young LLP by us were pre-approved by our Audit Committee. In fiscal year 2003, 100% of the audit fees, 39.5% (or approximately \$0.154 million) of the audit-related fees, and 12.9% (or approximately \$0.342 million) of the tax fees were pre-approved by our Audit Committee. No fees included in the caption *All Other Fees* were pre-approved by our Audit Committee for fiscal year 2003. As required by SEC rules, subject to certain permitted de minimis criteria, all professional services provided to us by Ernst & Young LLP during fiscal year 2003 on or after May 6, 2003 were pre-approved by our Audit Committee.

In making its decision to appoint Ernst & Young LLP as our independent auditors for the fiscal year ending July 1, 2005, our Audit Committee considered whether the services (other than audit and audit-related services) provided by Ernst & Young LLP were compatible with maintaining the independence of Ernst & Young LLP from us. Our Audit Committee determined that the provision of these services by Ernst & Young LLP is compatible with maintaining that independence.

### **Pre-Approval of Services by Independent Auditors**

Our Audit Committee charter requires the committee to pre-approve any audit or permitted non-audit services to be provided to us by our independent auditor, Ernst & Young LLP, in advance of such services being provided to us.

**Table of Contents****PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(a) The following documents are included as part of this Report:

1. Financial Statements. The following Consolidated Financial Statements of Seagate Technology and Report of Independent Auditors are included in Item 8:

<u>Consolidated Balance Sheets July 2, 2004 and June 27, 2003.</u>	60
<u>Consolidated Statements of Operations Fiscal Years Ended July 2, 2004, June 27, 2003 and June 28, 2002.</u>	61
<u>Consolidated Statements of Cash Flows Fiscal Years Ended July 2, 2004, June 27, 2003 and June 28, 2002.</u>	62
<u>Consolidated Statements of Shareholders Equity Fiscal Years Ended July 2, 2004, June 27, 2003 and June 28, 2002.</u>	63
<u>Notes to Consolidated Financial Statements.</u>	64
<u>Report of Independent Registered Public Accounting Firm</u>	102

2. Financial Statement Schedules. All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or in the notes thereto.

3. Exhibits:

**Exhibit****Number****Description**

2.1	Stock Purchase Agreement, dated as of March 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc. and Seagate Software Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.2	Agreement and Plan of Merger and Reorganization, dated as of March 29, 2000, by and among VERITAS Software Corporation, Victory Merger Sub, Inc. and Seagate Technology, Inc. (incorporated by reference to Exhibit 2.2 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.3	Indemnification Agreement, dated as of March 29, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and Suez Acquisition Company (Cayman) Limited (incorporated by reference to Exhibit 2.3 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.4	Joinder Agreement to the Indemnification Agreement, dated as of November 22, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and the SAC Indemnitors listed therein (incorporated by reference to Exhibit 2.4 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.5	Consolidated Amendment to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of August 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.5 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)



**Table of Contents****Exhibit**

<b>Number</b>	<b>Description</b>
2.6	Consolidated Amendment No. 2 to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of October 18, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.6 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.7	Letter Agreement, dated as of March 29, 2000, by and between VERITAS Software Corporation and Suez Acquisition Company (Cayman) Limited (incorporated by reference to Exhibit 2.7 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.8	Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOTech Corporation (incorporated by reference to Exhibit 2.8 to amendment no. 6 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)
2.9	Amendment No. 1, dated as of October 31, 2002, to the Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOTech Corporation (incorporated by reference to Exhibit 2.9 to amendment no. 6 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)
3.1	Second Amended and Restated Memorandum of Association of Seagate Technology (formerly known as Seagate Technology Holdings) (incorporated by reference to Exhibit 3.1 to the registrant's quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 10, 2003)
3.2	Second Amended and Restated Articles of Association of Seagate Technology (formerly known as Seagate Technology Holdings) (incorporated by reference to Exhibit 3.2 to the registrant's quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 10, 2003)
4.1	Form of 8% Senior Notes due 2009 (incorporated by reference to Exhibit 4.1 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.2	Indenture, dated as of May 13, 2002, by and among Seagate Technology HDD Holdings, Seagate Technology Holdings and U.S. Bank, N.A. (incorporated by reference to Exhibit 4.2 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.3	Registration Rights Agreement, dated as of May 13, 2002, by and among Seagate Technology HDD Holdings, Seagate Technology Holdings, Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Smith Barney Inc. (incorporated by reference to Exhibit 4.3 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.4	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.4 to amendment no. 1 to the registrant's registration statement on Form S-1 (reg. no. 333-100513) filed with the SEC on November 8, 2002)



**Table of Contents****Exhibit****Number****Description**

- 4.5 Shareholders Agreement by and among Seagate Technology Holdings, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners, L.L.C., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the Shareholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.5 to the registrant's quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 10, 2003)
- 4.6 Amendment, dated as of April 23, 2004, to the Shareholders Agreement dated as of December 6, 2002, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto (incorporated by reference to Exhibit 4.6 to the registrant's registration statement on Form S-3 (reg. no. 333-117517) filed with the SEC on July 20, 2004)
- 4.7\* Second Amendment, dated as of September 2, 2004, to the Shareholders Agreement dated as of December 6, 2002, as amended by the first Amendment to the Shareholders Agreement dated as of April 23, 2004, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto
- 10.1 Credit Agreement, dated as of May 13, 2002, by and among Seagate Technology Holdings, Seagate Technology HDD Holdings, Seagate Technology (US) Holdings, Inc., the Lenders party thereto, JPMorgan Chase Bank, as administrative agent, J.P. Morgan Securities Inc., as joint bookrunner and co-lead arranger, Morgan Stanley Senior Funding, Inc., as syndication agent, joint bookrunner and co-lead arranger, Citicorp USA, Inc., as documentation agent, Merrill Lynch Capital Corporation, as documentation agent, and Credit Suisse First Boston, as documentation agent (incorporated by reference to Exhibit 10.1 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
- 10.2(a) Form of Employment Agreement by and between Seagate Technology (US) Holdings, Inc. and the Executive listed therein (incorporated by reference to Exhibit 10.2(a) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
- 10.2(b) Amended and Restated Employment Agreement, dated as of July 3, 2004, by and between Seagate Technology (US) Holdings, Inc. and Stephen J. Luczo (incorporated by reference to Exhibit 10.2(b) to the registrant's annual report on Form 10-K (file no. 001-31560) filed with the SEC on August 10, 2004)
- 10.2(c) Employment Agreement, dated as of February 2, 2001, by and between Seagate Technology (US) Holdings, Inc. and William D. Watkins (incorporated by reference to Exhibit 10.2(c) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)

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<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
10.3(a)	Form of Management Retention Agreement by and between the Employee listed therein and Seagate Technology, Inc. (incorporated by reference to Exhibit 10.3(a) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.3(b)	Management Retention Agreement, dated November 1998, by and between Seagate Technology, Inc. and Stephen J. Luczo (incorporated by reference to Exhibit 10.3(b) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.4	Management Participation Agreement, dated as of March 29, 2000, by and among Seagate Technology, Inc., Suez Acquisition Company (Cayman) Limited and the Senior Managers party thereto (incorporated by reference to Exhibit 10.4 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.5	Form of Rollover Agreement, dated as of November 13, 2000, by and among New SAC, Seagate Technology HDD Holdings and the Senior Manager listed therein (incorporated by reference to Exhibit 10.5 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.6	Seagate Technology HDD Holdings Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.7(a)	New SAC 2000 Restricted Share Plan (incorporated by reference to Exhibit 10.7(a) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.7(b)	Form of New SAC 2000 Restricted Share Agreement (incorporated by reference to Exhibit 10.7(b) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.8(a)	New SAC 2001 Restricted Share Plan (incorporated by reference to Exhibit 10.8(a) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.8(b)	Form of New SAC 2001 Restricted Share Agreement (Tier 1 Senior Managers) (incorporated by reference to Exhibit 10.8(b) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.8(c)	Form of New SAC 2001 Restricted Share Agreement (Other Employees) (incorporated by reference to Exhibit 10.8(c) to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.9	Seagate Technology Holdings 2001 Share Option Plan (incorporated by reference to Exhibit 10.9 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.10	Shareholders Agreement, dated as of November 22, 2000, by and among New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., Chase Equity Associates, L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed therein (incorporated by reference to Exhibit 10.10 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.11	Management Shareholders Agreement, dated as of November 22, 2000, by and among New SAC and the Management Shareholders listed therein (incorporated by reference to Exhibit 10.11 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)

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<b>Number</b>	<b>Description</b>
10.12	Disc Drive Research and Development Cost Sharing Agreement, dated as of June 29, 1996, by and among Seagate Technology, Inc., Seagate Technology International, Seagate Technology (Ireland), Seagate Technology (Clonmel), Seagate Technology International (Wuxi) Co., Ltd., Seagate Microelectronics Limited and Seagate Peripherals, Inc. (incorporated by reference to Exhibit 10.12 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.13	World-Wide Services Agreement, dated as of July 1, 1993, by and among Seagate Technology, Inc. and Seagate Technology International (incorporated by reference to Exhibit 10.13 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.14	Promissory Note, dated as of May 8, 1998, by and between Seagate Technology, Inc., as lender, and David Wickersham, as borrower (incorporated by reference to Exhibit 10.14 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.15	Promissory Note, dated as of October 10, 2000, by and between Seagate Technology LLC, as lender, and Brian Dexheimer, as borrower (incorporated by reference to Exhibit 10.15 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.16	Promissory Note, dated as of February 16, 2001, by and between Seagate Technology LLC, as lender, and Jeremy Tennenbaum, as borrower (incorporated by reference to Exhibit 10.16 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.17	Purchase Agreement, dated as of May 3, 2002, by and among Seagate Technology HDD Holdings, Seagate Technology Holdings and Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc. and the other initial purchasers named therein (incorporated by reference to Exhibit 1.1 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
10.18	Form of Indemnification Agreement between Seagate Technology Holdings and the director or officer named therein (incorporated by reference to Exhibit 10.17 to amendment no. 1 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on July 5, 2002)
10.19	Reimbursement Agreement, dated as of July 1, 2002, by and among New SAC and its subsidiaries party thereto (incorporated by reference to Exhibit 10.19 to the registrant's registration statement on Form S-1 (reg. no. 333-100513) filed with the SEC on October 11, 2002)
10.20	Promissory Note, dated as of October 10, 2000, by and between Seagate Technology LLC, as lender, and Patrick J. O'Malley III and Patricia A. O'Malley, as borrowers (incorporated by reference to Exhibit 10.19 to amendment no. 7 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 18, 2002)
10.21	Amendment No. 1, dated December 5, 2002, to the Credit Agreement, dated as of May 13, 2002, by and among Seagate Technology Holdings, Seagate Technology HDD Holdings, Seagate Technology (US) Holdings, Inc., the Lenders party thereto, JPMorgan Chase Bank, as administrative agent, J.P. Morgan Securities Inc., as joint bookrunner and co-lead arranger, Morgan Stanley Senior Funding, Inc., as syndication agent, joint bookrunner and co-lead arranger, Citicorp USA, Inc., as documentation agent, Merrill Lynch Capital Corporation, as documentation agent, and Credit Suisse First Boston, as documentation agent (incorporated by reference to Exhibit 10.20 to amendment no. 9 to the registrant's registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on December 6, 2002)

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<b>Number</b>	<b>Description</b>
10.22	Amendment No. 2, dated January 28, 2004, to the Credit Agreement, dated as of May 13, 2002, by and among Seagate Technology Holdings, Seagate Technology HDD Holdings, Seagate Technology (US) Holdings, Inc., the Lenders party thereto, JPMorgan Chase Bank, as administrative agent, J.P. Morgan Securities Inc., as joint bookrunner and co-lead arranger, Morgan Stanley Senior Funding, Inc., as syndication agent, joint bookrunner and co-lead arranger, Citicorp USA, Inc., as documentation agent, Merrill Lynch Capital Corporation, as documentation agent, and Credit Suisse First Boston, as documentation agent (incorporated by reference to Exhibit 10.22 to the registrant's quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 3, 2004)
10.23	Seagate Technology Annual Incentive Bonus Plan (incorporated by reference to Exhibit 10.23 to the registrant's quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on May 3, 2004)
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the registrant's annual report on Form 10-K (file no. 001-31560) filed with the SEC on August 21, 2003)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the registrant's annual report on Form 10-K (file no. 001-31560) filed with the SEC on August 10, 2004)
23.1*	Consent of Independent Registered Public Accounting Firm
24.1	Powers of Attorney (incorporated by reference to Exhibit 24.1 to the registrant's annual report on Form 10-K (file no. 001-31560) filed with the SEC on August 10, 2004)
31.1*	Certification of the Chief Executive Officer pursuant to rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

(b) Reports on Form 8-K

On April 6, 2004, the registrant furnished a Current Report on Form 8-K with regard to its update of previously provided results of operations guidance for the third fiscal quarter ended April 2, 2004. On April 20, 2004, the registrant furnished a Current Report on Form 8-K with regard to the announcement of its financial results for the third fiscal quarter ended April 2, 2004. On April 30, 2004, the registrant filed a Current Report on Form 8-K with regard to the announcement that it will separate the roles of its Chairman and Chief Executive Officer with Bill Watkins succeeding Steve Luczo as CEO effective July 3, 2004. Additionally, the registrant announced the resignation of David Bonderman from its board of directors and the naming of Gregorio Reyes and Lydia Marshall as new members effective April 29, 2004. On June 2, 2004, the registrant furnished a Current Report on Form 8-K with regard to its in-quarter business update for the fourth fiscal quarter ending July 2, 2004.

(c) See Item 15(a)(3) above.

(d) See Item 15(a)(2) above.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

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(William D. Watkins, Chief Executive Officer)

Dated: September 3, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* <hr/> <b>(William D. Watkins)</b>	Chief Executive Officer, President and Director (Principal Executive Officer)	September 3, 2004
/s/ CHARLES C. POPE <hr/> <b>(Charles C. Pope)</b>	Executive Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	September 3, 2004
* <hr/> <b>(Karen M. Rogge)</b>	Vice President, Corporate Finance (Principal Accounting Officer)	September 3, 2004
* <hr/> <b>(Stephen J. Luczo)</b>	Chairman of the Board of Directors	September 3, 2004
* <hr/> <b>(William W. Bradley)</b>	Director	September 3, 2004

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
*	Director	September 3, 2004
<hr/>		
<b>(James G. Coulter)</b>		
*	Director	September 3, 2004
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<b>(James A. Davidson)</b>		
*	Director	September 3, 2004
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<b>(Glenn H. Hutchins)</b>		
*	Director	September 3, 2004
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<b>(Donald E. Kiernan)</b>		
*	Director	September 3, 2004
<hr/>		
<b>(David F. Marquardt)</b>		
*	Director	September 3, 2004
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<b>(Lydia Marshall)</b>		
*	Director	September 3, 2004
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<b>(Gregorio Reyes)</b>		
*	Director	September 3, 2004
<hr/>		
<b>(John W. Thompson)</b>		
*	Director	September 3, 2004
<hr/>		
<b>(Edward J. Zander)</b>		

\*By:            /s/ CHARLES C. POPE  
                   **(Charles C. Pope)**

Attorney-in-Fact