SEAGATE TECHNOLOGY
Form 10-K
August 13, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 27, 2008

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

SEAGATE TECHNOLOGY

(Exact name of Registrant as specified in its charter)

Cayman Islands	**98-0355609**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

P.O. Box 309GT

Ugland House, South Church Street

George Town, Grand Cayman, Cayman Islands

(Address of principal executive offices)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value $0.00001 per share	**New York Stock Exchange**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES ¨ NO x

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. x

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

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

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

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant owning 5% or more of the registrant s outstanding common shares as of December 28, 2007, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $10.9 billion based upon a closing price of $25.85 reported for such date by the New York Stock Exchange.

The number of outstanding common shares of the registrant as of August 7, 2008 was 487,883,913.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be delivered to shareholders in connection with our 2008 Annual Meeting of Stockholders (the Proxy Statement) are incorporated herein by reference in Part III.

Table of Contents

SEAGATE TECHNOLOGY

TABLE OF CONTENTS

Item		Page No.
	PART I	
1.	Business	5
1A.	Risk Factors	21
1B.	Unresolved Staff Comments	36
2.	Properties	36
3.	Legal Proceedings	36
4.	Submission of Matters to a Vote of Security Holders	36
	PART II	
5.	Market for Registrant s Common Shares, Related Shareholder Matters and Issuer Purchases of Equity Securities	37
6.	Selected Financial Data	40
7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
7A.	Qualitative and Quantitative Disclosures About Market Risk	68
8.	Financial Statements and Supplementary Data	71
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	140
9A.	Controls and Procedures	140
9B.	Other Information	140
	PART III	
10.	Directors, Executive Officers of the Registrant and Corporate Governance	141
11.	Executive Compensation	141
12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	141
13.	Certain Relationships, Related Transactions and Director Independence	141
14.	Principal Accountant Fees and Services	141
	PART IV	
15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	142
	SIGNATURES	146

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Annual Report on Form 10-K (the Form 10-K), unless the context indicates otherwise, as used herein, the terms we, us, Seagate Comp and our refer to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands, and its subsidiaries. References to $ are to United States dollars.

We have compiled the market share, market size and competitive ranking data in this Form 10-K using statistics and other information obtained from several third-party sources.

Various amounts and percentages used in this Form 10-K have been rounded and, accordingly, they may not total 100%.

We own or otherwise have rights to the trademarks and trade names, including those mentioned in this Form 10-K, used in conjunction with the marketing and sale of our products.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 10-K that are not historical facts, particularly in Item 1. Business, Item 1A. Risk Factors, Item 3. Legal Proceedings, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management s current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors:

- the impact of the variable demand and the aggressive pricing environment for disc drives, particularly in view of current domestic and global economic uncertainty;
- our dependence on our ability to successfully qualify, manufacture and sell our disc drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disc drive products with lower cost structures;
- the impact of competitive product announcements and possible excess industry supply with respect to particular disc drive products;
- market conditions;
- our ability to achieve potential cost savings from restructuring activities; and
- alternative cash imperatives which could impact our ability to repurchase stock.

Such forward-looking statements are based on current expectations, forecasts and assumptions involve a number of risks and uncertainties that could cause actual risks to differ materially and adversely from those anticipated by such forward-looking statements. Such risks and uncertainties include a variety of factors, some of which are beyond our control. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as believes, expects, may, are expected to, will, will continue, should, would be, seeks or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth and are discussed in more detail in Item 1A. Risk Factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Annual Report on Form 10-K as anticipated, believed or expected. We do not intend, and do not

Table of Contents

assume any obligation, to update any industry information or forward-looking statements set forth in this Annual Report on Form 10-K to reflect subsequent events or circumstances. We encourage you to read that section in this Form 10-K carefully.

Unfavorable changes in the above or other factors listed under Item 1A. Risk Factors from time to time in our Securities and Exchange Commission (SEC) filings, could have a material adverse effect on our business, and financial condition and/or results of operations.

Table of Contents

PART I

ITEM 1. BUSINESS

We are the world s leading provider of hard disc drives, based on revenue and units shipped. We design, manufacture, market and sell hard disc drives. Hard disc drives, commonly referred to as disc drives or hard drives, are devices that store digitally encoded data on rapidly rotating platters or discs with magnetic surfaces. The performance attributes of disc drives, including their cost effectiveness and high storage capacities has resulted in disc drives being used as the primary medium for storing electronic data in systems ranging from desktop and notebook computers, and consumer electronics devices to data centers delivering electronic data over corporate networks and the Internet.

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

We sell our disc drives primarily to major original equipment manufacturers (OEMs) and we also market to distributors under our globally recognized brand names. We have longstanding relationships with many of our OEM customers including Hewlett-Packard Company (HP), Dell Inc. (Dell), EMC Corporation (EMC), International Business Machines Corporation (IBM) and Lenovo Group Limited (Lenovo). For the fiscal years 2008, 2007 and 2006 approximately 67%, 64% and 72%, respectively, of our disc drive revenue was from sales to OEMs. We also have key relationships with major distributors who sell our disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world. Shipments to distributors were approximately 26%, 30% and 25% of our disc drive revenue in fiscal years 2008, 2007 and 2006, respectively. Retail sales of our branded storage products in fiscal year 2008, as a percentage of our disc drive revenue, were 7%, compared to 6% and 3% in fiscal years 2007 and 2006, respectively. For fiscal years 2008, 2007 and 2006, approximately 30% of our disc drive revenue came from customers located in North America, approximately 27% came from customers located in Europe and approximately 43% came from customers located in the Far East. The only customer exceeding 10% of our disc drive revenue for fiscal years 2006 through 2008 was HP. Dell exceeded 10% of our disc drive revenue in fiscal years 2008 and 2006. Substantially all of our revenue is denominated in U.S. dollars.

Industry Overview

Electronic Data Storage Industry

The electronic data storage industry is comprised of companies that provide storage solutions through a variety of technologies such as disc drives, tape storage, as well as semiconductor-based storage technologies such as flash memory. Participants in the electronic data storage industry include:

Major subcomponent manufacturers. Companies that manufacture components or subcomponents used in electronic data storage devices or solutions include companies such as TDK Corporation (TDK), Fuji Electric Device Technology Co., Ltd. (Fuji), and Showa Denko K.K. (Showa), that supply heads and media to disc drive manufacturers as well as semiconductor companies such as Samsung Electronics Co. Ltd

(Samsung), SanDisk Corporation (SanDisk), Micron Technology, Inc. (Micron), and Intel Corporation (Intel), who each manufacture flash memory.

Hardware storage solutions manufactures. Companies that transform components into storage products include disc drive manufacturers such as Seagate Technology, Western Digital Corporation (Western Digital),

Table of Contents

Samsung, Fujitsu Limited (Fujitsu), Hitachi Global Storage Technologies (Hitachi) and Toshiba Corporation (Toshiba), magnetic tape storage manufacturers such as Quantum Corporation (Quantum), and semiconductor storage manufacturers such as Samsung, SanDisk, STEC Inc. (STEC), and Intel, whose operations include integrating flash memory into storage products such as solid state drives (SSDs). SSDs are storage applications that use flash technology as an alternative to disc drives.

System integrators. Companies that bundle and package storage components such as storage hardware and software into end-user, consumer electronics or enterprise applications include OEMs such as HP, Dell, Acer Inc., Lenovo and Apple, Inc. (Apple); consumer electronics OEMs such as Apple, Sony, Microsoft Corporation (Microsoft), Motorola, Inc. (Motorola), Directv Group, Inc., Tivo Inc. and Scientific-Atlanta Inc., a subsidiary of Cisco Systems Inc. company; enterprise storage system OEMs such as HP, EMC and Network Appliance, Inc. (Net App); and distributors who in turn integrate storage hardware and software into end user applications.

Storage services. An emerging area within the electronic data storage industry is services and solutions related to the backup, archiving, recovery and discovery of electronic data.

Demand for Electronic Data Storage

The electronic data storage industry has traditionally been focused on compute applications for the enterprise market. We believe that technological advances in storage technology and a proliferation of non-compute applications in the consumer electronics market such as digital video recorders (DVRs), gaming devices, digital music players and digital cameras is increasingly driving the broad, global proliferation of digital content through the:

- *creation and sharing* of all types of digital content, including digital photos, video, movies and music by consumers and electronic data by enterprises;
- *aggregation and distribution* of digital content through services and other offerings by companies such as YouTube by Google Inc. (Google), Flickr by Yahoo! Inc. (Yahoo), iTunes by Apple and MySpace by News Corporation (News Corp.);
- *network infrastructure*, including broadband, cable and satellite that has enabled the access, hosting and distribution of such digital content;
- *enjoyment and consumption* of digital content through DVRs, handheld applications, gaming consoles and in automobiles; and
- *protection* of digital content through storage on backup devices and storage services.

We believe that growth in digital content is being driven by: media-rich content, such as high definition video, digital photos, movies and music; an increase in user generated content, such as online video sharing, blogging and podcasting; the digitization of content previously stored in analog format such as paper filing systems; the duplication of content in multiple locations, including consumers replication of digital photos, video and other media. As a result of these factors, the nature and amount of content being created requires increasingly higher storage capacity in order to store, manage, distribute, utilize and back up such content. This in turn has resulted in the rapid growth in demand for electronic data storage applications and solutions.

We believe that demand for electronic data storage in the enterprise and traditional compute markets continues to grow as increasing legal and regulatory requirements and changes in the nature and amount of data being stored has necessitated additional storage. Additionally, the proliferation of digital content in the consumer space has resulted in additional demand for storage by enterprises, including those that host, aggregate, distribute or share such content.

Table of Contents

Demand for Disc Drives

While the disc drive industry has traditionally been focused on applications for the enterprise and compute markets, we believe advances in disc drive capacity, cost per gigabyte, power and ruggedness have enabled growth in demand for digital content. These technological advances, as well as a proliferation of non-compute applications in the consumer electronics market, has increased the demand for disc drives used in consumer electronics applications or has indirectly driven the demand for additional disc drives to store, host or back up related media content created by such applications.

Disc drives are presently the most common storage solution in enterprise, desktop, mobile and higher capacity consumer electronics applications. We are particularly focused on the following areas of growing demand for disc drives:

Disc Drives for Mobile Computing. The mobile computing market is growing faster than the market for desktop computers as price and performance continue to improve. Notebook systems are increasingly becoming the preference for both consumers and enterprises as the need for mobility increases and wireless adoption continues to advance. We estimate that in fiscal year 2008, industry disc drive shipments for mobile compute applications grew approximately 45% from fiscal year 2007.

The disc drive industry has recently seen the introduction of alternative technologies that directly compete with mobile disc drives. For example, certain manufacturers have introduced SSDs, using flash memory technology, which is an alternative to disc drives in certain applications. Due to the high capital requirements and capacity required to manufacture flash memory, we believe the perceived benefits of SSDs are not currently realized at an attractive cost relative to hard disc drives, particularly in higher capacity applications. We believe that the market for these alternative technologies is still developing and because of the current high cost per gigabyte of these storage solutions, we do not expect these solutions to have a significant near-term impact on the overall market for disc drives for mobile computing.

Disc Drives for Enterprise Storage. The need to address the expansion in data storage management requirements has spurred the evolution of new storage and data management technologies for both mission critical and business critical enterprise storage.

Mission critical enterprise storage is defined by the use of high performance, high capacity disc drives for use in applications which are vital to the operation of enterprises. We expect the market for mission critical enterprise storage solutions to grow, driven by many enterprises continuing to move network traffic to dedicated storage area networks (SANs). In addition, many enterprises are moving away from the use of server-attached storage to network-attached storage (NAS). Both of these solutions are comprised principally of high performance, high capacity disc drives with sophisticated software and communications technologies. In addition, many enterprises are also consolidating data centers, aiming to increase speed and reliability within a smaller space, reducing network complexity and increasing energy savings, which has led to an increased demand for more energy efficient, small form factor disc drives. SSD storage applications have been introduced as a potential alternative to redundant system startup or boot disc drives. In addition, enterprises are considering the use of SSDs in applications where rapid processing is required for high volume transaction data. The timing of the adoption of SSDs in these applications is currently unknown as enterprises weigh the cost benefits of mission critical enterprise disc drives relative to the perceived performance benefits of SSDs.

Business critical enterprise storage is an emerging and growing application in enterprise storage whereby enterprises are using higher capacity disc drives to store less frequently accessed, less time-critical, but capacity-intensive data. Because of recent decreases in cost per gigabyte, business critical electronic data, which historically has been stored on tape or other backup and archival technologies, are now being stored on these high capacity disc drives. In the long-term, however, we believe that this trend towards business critical systems that utilize high capacity, enterprise class serial advanced technology architecture (SATA) and serial attached small computer system interface (SAS) will, in addition to

expanding the overall enterprise market, likely shift some demand from disc drives used in traditional mission critical enterprise storage.

Table of Contents

Disc Drives for Branded Solutions. We believe that the proliferation of media-rich digital content has increased consumer demand for storage to augment their current desktop or notebook disc drive capacities. Consumers are also using external branded storage solutions to backup and secure data in case of disaster or system failure.

Disc Drives for Desktop Computing. We believe growth in disc drives for desktop computing has recently moderated, in part due to the growth in demand for notebook computers, particularly in developed countries. We believe that current growth in demand for disc drives in desktop computing is focused on developing markets where price remains a primary consideration. Demand for inexpensive, high capacity external storage has also driven growth of 3.5-inch desktop disc drives.

Disc Drives for Consumer Electronics. Disc drives in the consumer electronics markets are primarily used in high-capacity solutions, such as DVRs, that require more storage capability than can be provided in a cost-effective manner through alternative technologies such as flash memory, which is used in lower capacity consumer electronics applications. We believe the demand for disc drives in consumer electronics will become more pronounced with the increased amount of high definition content that requires larger amounts of storage capacity. Although solid state or flash memory has largely replaced disc drives in handheld applications, we believe that the demand for disc drives to store, hold or back up related media content from such handheld devices, continues to grow.

Success in the Disc Drive Industry Depends on Technology and Manufacturing Leadership, High Levels of Capital and Research and Development Investments and Large Scale Operations

The design and manufacturing of disc drives depends on highly advanced technology and manufacturing techniques, especially in the areas of read/write heads and recording media, thereby requiring high levels of capital and significant research and development investments. Disc drive manufacturers are distinguished by their level of vertical integration, which is the degree to which they control the technology used in their products, and by whether they are captive, producing disc drives for their own computer systems, or independent, producing disc drives as a stand-alone product. Integrated manufacturers are companies that design and produce the critical technologies, including read/write heads and recording media, used in their 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. We believe the competitive dynamics of the 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.

Due to the significant challenges posed by the need to continually innovate and improve manufacturing efficiency and because of the increasing amounts of capital and research and development investments required, the disc drive industry has undergone significant consolidation as disc drive manufacturers and component manufacturers merged with other companies or exited the industry. Through such combinations, disc drive manufacturers have also become increasingly vertically integrated. While recent combinations have limited the opportunity for additional industry consolidation, the increasing technological challenges, associated levels of investment and competitive necessity of large-scale operations, may still drive future industry consolidation.

Disc Drive Technology

Overview

All of our disc drive products incorporate certain components, including a head disc assembly and a printed circuit board, which are sealed inside a rigid base and top cover containing these components in a contamination controlled environment.

Table of Contents

The head disc assembly consists of one or more discs 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 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 casing.

The printed circuit board contains standard and custom application specific integrated circuits (ASICs) and ancillary electronic control chips. ASICs move data to and from the read/write head and the internal controller, or interface, which communicates with the host computer. The ASICs and control chips form an electronic circuitry that delivers instructions to a head positioning mechanism called an actuator to guide the heads to the selected track of a disc where the data is recorded or retrieved. Disc drive manufacturers typically use one or more of several industry standard interfaces such as advanced technology architecture (ATA); SATA, which provides higher data transfer rates than the previous ATA standard; small computer system interface (SCSI); SAS; and Fibre Channel.

Disc Drive Performance

Disc drive performance is commonly differentiated by six key characteristics:

- storage capacity, commonly expressed in gigabytes (GB) or terabytes (TB), which is the amount of data that can be stored on the disc;
- spindle rotation speed, commonly expressed in revolutions per minute (RPM), 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 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

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. The capacity of a disc drive is determined by the number of discs it contains as well as the areal density of these discs. We expect the long-term demand for increased disc drive capacities will continue to grow proportionately with the shift in storage applications from predominantly compute applications to more media-rich content. In particular, audio, video and photo storage data continue to

increase in size, with high definition video content an example of data requiring many multiples of the storage capacity of standard video. We believe that demand will further intensify by the proliferation of these forms of content. We have pursued, and expect to continue to pursue, a number of technologies to increase areal densities across the entire range of our products to increase disc drive capacities allowing us to use fewer discs per disc drive and potentially reduce product costs overtime.

Manufacturing

We pursue a vertically integrated business strategy based on the ownership of critical component technologies, allowing us to maintain control over our product roadmap and component cost, quality and availability. We believe that because of our vertical design and manufacturing strategy, we are well suited to

Table of Contents

meet the challenges posed by the close interdependence of components for disc drives. Our manufacturing efficiency and flexibility are critical elements of our integrated business strategy. We continuously seek to improve our manufacturing efficiency and cost by:

- employing manufacturing automation to enhance our efficiency and flexibility;
- improving product quality and reliability, and reducing costs;
- integrating our supply chain with suppliers and customers to enhance our demand visibility and reduce our working capital requirements;
- coordinating between our manufacturing group and our research and development organization to rapidly achieve volume manufacturing; and
- rationalizing the facilities we operate and reducing the number of personnel we employ.

Manufacturing our disc drives is a complex process that begins with the production of individual components and ends with a fully assembled unit. We design, fabricate and/or assemble a number of the most important components found in our disc drives, including read/write heads and recording media. Our design and manufacturing operations are based on technology platforms that are used to produce various disc drive products that serve multiple disc drive applications and markets. As an example, our 3.5-inch SATA disc drive with perpendicular recording technology platform is sold to customers for use in desktop, enterprise and consumer electronics applications. Our main technology platforms are primarily focused around areal density of media and read/write head technologies. Our integrated platform technologies and manufacturing allow our set of disc drive products to be used in a wide range of electronic data storage applications and in a wide range of industries.

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, though challenges in magnetic film properties and topographical structures are unique to the disc drive industry. Beginning with six and eight-inch round ceramic wafers, we process more than 30,000 head elements at one time. Each of these head elements goes through more than 500 steps, all in clean room environments. We have upgraded our fabrication facilities in capital equipment and systems to deliver the required complexity and precision needed to complete our product transition to perpendicular recording technology, which we achieved during fiscal year 2008. Additional capital investments will be driven primarily by volume. We perform all primary stages of design and manufacture of read/write heads at our facilities. We currently manufacture all of our read/write heads. We are currently evaluating third party read/write head for use in future products.

Recording Heads and Media. The percentage of our requirements for recording media that we produce internally varies from quarter to quarter. Our long-term strategy is to externally purchase approximately 10% of total recording media requirements. In July 2008, we announced the proposed closure of our recording media manufacturing facility in Milpitas, California. The closure is part of our ongoing focus on cost-efficiencies in all areas of our business. We plan to cease production at the Milpitas manufacturing facility in October 2008. We are continuing to expand our recording media production facilities in Singapore. We expect meaningful output from our new media facility in Singapore beginning the first quarter of fiscal year 2009 and we believe we will have adequate internal and external supply plans in place to support our requirements. Similar to our long-term strategy on recording media supply, our future plans include the evaluation and external purchase of approximately 10% of recording heads requirements.

We purchase all of our glass substrates from third parties (mainly in Japan), which are used to manufacture our disc drives for mobile and small form factor consumer electronics products. Historically, we purchase approximately 70% of our aluminum substrates for recording media production from third parties. In December 2007, we announced the proposed closure of our substrate manufacturing facility in Limavady, Northern Ireland.

Table of Contents

The proposed closure is part of our ongoing focus on cost-efficiencies in all areas of our business. We plan to cease production at our Limavady facility during the first quarter of fiscal year 2009. We are in the process of adding an aluminum substrate manufacturing facility in Johor, Malaysia which will allow us to be more cost competitive and position us for future expansion, and reduce our external substrate purchases to approximately 50%. We expect meaningful output from our Johor facility in during the first quarter of fiscal year 2009.

Commodity and Other Manufacturing Costs. The production of disc drives requires precious metals, scarce alloys and industrial commodities, that are subject to fluctuations in prices, and the supply of which has at times been constrained. Recent increases in the price of many commodities have resulted in higher material costs for our products. Additionally, adverse economic conditions such as rising fuel costs may further increase our costs related to commodities, manufacturing and freight. Should we not be able to pass these increased costs onto our customers, our gross margins may be impacted.

In order to mitigate susceptibility to these conditions, we may maintain increased inventory of precious metals, scarce alloys and industrial commodities. In addition, we have increased our use of ocean shipments to help offset the increase in freight costs.

Printed Circuit Boards. Printed circuit boards are the boards that contain the electronic circuitry and ASICs that provide the electronic controls of the disc drive and on which the head-disc assembly is mounted. During fiscal year 2008, we completed the outsourcing of the manufacture and assembly of the printed circuit boards used in our disc drives to third parties.

Spindle Motors. We participate in the design of many 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 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.

Disc Drive Assembly. Following the production of the individual components of the disc drive, the first step in the manufacture of a 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. Disc drive assembly and test operations occur primarily at facilities located in China, Singapore and Thailand. 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, Thailand and Vietnam, in Europe and the United States.

Products

We offer a broad range of disc drive products for the enterprise, mobile computing, desktop, consumer electronics and branded solutions markets of the disc drive industry. We now utilize perpendicular recording technology in all the major markets described below. In addition, we intend to introduce SSD products for select markets in the future.

We offer more than one product within each product family, and differentiate products on the basis of price/performance and form factor, the dimensions of the disc drive, capacity, interface, power consumption efficiency, security features like full disc encryption and other customer integration requirements. More than ever, our industry is characterized by continuous and significant advances in technology, which contributes to rapid product life cycles. We list below our main current product offerings.

Table of Contents

Enterprise Storage

Cheetah SCSI/SAS/Fibre Channel Family. Our Cheetah 3.5-inch disc drives ship in 10,000 and 15,000 RPM and in storage capacities ranging from 36GB to 450GB. Commercial uses for Cheetah 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 SCSI/SAS/Fibre Channel Family. Savvio, our 2.5-inch enterprise disc drives designed to enable space optimization, maximized performance and availability, ships in 10,000 and 15,000 RPM and in storage capacities ranging from 36GB to 146GB. This disc drive allows the installation of more disc drives per square foot, thus facilitating faster access to data. We believe that end-user customers are increasingly adopting the smaller 2.5-inch form factor enterprise class disc drives. We are currently shipping our 2nd generation Savvio disc drive featuring increased throughput and improved power consumption, targeted at space optimized enterprise storage systems.

Barracuda ES SATA Family. Our Barracuda ES 3.5-inch disc drives ship in 7,200 RPM and in storage capacities ranging from 250GB to 1TB. The Barracuda ES addresses the emerging market in enterprise storage of the use of business critical storage systems for capacity-intensive enterprise applications that require space optimization, maximized performance and availability. We have also introduced 7,200 RPM drives for the surveillance market with capacities ranging from 250GB to 1TB.

Mobile Computing

Momentus ATA/SATA Family. Our Momentus family of disc drives for mobile computing disc drive products, ships in 5,400 and 7,200 RPM and in capacities ranging from 30GB to 320GB. Commercial uses for Momentus disc drives include notebook computers running popular office applications and notebook computers for business, government and education environments. Consumer uses for Momentus disc drives include notebook computers, tablet computers and digital audio applications. Our Momentus 7200.2 is a 7,200 RPM disc drive for high-performance notebooks.

LD25.2 Family. Our LD25.2 Series 2.5-inch disc drives deliver storage capacities of 40GB and 80GB at 5,400 RPM, a solution with optimized capacity and size for notebook computers.

Desktop Storage

Barracuda ATA/SATA Family. Our Barracuda 3.5-inch disc drive delivers storage capacities of up to 1TB at 7,200 RPM and is used in applications such as PCs, workstations and personal external storage devices. Additionally, we are currently shipping a 3.5-inch disc drive with 320GB of capacity on a single disc.

DiamondMax Family. Our DiamondMax 3.5-inch disc drives deliver storage capacities of up to 1TB at 7,200 RPM and are targeted at PCs, non-traditional ATA and external storage applications.

Consumer Electronics Storage

Barracuda ATA/SATA Family. We also sell some of our 3.5-inch Barracuda disc drives for use mainly in DVR s. Our DB35 Series disc drives, with storage capacities up to 1TB, are optimized for leading-edge digital entertainment.

Momentus ATA/SATA Family. We sell our 2.5-inch, 7,200 and 5,400 RPM Momentus disc drives, including our LD25 Series of Momentus family of disc drives with capacities ranging from 20GB up to 250GB, for use in low-profile DVR s, gaming consoles, home entertainment devices and small footprint media PCs.

Table of Contents

Branded Solutions

Our branded solutions business provides storage products including various home and office storage applications. We ship external backup storage solutions under our Free Agent™ and Maxtor OneTouch™ product lines. Both of these product lines utilize our 3.5-inch and 2.5-inch disc drives, which are available in capacities up to 2TB and 320GB, respectively.

Customers

We sell our disc drive products primarily to major OEMs and distributors. OEM customers, either themselves or through their contract manufacturers, incorporate our disc drives into computer systems and storage systems for resale. Distributors typically sell our disc drives to small OEMs, dealers, system integrators and other resellers. Shipments to OEMs were approximately 67%, 64% and 72% of our disc drive revenue in fiscal years 2008, 2007 and 2006, respectively. Shipments to distributors were approximately 26%, 30% and 25% of our disc drive revenue in fiscal years 2008, 2007 and 2006, respectively. The only customer exceeding 10% of our disc drive revenue for fiscal years 2006 through 2008 was HP. Dell exceeded 10% of our disc drive revenue in fiscal years 2008 and 2006. Sales to HP accounted for approximately 16%, 16% and 17% of our disc drive revenue in fiscal years 2008, 2007 and 2006, respectively. Sales to Dell, as a percentage of our disc drive revenue, were 11%, 9% and 11% in fiscal years 2008, 2007 and 2006, respectively. No other customer accounted for 10% or more of our disc drive revenue in fiscal years 2008, 2007 and 2006. Retail sales of our branded storage products in fiscal year 2008 as a percentage of our disc drive revenue increased to 7% from 6% and 3% in fiscal years 2007 and 2006, respectively. See Item 1A. Risk Factors Risks Related to Our Business 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.

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 resale of our products. They typically furnish us with a non-binding indication of their near-term requirements and product deliveries are generally scheduled accordingly. The agreements and related sales programs typically provide the distributors with limited right of return and price protection rights. In addition, we offer sales programs to distributors on a quarterly and periodic basis to promote the sale of selected products in the sales channel.

We have increased our sales of branded storage products to retail customers in the last two years further expanding our retail customer base. Our branded storage product is sold to retailers either by us directly or by our distributors. Retail sales made by us or our distributors typically require greater marketing support, sales incentives and price protection periods.

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 customers 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.

Sales, Marketing and Customer Service

Our marketing organization works to increase demand for our disc drive products through strategic collaboration with key OEM customers and distribution partners to align our respective product roadmaps and to

build our brand and end-customer relationships. As customers and markets increasingly demand a broad variety of products with different performance and cost attributes, we have marketing groups focused on the strategic needs of our increasingly diverse customer base. We believe this enables us to serve both our core markets and better identify, develop and serve emerging markets.

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 by customer type and regionally among Americas, 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. We maintain sales offices throughout the United States and in Australia, China, France, Germany, Japan, Singapore, Taiwan and the United Kingdom.

With the acquisition of Maxtor, we acquired the right to the use the Maxtor and other related brand names. We believe the Maxtor brand is a valuable asset, and we intend to continue to offer the Maxtor brand of products to consumers globally to broaden our reach into and coverage of these channels as well as optimize the impact of our marketing investments.

Our customer service organization maintains a global network of service points to process warranty returns and manage outsourced repair vendors. We generally warrant our products for periods ranging from three to five years.

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 markets that we compete in are intensely competitive, with disc drive manufacturers not only competing for a limited number of major disc drive customers, but also increasingly competing with other companies in the electronic data storage industry that provide alternative storage solutions, such as flash memory, tape, optical and SSDs. Some of the principal factors used by customers to differentiate among electronic data storage solutions manufacturers are storage capacity; price per unit and price per gigabyte; storage/retrieval access times; data transfer rates; product quality and reliability; supply continuity; form factor; warranty; and brand.

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

Principal Disc Drive 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 than we have. These competitors include independent disc drive manufacturers such as Western Digital, as well as large captive manufacturers such as Fujitsu, Samsung, Hitachi, and Toshiba. Because they produce complete computer systems and other non-compute consumer electronics and mobile devices, these captive manufacturers can derive a greater portion of their operating margins from other components, which reduces their need to realize a profit on the disc drives included in their computer systems and allows them to sell 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,

Toshiba and Samsung, each are increasingly integrating other storage technologies such as flash memory, hybrid disc drives and SSDs into its product offerings. Not only may they be willing to sell their disc drives at a lower margin to advance their overall business strategy, their portfolio allows them to be indifferent to which technology prevails over the other. They can offer a broad range of storage media and solutions and focus on those with lowest costs and greatest sales. In connection with our branded storage products, in addition to

competing with our disc drive competitors, we also compete with companies such as LaCie S.A. that purchase disc drives for use in their branded storage products from us and our competitors.

Other Competitors. We also are experiencing competition from companies that provide alternative storage technologies such as flash memory, which have substantially replaced disc drives in lower capacity handheld devices. Principal competitors include Samsung, Toshiba, Micron, SanDisk and Intel.

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

- industry consolidation in which competitors aggressively use discounted price to gain market share;
- few new product introductions when multiple competitors have comparable or alternative product offerings;
- temporary imbalances between industry supply and demand; and
- seasonally weaker demand which may cause excess supply.

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

We expect price erosion in our industry will continue for the foreseeable future. To remain competitive, we believe it will be necessary to continue to reduce prices as well as introduce new product offerings that utilize advanced technologies ahead of our competitors in order to take advantage of potentially higher initial profit margins and reduced cost structure on these new products.

Product Life Cycles and Changing Technology. Our industry has been characterized by significant advances in technology, which have contributed to rapid product life cycles. As a result, success in our industry has been dependent to a large extent on the ability to be the first-to-market with new products, allowing those disc drive manufacturers who introduce new products first to sell those products at a premium until comparable products are introduced. Also, because our industry is characterized by continuous price erosion, the existence of rapid product life cycles has necessitated the need to quickly achieve product cost effectiveness. Changing technology also necessitates the need for on-going investments in research and development, which may be difficult to recover due to rapid product life cycles. Further, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields become of increasing competitive importance. We believe that our future success will depend upon our ability to rapidly develop, manufacture and market products of high quality and reliability on a cost-effective basis. Introduction of any technology that delivers storage at an attractive price, or has other features not offered by disc drives, may be disruptive to the disc drive industry.

Seasonality

The disc drive industry traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year. This seasonality is driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter. In addition, corporate demand is typically higher during the second half of the calendar year when IT budget calendars provide for more spending.

Research and Development

We are committed to developing new component technologies, products and alternative storage technologies, including solid state technology. Our research and development focus is designed to bring new products to market in high volume, with quality attributes that our customers expect, before our competitors. Part of our product development strategy is to leverage a common platform and subsystem within product families to serve different market needs. This platform strategy allows for more efficient resource utilization, reduces

exposure to changes in demand, and allows for achievement of lower costs through purchasing economies. Our advanced technology integration effort focuses 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 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 2008, 2007 and 2006, we had product development expenses of approximately $1 billion, $904 million and $805 million, respectively, which represented 8%, 8% and 9% of our consolidated revenue, respectively.

Patents and Licenses

As of June 27, 2008, we had approximately 4,015 U.S. patents and 723 patents issued in various foreign jurisdictions as well as approximately 1,188 U.S. and 579 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 electronic data storage industry, we believe that the improvement of existing products, reliance upon trade secret law, 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 protect and obtain patents, where available, in connection with our research and development program.

The electronic data storage industry is characterized by significant litigation relating to patent and other intellectual property rights. Because of rapid technological development in the electronic data 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 in the past have been and may be substantial, irrespective of the merits of the claim or the outcome. We have patent licenses with a number of companies. Additionally, as part of our normal intellectual property practices, we may be engaged in negotiations with other major electronic data storage companies and component manufacturers with respect to licenses.

Backlog

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

Employees

At June 27, 2008, we employed approximately 54,000 employees, temporary employees and contractors worldwide, of which approximately 42,000 employees were located in our Asian operations. We believe that our future success will depend in part on our ability to attract and retain qualified employees at all levels. We believe that our employee relations are good.

Environmental Matters

Our operations are subject to U.S. and foreign laws and regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Some of 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.

Table of Contents

We have established environmental systems and continually update our environmental policies and standard operating procedures for our operations worldwide. We believe that our operations are in material compliance with applicable environmental laws, regulations and permits. We budget for 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 Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended, the Superfund law and its state equivalents), can impose liability for the cost of cleanup of contaminated sites upon any of the current or former site owners or operators or upon parties who sent waste to these sites, regardless of whether the owner or operator owned the site at the time of the release of hazardous substances or the lawfulness of the original disposal activity. We were identified as a potentially responsible party at several superfund sites. At each of these sites, we have an assigned portion of the financial liability based on the type and amount of hazardous substances disposed of by each party at the site and the number of financially viable parties. We have fulfilled our responsibilities at some of these sites and remain involved in only a few at this time.

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.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products. For example, the European Union (EU) enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), which prohibits the use of certain substances, including lead, in certain products, including disc drives, put on the market after July 1, 2006 as well as the Waste Electrical and Electronic Equipment (WEEE) directive, which makes producers of electrical goods, including disc drives, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan.

If we or our suppliers fail to comply with the substance restrictions, recycle requirements or other environmental requirements as they are enacted worldwide, it could have a materially adverse effect on our business.

Table of Contents

Executive Officers

The following sets forth the name, age and position of each of the persons who were serving as executive officers as of August 12, 2008. There are no family relationships among any of our executive officers.

William D. Watkins **Chief Executive Officer and Director** **age 55**	Mr. Watkins has been Chief Executive Officer since 2004, and a Director of Seagate since 2000. Prior to that, he was President and Chief Executive Officer from 2004 to 2006; President and Chief Operating Officer from 2000 to 2004; Executive Vice President and Chief Operating Officer from 1998 to 2000; and Executive Vice President, Recording Media Operations from 1996 to 1998. Mr. Watkins is also a member of the Board of Directors of Maxim Integrated Products, Inc.
David A. Wickersham **President and Chief Operating Officer** **age 52**	Mr. Wickersham has been President since 2006 and Chief Operating Officer since 2004. He served as Chief Operating Officer and Executive Vice President from 2004 to 2006; Executive Vice President, Global Disc Storage Operations from 2000 to 2004, Senior Vice President, Worldwide Product Line Management from 1999 to 2000; and Senior Vice President, Worldwide Materials from 1998 to 1999.
Charles C. Pope **Executive Vice President and Chief Financial Officer** **age 53**	Mr. Pope has been Executive Vice President and Chief Financial Officer since 1999. From 1998 to 1999 he was Senior Vice President and Chief Financial Officer. Prior to that, he was Senior Vice President Finance, Storage Products from 1997 to 1998; Vice President Finance, Storage Products from 1996 to 1997; Vice President/General Manager, Media from 1994 to 1996; Vice President Finance and Treasurer from 1991 to 1994; and Vice President, Finance Far East Operations from 1989 to 1991.
Brian S. Dexheimer **Division President, Consumer Solutions** **age 45**	Mr. Dexheimer has been Division President of our Consumer Solutions division since March 2008. He served as Executive Vice President and Chief Sales & Marketing Officer from 2006 to 2008. Prior to that he was Executive Vice President, Storage Business and Worldwide Sales, Marketing and Customer Service from 2005 to 2006; Executive Vice President, Worldwide Sales, Marketing and Customer Service from 2000 to 2005; Senior Vice President, Worldwide Sales from 1999 to 2000; Senior Vice President, Personal Storage Group/Product Line Management from 1998 to 1999; Vice President, and General Manager, Removable Storage Solutions from 1997 to 1998.
Robert Whitmore **Executive Vice President and Chief Technology Officer** **age 46**	Mr. Whitmore has been Executive Vice President Product and Process Development and Chief Technology Officer since 2007. Prior to that he was Executive Vice President, Product and Process Development from 2006 to 2007; Senior Vice President, Product and Process Development from 2004 to 2006; Senior Vice President, Product Development Engineering from 2002 to 2004; Vice President, Enterprise Storage Design Engineering from 1999 to 2002, Vice President and Executive Director, Twin Cities Manufacturing Operations from 1997 to 1999; Senior Director, Manufacturing Engineering, Singapore Operations from 1995 to 1997; and Senior Manager, Design Engineering, Twin Cities Division from 1992 to 1995.
D. Kurt Richarz **Executive Vice President, Sales and Customer Service Operations** **age 47**	Mr. Richarz joined Seagate in May 2006, when we acquired Maxtor. He has served as our Executive Vice President, Sales and Customer Service Operations since May 2008. Previously, he served as Vice President of Global OEM Sales from 2006 to 2007 and Senior Vice President of Global OEM Sales from 2007 to 2008. At Maxtor, from 2002 to 2006, he served as Vice President, Global OEM Account Sales and Senior Vice President of Worldwide Sales. From 1990 to 2001, he served in various sales positions at Quantum Corporation.

Jaroslaw S. Glembocki **Senior Vice President, Recording Heads and Media age 52**	Mr. Glembocki has been Senior Vice President, Recording Heads and Media Operations since 2000. Prior to that he was Senior Vice President/General Manager, Recording Media Group, from 1997 to 2000; and Vice President, Engineering and CTO Media from 1996 to 1997.
W. David Mosley **Senior Vice President, Global Disc Storage Operations age 41**	Mr. Mosley has been Senior Vice President, Global Disc Storage Operations since 2007. Prior to that, he was Vice President, Research and Development, Engineering from 2002 to 2007; Senior Director, Research and Development, Engineering from 2000 to 2002; Director, Research and Development, Engineering from 1998 to 2000; and Manager, Operations and Manufacturing from 1996 to 1998.
Patrick J. O Malley **Senior Vice President, Finance, Principal Accounting Officer and Treasurer[1] age 46**	Mr. O Malley has been Senior Vice President, Finance since October 2005, and assumed the additional roles of Principal Accounting Officer and Treasurer in 2006. Prior to that, he was Senior Vice President, Consumer Electronics from 2004 to 2005; Senior Vice President, Finance, Manufacturing from 1999 to 2004; Vice President, Finance-Recording Media from 1997 to 1999; Senior Director Finance, Desktop Design, from 1996 to 1997; Senior Director, Finance, Oklahoma City Operations from 1994 to 1996; Director of Finance/ Manager, Corporate Financial Planning & Analysis from 1991 to 1994; Manager, Consolidations & Cost Accounting from 1990 to 1991; Manager, Consolidations from 1988 to 1990; and Senior Financial Analyst in 1988.
Glen A. Peterson **Senior Vice President, Worldwide Finance age 46**	Mr. Peterson has been Senior Vice President, Worldwide Finance since January 2004. Prior to that, he was Vice President, Finance and Treasurer from 1998 to 2004; and Director, Strategic Planning from 1995 to 1998.
Kenneth M. Massaroni **Senior Vice President, General Counsel and Corporate Secretary age 47**	Mr. Massaroni has been Senior Vice President, General Counsel and Corporate Secretary since April 2008. He served as Vice President and Acting General Counsel from December 2007 to April 2008, and Vice President of Intellectual Property from 2006 to December 2007. Prior to joining Seagate in 2006, Massaroni was vice president of law, deputy general counsel and assistant secretary at Scientific-Atlanta from 1997 to 2006. In addition, Massaroni has also held senior patent counsel positions at Motorola from 1993 to 1997, served as general counsel and secretary at Optical Imaging Systems from 1990 to 1992 and as a patent attorney at Energy Conversion Devices from 1987 to 1990, and as an associate at the law firm of Collier, Shannon, Rill and Scott from 1992 to 1993.
David Z. Anderson **Vice President, Finance, Storage Markets age 43**	Mr. Anderson joined Seagate in 1995, and has served as our Vice President, Finance, Storage Markets, since 2007. He previously held positions as Vice President, Finance, Asia Operations from 2005 to 2007 and Senior Director, Corporate Accounting, Compliance and External Reporting and Corporate Financial Planning & Analysis from 2003 to 2005. Prior to 2003, Mr. Anderson held a variety of progressively senior management positions within the Finance organization of the Company. On July 1, 2008, Mr. Anderson was appointed Principal Accounting Officer and Treasurer of the Company. The transition by which Mr. Anderson will assume the responsibilities of these offices began on July 1, 2008, and he will formally acquire the titles on August 25, 2008.

[1] On April 24, 2008, the Board of Directors appointed Mr. O Malley to serve as Executive Vice President and Chief Financial Officer of Seagate, effective as of August 25, 2008. Mr. O Malley will succeed Mr. Pope, who, on April 24, 2008, notified Seagate of his intention to retire from his position as Chief Financial Officer as of August 25, 2008. Effective as of August 25, 2008, Mr. Pope will transition to the position of Executive Vice President, Strategic Planning and Corporate Development.

Table of Contents

Financial Information

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

Available Information

Availability of Reports. We are a reporting company under the Securities Exchange Act of 1934 (1934 Exchange Act), as amended, and we file reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). The public may read and copy any of our filings at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 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*. 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. 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 Exchange 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 Exchange Act are also available on our web site. Information in, or that can be accessed through, our web site is not part of this Form 10-K.

Corporate Information

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

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

We believe this basic industry condition of continuing price erosion and market share variability will continue, as our competitors engage in aggressive pricing actions targeted to encourage shifting of customer demand. The pricing environment in the fourth fiscal quarter of 2008 was substantially as we had initially expected, and we expect continuous price erosion for fiscal year 2009 as our competitors continue these efforts.

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

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

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

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

Independent Manufacturers	Captive Manufacturers
Western Digital Corporation	Fujitsu Limited

GS Magicstor Inc.	Hitachi Global Storage Technologies Samsung Electronics Incorporated Toshiba Corporation

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

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

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

We face indirect competition from present and potential customers who evaluate from time to time whether to manufacture their own disc drives or other electronic data storage products.

We have also experienced competition from other companies that produce alternative storage technologies like flash memory, where increased capacity, improving cost, lower power consumption and performance ruggedness have resulted in competition with our lower capacity, smaller form factor disc drives in handheld applications. While this competition has traditionally been in the markets for handheld consumer electronics applications, these competitors have recently announced solid state drives (SSDs) for notebook and enterprise compute applications. Some of these companies, like Samsung, also sell disc drives. Certain customers for both enterprise and notebook compute applications have indicated an interest in investigating SSDs as alternatives to hard drives in certain applications.

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

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

- adverse changes in the level of economic activity in the United States and other major regions in which we do business, though especially in the United States, where economic activity slowed during the second half of our fiscal 2008;
- competitive pressures resulting in lower selling prices by our competitors targeted to encourage shifting of customer demand;
- delays or problems in our introduction of new products, particularly new disc drives with lower cost structures, due to inability to achieve high production yields, delays in customer qualification or initial product quality issues;
- changes in purchasing patterns by our distributor customers;

increased costs or adverse changes in availability of supplies of raw materials or components, especially in light of recent consolidation among component suppliers, building inflationary pressure, and the continuing weakness of the U.S. Dollar as compared to other currencies;

the impact of corporate restructuring activities that we may engage in;

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

changes in purchases from period to period by our primary customers, particularly as our competitors are able to introduce and produce in volume competing disc drive solutions or alternative storage technology solutions, such as flash memory or SSDs;

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

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

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

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

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

We are continually developing new products with the goal that we will be able to introduce technologically advanced and lower cost disc drives into the marketplace ahead of our competitors.

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

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

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

The disc drive industry is experiencing significant increases in sales of smaller form factor disc drives for an expanding number of applications, in particular notebook computers and consumer electronics devices, but also including personal computers and enterprise storage applications. Much of our recent revenue growth is derived from the sale of small form factor drives for notebook and enterprise applications. Our continued success will depend on our ability to develop and introduce such small form factor drives at desired price and capacity points faster than our competitors.

We have experienced competition from other companies that produce alternative storage technologies like solid state or flash memory, where increased capacity, improving cost, lower power consumption and

performance ruggedness have resulted in flash memory largely replacing disc drives in handheld applications. We believe that the demand for disc drives to store or back up related media content from such handheld devices, however, continues to grow. While this competition has traditionally been limited to the markets for handheld consumer electronics applications, these competitors have announced SSDs for notebook and enterprise compute applications.

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

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

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

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

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

Another factor that may negatively affect our ability to recapture costs of investments in future quarters is the current uncertain condition of the domestic and global economy. The current uncertainty in economic and political conditions in many of our markets may have an affect on demand for our products and render budgeting and forecasting difficult. The difficulty in forecasting demand increases the difficulty in anticipating our inventory requirements, which may cause us to over-produce finished goods, resulting in inventory write-offs, or under-produce finished goods, affecting our ability to meet customer requirements. Additionally, the risk of inventory write-offs could increase if we were to continue to hold higher inventory levels. We cannot be certain that we will be able to recover the costs associated with increased inventory.

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

the impact of variable demand and an aggressive pricing environment for disc drives;

the impact of competitive product announcements and possible excess industry supply both with respect to particular disc drive products and with respect to competing alternative storage technology solutions such as SSDs in notebook and enterprise compute applications;

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

- dependence on our ability to successfully qualify, manufacture and sell in increasing volumes on a cost-effective basis and with acceptable quality our disc drive products, particularly the new disc drive products with lower cost structures;

- variations in the cost of components for our products, especially in view of the U.S. dollar s continued weakness as compared to other currencies;

- uncertainty in the amount of purchases from our distributor customers who from time to time constitute a large portion of our total sales;

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

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

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

- 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.

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

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

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

- produce these products in sufficient volume;

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

- achieve acceptable manufacturing yields, quality and costs with these products.

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

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 be 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.

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

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

Dependence on Sales of Disc Drives Directly to Consumers Through Retail Outlets Our sales of disc drives directly to consumers through retail outlets can experience significant volatility due to seasonal and other factors which could materially adversely impact our future results of operations.

We believe that industry demand for storage products is increasing due to the proliferation of media-rich digital content in consumer applications and is fuelling increased consumer demand for storage. This has led to the expansion of solutions such as external storage products to provide additional storage capacity and to secure data in case of disaster or system failure, or to provide independent storage solutions for multiple users in home or small business environments. The current uncertainty in the domestic and global economy may negatively affect demand for such products. Further, such retail sales of our branded solutions traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter. Additionally, our ability to reach such consumers depends on our maintaining effective working relationships with major retail and online distributors. Failure to anticipate consumer demand for our branded solutions as well as an inability to maintain effective working relationships with retail and online distributors may adversely impact our future results of operations.

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

The cost, quality and availability of components, certain equipment and raw materials used to manufacture disc drives and key components like recording media and heads are critical to our success. The equipment we use to manufacture our products and components is frequently custom made and comes from a few suppliers and the lead times required to obtain manufacturing equipment can be significant. Particularly important components for disc drives include read/write heads, aluminum or glass substrates for recording media, ASICs, spindle motors, printed circuit boards and suspension assemblies. We rely on sole suppliers or a limited number of suppliers for some of these components, including media, aluminum and glass substrates that we do not manufacture, recording media and heads, ASICs, spindle motors, printed circuit boards and suspension assemblies. If our vendors for these components are unable to meet our requirements, we could experience a shortage in supply, which would adversely affect our results of operations.

In the past, we have experienced increased costs and production delays when we were unable to obtain the necessary equipment or sufficient quantities of some components and/or have been forced to pay higher prices or

Table of Contents

make volume purchase commitments or advance deposits for some components, equipment or raw materials that were in short supply in the industry in general.

Consolidation among component manufacturers may result in some component manufacturers exiting the industry or not making sufficient investments in research to develop new components.

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

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

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

Perpendicular Recording Technology   Products based on perpendicular technology require increased quantities of precious metals and scarce alloys like platinum and ruthenium which increases risk of higher costs and production delays that could adversely impact our operating results.

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

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

Our strategy involves, to a substantial degree, increasing revenue and product volume while at the same time controlling operating expenses. In the past, these activities have included closures and transfers of facilities, significant personnel reductions and efforts to increase automation. Moreover, the reduction of personnel and closure of facilities may adversely affect our ability to manufacture our products in required volumes

to meet customer demand and may result in other disruptions that affect our products and customer service. In addition, the transfer of manufacturing capacity of a product to a different facility frequently requires qualification of the new facility by some of our OEM customers. We cannot assure you that these activities and transfers will be implemented on a cost-effective basis without delays or disruption in our production and without adversely affecting our customer relationships and results of operations.

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

Our disc drives are components in computers, computer systems, storage subsystems and consumer electronics devices. The demand for these products has been volatile. In a weak economy, consumer spending

tends to decline and retail demand for personal computers and consumer electronics devices tends to decrease, as does enterprise demand for computer systems and storage subsystems. Unexpected slowdowns in demand for computer systems, storage subsystems or consumer electronic devices generally cause sharp declines in demand for disc drive products.

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

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

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

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

Accounting Charges Related to Acquisition of Maxtor and other recently acquired companies   We expect the acquisition of Maxtor and other recently acquired companies will continue to result in additional accounting charges, which may continue to have an adverse effect on our fiscal year 2009 operating results.

We expect that, as a result of the acquisition of Maxtor and other recently acquired companies, our fiscal year 2009 results of operations will continue to be adversely affected by non-cash accounting charges, the most significant of which relates to the amortization of acquired intangible assets.

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

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

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

[Table of Contents](#)

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

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

Changes in Electronic Data Storage Products Future changes in the nature of electronic data storage products may reduce demand for traditional disc drive products.

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

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

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

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

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

Our growth strategy may involve pursuing strategic alliances with, and making acquisitions of, forming joint ventures with, or investments in, other companies that are complementary to our business. There is substantial competition for attractive strategic alliance, acquisition, joint venture and investment candidates. We may not be able to identify suitable acquisition, joint venture, investment or strategic partnership

candidates. Even if we were able to identify them, we cannot assure you that we will be able to partner with, acquire or invest in suitable candidates, or integrate acquired technologies or operations successfully into our existing technologies and operations. Our ability to finance potential strategic alliances, acquisitions, joint ventures or investments will be limited by our high degree of leverage, the covenants contained in the indentures that govern our outstanding indebtedness, the credit agreement that governs our senior secured credit facilities and any agreements governing any other debt we may incur.

Table of Contents

If we are successful in forming strategic alliances or acquiring, forming joint ventures or making investments in other companies, any of these transactions may have an adverse effect on our operating results, particularly while the operations of an acquired business are being integrated. It is also likely that integration of acquired companies would lead to the loss of key employees from those companies or the loss of customers of those companies. In addition, the integration of any acquired companies would require substantial attention from our senior management, which may limit the amount of time available to be devoted to our day-to-day operations or to the execution of our strategy. Growth by strategic alliance, acquisition, joint venture or investment involves an even higher degree of risk to the extent we combine new product offerings and enter new markets in which we have limited experience, and no assurance can be given that acquisitions of entities with new or alternative business models will be successfully integrated or achieve their stated objectives.

Furthermore, the expansion of our business involves the risk that we might not manage our growth effectively, that we would incur additional debt to finance these acquisitions or investments, that we may have impairment of goodwill or acquired intangible assets associated with these acquisitions and that we would incur substantial charges relating to the write-off of in-process research and development, similar to that which we incurred in connection with several of our prior acquisitions. Each of these items could have a material adverse effect on our financial position and results of operations.

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

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

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

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

Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management s attention from operating our business. In addition, intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot assure you that we will be successful in defending ourselves against intellectual property claims. Moreover, patent litigation has increased due to the current uncertainty of the law and the increasing competition and overlap of product functionality in the field. If we were to discover that our products infringe the intellectual property rights of others, we would need to obtain licenses from these parties or substantially reengineer our products in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to reengineer our products successfully. Moreover, if we are sued for patent infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products which could adversely affect our results of operations and financial condition. See See Part II, Item 8, Note 9, Legal, Environmental, and Other Contingencies Intellectual Property Litigation for a description of pending intellectual property proceedings.

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

- pay dividends or make distributions in respect of our shares;
- redeem or repurchase shares;
- make investments or other restricted payments;
- sell assets;
- issue or sell shares of restricted subsidiaries;
- enter into transactions with affiliates;
- create liens; and
- effect a consolidation or merger.

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

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

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

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

Our operations are dependent upon our ability to protect our computer equipment and the electronic data stored in our databases from damage by, among other things, earthquake, fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events. As our operations become more automated and increasingly interdependent, our exposure to the risks posed by these types of events will increase. While we continue to improve our disaster recovery processes, system failures and other interruptions in our operations could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Although our assessment, testing, and evaluation resulted in our conclusion that as of June 27, 2008, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. If our internal controls are ineffective in future periods, our financial results or the market price of our shares could be adversely affected. We will incur additional expenses and commitment of management s time in connection with further evaluations.

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

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

- actual or anticipated variations in our results of operations;
- announcements of innovations, new products or significant price reductions by us or our competitors, including those competitors who offer alternative storage technology solutions;

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

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

general stock market conditions;

the occurrence of major catastrophic events;

changes in financial estimates by investment research analysts; and

the sale of our common shares held by certain equity investors or members of management.

Table of Contents

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

On July 15, 2008, we declared a quarterly dividend of $0.12 per share that will be paid on or before August 15, 2008 to our common shareholders of record as of August 1, 2008.

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

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

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

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

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

Current Global Credit and Financial Market Conditions Current global credit and financial market conditions could negatively impact the value of our current portfolio of cash equivalents, short-term investments, or auction rate securities and our ability to meet our financing objectives.

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

The recent negative conditions in the global credit markets have prevented some investors, including us, from liquidating auction rate securities because the amount of securities submitted for sale at auction has exceeded the amount of purchase orders for such securities. During the quarter ended June 27, 2008, all $31 million of our auction rate securities continued to fail at auction. As a result we recorded a temporary unrealized loss of $3 million to other comprehensive income. We will continue to analyze our auction rate securities each reporting period for impairment as we may be required to record an impairment charge if in the future we determine that there is a decline in the fair value which is other than temporary.

While as of the date of this filing, we are not aware of any other downgrades, losses, failed auctions or other significant deterioration in the fair value of our cash equivalents or short-term investments since June 27, 2008,

no assurance can be given that further deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents, short-term investments or auction rate securities or our ability to meet our financing objectives.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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 research and development facilities are located in Colorado, Minnesota, Pennsylvania, Massachusetts and Singapore. Portions of our facilities are occupied under leases that expire at various times through 2082. We occupy a total of 9.6 million square feet, of which, 6.7 million is for manufacturing and warehousing, 1.6 million is for product development and 1.3 million is for administrative purposes. In addition, there are approximately 1.0 million square feet that is currently unoccupied.

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.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON SHARES, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Chief Executive Officer has certified to the NYSE that he is unaware of any violation by the Company of the NYSE s corporate governance listing standards. On November 15, 2007, we submitted our Annual CEO Certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

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.

	Price Range	
Fiscal Quarter	**High**	**Low**
Quarter ended September 29, 2006	$ 25.20	$ 19.15
Quarter ended December 29, 2006	$ 27.27	$ 20.73
Quarter ended March 30, 2007	$ 28.51	$ 22.94
Quarter ended June 29, 2007	$ 23.47	$ 20.10
Quarter ended September 28, 2007	$ 26.84	$ 21.63
Quarter ended December 28, 2007	$ 28.91	$ 23.62
Quarter ended March 28, 2008	$ 26.10	$ 18.60
Quarter ended June 27, 2008	$ 22.78	$ 18.69

The closing price of our common shares as reported by the New York Stock Exchange on August 7, 2008 was $14.89 per share. As of August 7, 2008 there were approximately 2,093 holders of record of our common shares. We did not sell any of our equity securities during fiscal year 2008 that were not registered under the Securities Act of 1933, as amended.

Performance Graph

The performance graph below shows the cumulative total shareholder return on our common shares for the period starting on December 11, 2002, which was the initial trading date of the common shares, to June 27, 2008. This is compared with the cumulative total return of the Dow Jones US Computer Hardware Index and the Standard & Poor s 500 Stock Index over the same period. The graph assumes that on December 11, 2002, $100 was invested in our common shares and $100 was invested in each of the other two indices, with dividends reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Seagate Technology operates on a 52 or 53 week fiscal year which ends on the Friday closest to June 30. Accordingly, the last trading day of Seagate Technology s fiscal year may vary. Fiscal year 2006 was 52 weeks long and ended on June 30, 2006. Fiscal year 2007 was 52 weeks long and ended on June 29, 2007. Fiscal year 2008 was 52 weeks long and ended on June 27, 2008.

Table of Contents

COMPARISON OF 66 MONTH CUMULATIVE TOTAL RETURN*

Among Seagate Technology, The S&P 500 Index

And The Dow Jones US Computer Hardware Index

	12/11/02	6/27/03	7/2/04	7/1/05	6/30/06	6/29/07	6/27/08
Seagate Technology	100.00	159.03	125.81	156.44	207.36	202.70	184.86
S&P 500	100.00	105.19	125.29	133.22	144.72	174.51	151.62
Dow Jones US Computer Hardware	100.00	105.80	115.05	133.03	135.88	193.80	193.20

* $100 invested on 12/11/02 in stock or on 11/30/02 in index-including reinvestment of dividends.
Indexes calculated on month-end basis.

Copyright© 2008 S&P, a division of The McGraw-Hill Companies, Inc. All rights reserved.

Copyright© 2008 Dow Jones & Co. All rights reserved.

Dividends

We are currently paying our shareholders a quarterly dividend of no more than $0.12 per share (up to $0.48 per share annually) so long as the aggregate amount of the dividend does not exceed 50% of our cumulative consolidated net income plus 100% of net cash proceeds received from the issuance of capital, all of which are measured from 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 dividends by the covenants contained in our revolving credit facility. Our declaration of dividends 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 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 $0.12 per share). In deciding whether or not to declare quarterly dividends, our directors will take into account such factors as general business conditions within the disc drive industry, our financial results, our capital requirements, contractual and legal restrictions on the payment of dividends by our subsidiaries to us or by us to our shareholders, the impact of paying dividends on our credit ratings and such other factors as our board of directors may deem relevant.

Table of Contents

Since the closing of our initial public offering in December 2002, we have paid dividends, pursuant to our quarterly dividend policy totaling approximately $820 million in the aggregate. The following are dividends paid in the last two fiscal years:

Record Date	Paid Date	Dividend per Share
August 18, 2006	September 1, 2006	$ 0.08
November 3, 2006	November 17, 2006	$ 0.10
February 2, 2007	February 16, 2007	$ 0.10
May 4, 2007	May 18, 2007	$ 0.10
August 3, 2007	August 17, 2007	$ 0.10
November 2, 2007	November 16, 2007	$ 0.10
February 1, 2008	February 15, 2008	$ 0.10
May 2, 2008	May 16, 2008	$ 0.12

Because we had current earnings and profits in excess of distributions for our taxable year ended June 27, 2008, distributions on our common shares to U.S. shareholders during this period were treated as dividend income for U.S. federal income tax purposes. We anticipate that we will have earnings and profits in excess of distributions in fiscal year 2009. Therefore, distributions to U.S. shareholders in fiscal year 2009 are anticipated to be treated as dividend income for U.S. federal income tax purposes. Non-U.S. shareholders should consult with a tax advisor to determine appropriate tax treatment.

Repurchases of Our Equity Securities

During fiscal year 2008, we repurchased approximately 65 million common shares through open market repurchases at an average price of $22.89 for a total of approximately $1.5 billion. Of this amount, we repurchased approximately $974 million under the $2.5 billion August 2006 stock repurchase plan and approximately $500 million under a new plan announced on February 4, 2008, to repurchase up to an additional $2.5 billion of our outstanding common shares over 24 months.

As of June 27, 2008, we had no amounts remaining under the August 2006 stock repurchase plan and had approximately $2.0 billion remaining under the February 2008 stock repurchase plan. Share repurchases during fiscal year 2008 were as follows:

	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased Under Publicly Announced Plans or Programs (in millions)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in millions)
August 2006 Stock Repurchase Plan				
Total Through 3rd Quarter of Fiscal Year 2008	104.1	$ 24.02	104.1	$
February 2008 Stock Repurchase Plan				
	13.4	$ 23.06	13.4	$ 2,191

Total Through 3rd Quarter of Fiscal Year 2008						
April 2008	9.1	$	21.54	22.5	$	1,995
May 2008					$	1,995
June 2008					$	1,995
Total Through 4th Quarter of Fiscal Year 2008	22.5	$	22.44	22.5	$	1,995

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

We list in the table below selected historical consolidated and combined financial information relating to us for the periods indicated.

We have derived our historical financial information as of June 27, 2008 and June 29, 2007 and for the fiscal years ended June 27, 2008, June 29, 2007 and June 30, 2006 from our audited consolidated financial statements and related notes included elsewhere in this report.

We have derived our historical financial information as of June 30, 2006, July 1, 2005 and July 2, 2004 and for the fiscal years ended July 1, 2005 and July 2, 2004 from our audited consolidated financial statements and related notes not included in this report.

	Fiscal Years Ended				
	June 27, 2008	June 29, 2007	June 30, 2006(1)	July 1, 2005	July 2, 2004
	(In millions, except per share data)				
Revenue	$ 12,708	$ 11,360	$ 9,206	$ 7,553	$ 6,224
Gross margin	3,205	2,185	2,137	1,673	1,459
Income from operations	1,376	614	874	722	444
Net income	1,262	913	840	707	529
Basic net income per share	2.46	1.64	1.70	1.51	1.17
Diluted net income per share	2.36	1.56	1.60	1.41	1.06
Total assets	10,120	9,472	9,544	5,244	3,942
Total debt	2,030	2,063	970	740	743
Shareholders equity	$ 4,586	$ 4,737	$ 5,212	$ 2,541	$ 1,855
Number of shares used in per share computations:					
Basic	512	558	495	468	452
Diluted	538	587	524	502	498
Cash dividends declared per share	$ 0.42	$ 0.38	$ 0.32	$ 0.26	$ 0.20

(1) Seagate Technology s results include Maxtor s results from May 19, 2006 through June 30, 2006.

Year Ended June 27, 2008

Includes $262 million of variable performance-based compensation, $88 million in restructuring and other costs primarily related to the closure of our Limavady, Northern Ireland and Milpitas, California operations, $98 million of stock-based compensation expense, $20 million in gains on the sale of assets, charges primarily related to our acquisitions of Maxtor, EVault and MetaLINCs which include $94 million in the amortization of acquired intangibles and $15 million in stock-based compensation charges related to Maxtor options assumed and nonvested shares exchanged.

Year Ended June 29, 2007

Our fiscal year 2007 included Maxtor s operating losses largely recognized during the first half of fiscal year 2007 as we transitioned Maxtor products to Seagate products and acquisition and integration related charges recognized over the entire fiscal year and includes a $359 million

tax benefit resulting from a favorable adjustment to the valuation allowance related to our deferred tax assets, $101 million of stock-based compensation expense, a $40 million increase in the provision for doubtful accounts receivable related to the termination of our distributor relationship with eSys Technologies Pte. Ltd. and its related affiliate entities (eSys), a $29 million restructuring charge, a $19 million charge related to the redemption of our $400 million 8% Senior Notes previously due 2009 (8% Notes) and charges related to our acquisition of Maxtor which include $42 million in integration and retention costs, net of related tax effects, $150 million in the amortization

Table of Contents

of acquired intangibles, $27 million in stock-based compensation charges related to Maxtor options assumed and nonvested shares exchanged and the settlement of $18 million in customer compensatory claims related to legacy Maxtor products.

Year Ended June 30, 2006

Includes $163 million of variable performance-based compensation, $74 million of stock-based compensation expense as a result of our adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123(R)), Maxtor s operating losses from May 19, 2006 through June 30, 2006 and charges related to our acquisition of Maxtor which include $38 million in integration and retention costs, net of related tax effects, $24 million in the amortization of acquired intangibles and $16 million in stock-based compensation.

Year Ended July 1, 2005

Includes $131 million of variable performance-based compensation, a $14 million reduction in operating expenses related to the reduction in accrued benefit obligations associated with our post-retirement medical plan and approximately $10 million in income from the settlement of a litigation matter.

Year Ended July 2, 2004

Includes a $125 million income tax benefit from the reversal of accrued income taxes relating to tax indemnification amounts, a $59 million restructuring charge and $24 million of variable performance-based compensation.

Table of Contents

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 years ended June 27, 2008, June 29, 2007 and June 30, 2006. 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, together with its subsidiaries.

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.

Some of the statements and assumptions included in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended, including, in particular, statements about our plans, strategies and prospects and estimates of industry growth for the fiscal quarter ending October 3, 2008 and beyond. These statements identify prospective information and include words such as expects, plans, anticipates, believes, estimates, predicts, projects, and similar expressions. These forward-looking statements are based on information available to us as of the date of this report. Current expectations, forecasts and assumptions involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks, uncertainties, and other factors may be beyond our control. In particular, such risks and uncertainties include the impact of the variable demand and the aggressive pricing environment for disc drives, particularly in view of current domestic and global economic uncertainty; dependence on our ability to successfully qualify, manufacture and sell our disc drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disc drive products with lower cost structures; the impact of competitive product announcements and possible excess industry supply with respect to particular disc drive products; our ability to achieve projected cost savings in connection with our announced restructuring plans; market conditions and alternative cash imperatives which could impact our ability to repurchase stock; and the factors listed in the Risk Factors section of Item 1A of this Annual Report on Form 10-K, which we encourage you to carefully read. These forward-looking statements should not be relied upon as representing our views as of any subsequent date and we undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made.

Our Company

We are the world s leading provider of hard disc drives, based on revenue and units shipped. We design, manufacture, market and sell hard disc drives. Hard disc drives, commonly referred to as disc drives or hard drives, are devices that store digitally encoded data on rapidly rotating platters or discs with magnetic surfaces. The performance attributes of disc drives, including their cost effectiveness and high storage capacities has resulted in disc drives being used as the primary medium for storing electronic data in systems ranging from desktop and notebook computers, and consumer electronics devices to data centers delivering electronic data over corporate networks and the Internet.

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

We sell our disc drives primarily to major original equipment manufacturers (OEMs), and we also market to distributors and retailers under our globally recognized brand names. We have longstanding relationships with

many of our OEM customers including Hewlett-Packard, Dell, EMC, IBM and Lenovo. We also have key relationships with major distributors, who sell our disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world. Substantially all of our revenue is denominated in U.S. dollars.

The following table summarizes our disc drive revenue from sales to OEMs, distributors and retailers:

	Fiscal Years Ended		
	June 27, 2008	**June 29, 2007**	**June 30, 2006**
Revenues by Channel (%)			
OEM	67%	64%	72%
Distributors	26%	30%	25%
Retailers	7%	6%	3%
Revenues by Geography (%)			
North America	30%	30%	30%
Europe	27%	27%	27%
Far East	43%	43%	43%

The only customer exceeding 10% of our disc drive revenue for fiscal years 2006 through 2008 was Hewlett-Packard. Dell exceeded 10% of our disc drive revenue in fiscal years 2008 and 2006.

Industry Overview

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

Disc Drive Industry Consolidation

Due to the significant challenges posed by the need to continually innovate and improve manufacturing efficiency and because of the increasing amounts of capital and research and development investments required, the disc drive industry has undergone significant consolidation as disc drive manufacturers and component manufacturers merged with other companies or exited the industry. Through such combinations, disc drive manufacturers have also become increasingly vertically integrated. While recent combinations have limited the opportunity for additional industry consolidation, the increasing technological challenges, associated levels of investment and competitive necessity of large-scale operations, may still drive future industry consolidation. Additionally, we may in the future face indirect competition from present and potential customers who from time to time evaluate whether to offer electronic data storage products that may compete with our products.

Price Erosion

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

- industry consolidation in which competitors aggressively use discounted price to gain market share;
- few new product introductions when multiple competitors have comparable or alternative product offerings;
- temporary imbalances between industry supply and demand; and
- seasonally weaker demand, which may cause excess supply.

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

We expect price erosion in our industry will continue for the foreseeable future. To remain competitive, we believe it will be necessary to continue to reduce prices as well as introduce new product offerings that utilize advanced technologies ahead of our competitors in order to take advantage of potentially higher initial profit margins and reduced cost structure on these new products.

Disc Drive Industry Demand Trends

We believe that the disc drive industry is experiencing the following demand trends:

We believe that technological advances in storage technology and a proliferation of non-compute applications is increasingly driving the broad, global proliferation of digital content through the creation, sharing, aggregation, distribution, consumption and protection of all types of digital content. We believe that growth in digital content is being driven by increases in media-rich as well as user generated content, the digitization of content previously stored in analog format and the duplication of content in multiple locations. As a result of these factors, the nature and amount of content being created requires increasingly higher storage capacity in order to store, manage, distribute, back up and use such content.

We believe that demand for electronic data storage in the enterprise and traditional compute markets continues to grow as increasing legal and regulatory requirements and changes in the nature and amount of data being stored has necessitated additional storage. Additionally, the proliferation of digital content in the consumer space has resulted in additional demand for storage by enterprises, including those that host, aggregate, distribute or share such content.

Disc Drives for Mobile Computing. The mobile computing market is growing faster than the market for desktop computers as price and performance continue to improve. Notebook systems are increasingly becoming the preference for both consumers and enterprises as the need for mobility increases and wireless adoption continues to advance. We estimate that in fiscal year 2008, industry shipments of disc drives for mobile compute applications grew approximately 45% from fiscal year 2007.

The disc drive industry has recently seen the introduction of alternative technologies that directly compete with mobile disc drives. For example, certain manufacturers have introduced solid state drives (SSDs), using flash memory technology, which is an alternative to disc drives in certain applications. Due to the high capital requirements and capacity required to manufacture flash memory, we believe the perceived benefits of SSDs are not currently realized at an attractive cost relative to hard disc drives, particularly in higher capacity applications. We believe that the market for these alternative technologies is still developing and because of the current high cost per gigabyte of these storage solutions, we do not expect these solutions to have a significant near-term impact on the overall market for disc drives for mobile computing.

Disc Drives for Enterprise Storage. The need to address the expansion in data storage management requirements has increased the demand for new hardware storage solutions for both mission critical and business critical enterprise storage.

Mission critical enterprise storage is defined by the use of high performance, high capacity disc drives for use in applications which are vital to the operation of enterprises. We expect the market for mission critical enterprise storage solutions to grow, driven by many enterprises continuing to move network traffic to dedicated storage area networks (SANs). In addition, many enterprises are moving away from the use of server-attached storage to network-attached storage (NAS). Both of these solutions are comprised principally of high performance, high capacity disc drives with sophisticated software and communications technologies. In addition, many enterprises are also consolidating data centers, aiming to increase speed and reliability within a smaller space, reducing network complexity and increasing energy savings, which has led to an increased demand for more energy efficient, small form factor disc drives. SSD storage applications have been introduced as a potential alternative to redundant system

startup or boot disc drives. In addition, enterprises are considering the use of SSDs in applications where rapid processing is required for high volume transaction data. The timing of the adoption of SSDs in these applications is currently unknown as enterprises weigh the cost benefits of mission critical enterprise disc drives relative to the perceived performance benefits of SSDs.

Business critical enterprise storage is an emerging and growing application in enterprise storage whereby enterprises are using higher capacity disc drives to store less frequently accessed, less time-critical, but capacity-intensive data. Because of recent decreases in cost per gigabyte, business critical electronic data which historically has been stored on tape or other backup and archival technologies are now being stored on these high capacity disc drives. In the long-term, however, we believe that this trend towards business critical systems that utilize high capacity, enterprise class serial advanced technology architecture (SATA) and serial attached small computer system interface (SAS) will, in addition to expanding the overall enterprise market, likely shift some demand from disc drives used in traditional mission critical enterprise storage.

Disc Drives for Branded Solutions. We believe that the proliferation of media-rich digital content has increased consumer demand for storage to augment their current desktop or notebook disc drive capacities. Consumers are also using external branded storage solutions to backup and secure data in case of disaster or system failure.

Disc Drives for Desktop Computing. We believe growth in disc drives for desktop computing has moderated, in part due to the growth in demand for notebook computers, particularly in developed countries. We believe that current growth in demand for disc drives in desktop computing is focused on developing markets where price remains a primary consideration. Demand for inexpensive, high capacity external storage has also driven growth of 3.5-inch desktop disc drives.

Disc Drives for Consumer Electronics. Disc drives in the consumer electronics (CE) markets are primarily used in high-capacity solutions, such as DVRs, that require more storage capability than can be provided in a cost-effective manner through alternative technologies such as flash memory, which is used in lower capacity CE applications. We believe the demand for disc drives in CE will become more pronounced with the increased amount of high definition content that requires larger amounts of storage capacity. Although solid state or flash memory has largely replaced disc drives in handheld applications, we believe that the demand for disc drives to store, hold or back up related media content from such handheld devices, continues to grow.

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

Product Life Cycles and Changing Technology

Our industry has been characterized by significant advances in technology, which have contributed to rapid product life cycles. As a result, success in our industry has been dependent to a large extent on the ability to be the first-to-market with new products, allowing those disc drive manufacturers who introduce new products first to sell those products at a premium until comparable products are introduced. Also, because our industry is characterized by continuous price erosion, the existence of rapid product life cycles has necessitated the need to quickly achieve product cost effectiveness. Changing technology also necessitates the need for on-going investments in research and development, which may be difficult to recover due to rapid product life cycles. Further, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields become of increasing competitive importance.

Seasonality

The disc drive industry traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year. This seasonality is driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter. In

addition, corporate demand is typically higher during the second half of the calendar year when IT budget calendars provide for more spending. We expect the disc drive industry to experience normal seasonal patterns of increased demand for the September 2008 quarter.

Recording Heads and Media

Due to industry consolidation there are limited number of independent suppliers of recording heads and media available to disc drive manufacturers. As a result, vertically integrated disc drive manufacturers, who manufacture their own recording heads and media, are less dependent on external supply of recording heads and media than less vertically integrated disc drive manufacturers. While we believe that there is adequate supply to meet currently identified industry demand, these consolidations may limit the supply of recording heads and media from independent suppliers in the long-term.

Commodity and Other Manufacturing Costs

The production of disc drives requires precious metals, scarce alloys and industrial commodities, that are subject to fluctuations in prices, and the supply of which has at times been constrained. Recent increases in the price of many commodities have resulted in higher costs of materials used in the manufacture of disc drive products. Additionally, adverse economic conditions such as rising fuel costs may further increase commodity, manufacturing and freight costs. Should the disc drive industry not be able to pass these costs onto customers, gross margins may be impacted.

Industry Supply Balance

Historically, the industry has from time to time experienced periods of imbalances between supply and demand. To the extent that the disc drive industry builds capacity and products based on expectations of demand that do not materialize, there may be an oversupply of products that could lead to increased price erosion. Conversely, during periods where demand exceeds supply, price erosion is generally more benign. The industry, excluding Seagate, exited the June 2008 quarter with what we believe to be approximately five weeks of distribution inventory in the desktop channel, which is consistent with historical seasonal patterns.

Seagate Overview

We are the world s leading provider of hard disc drives, based on revenue and units shipped. Our products address the enterprise, desktop, mobile computing and CE and branded solutions storage markets. The Seagate 3.5-inch and 2.5-inch disc drive units used in our branded storage products are reported in the desktop and mobile market information, respectively. We maintain a highly integrated approach to our business by designing and manufacturing a significant portion of the components we view as critical to our products, such as read/write heads and recording media. We believe that our control of these key technologies, combined with our platform design and manufacturing, will enable us to achieve product performance, time-to-market leadership and manufacturing flexibility, which will allow us to respond to customers and market opportunities. Our technology ownership, combined with our integrated design and manufacturing approach, has allowed us to effectively leverage our leadership in traditional computing to enter new markets with only incremental product development and manufacturing costs.

Maxtor Acquisition

During fiscal year 2007, we completed our integration of Maxtor, including customer and product transitions where we replaced Maxtor designed disc drive products with Seagate designed disc drive products. Our fiscal year 2007 included Maxtor s operating losses largely recognized during the first half of fiscal year 2007 as we transitioned Maxtor products to Seagate products and acquisition and integration related charges recognized over the entire fiscal year. We expect to continue to incur charges, the most significant of which are expected to be the amortization of acquired intangible assets.

Operating Performance

Revenue Revenue in fiscal year 2008 rose to approximately $12.7 billion, driven by growth in the number of units shipped as a result of the continued growth in digital content and the resulting increase in demand for storage and customer acceptance of our new products. The increase in the number of units shipped and an improved mix of products shipped was partially offset by price erosion, which was relatively benign during the first half of the fiscal year as a result of favorable industry conditions, including well-balanced disc drive supply and demand, while being more pronounced during the second half of fiscal year 2008, as is consistent with historical seasonal patterns.

Enterprise During fiscal year 2008, we believe we extended our leadership position in the enterprise market, shipping 20.3 million units, an increase of 22% from 16.7 million units in fiscal year 2007. The increase in the number of units shipped was primarily attributable to an increase in market demand for mission critical enterprise disc drives as server virtualization resulted in increased demand for 3.5-inch high-speed, high-capacity products in server-attached storage applications. Additionally, our sales of small form factor mission critical enterprise disc drives increased 80% to 7.2 million units as compared to fiscal year 2007. Our increased shipments resulted in our market share growth, which combined with an improved product mix, was partially offset by price erosion.

Mobile In fiscal year 2008, we believe the overall mobile compute market grew approximately 45% from fiscal year 2007, with Seagate shipping 26.7 million units, an increase of 38% over fiscal year 2007. The increase in unit shipments from the prior fiscal year was driven by what we believe to be a continuing trend of notebooks systems increasingly becoming the preference for both consumers and enterprises as the need for mobility increases and wireless adoption continues to advance. Also, we saw an increase in the use of our mobile products in branded storage products. Our slower than market growth was mainly attributable to delayed product introductions allowing our competitors to capture additional market share during the year. In addition, the storage capacities for our mobile compute disc drive shipments are trending higher as notebooks are increasingly displacing desktop computers in the home. These increases in units shipped and a favorable product mix were offset by particularly pronounced price erosion.

Desktop In fiscal year 2008, we believe we maintained our market leadership position with shipments of 111 million units, an increase of 13% over fiscal year 2007. This increase was mainly driven by increased demand for our desktop products, particularly in our higher capacities for 3.5-inch desktop products. We believe this demand is driven by the continued growth in digital content and the resulting increase in overall demand for desktop storage products and the use of our desktop disc drives in our branded storage products. This increase in demand and favorable product mix was offset by price erosion. In the global distribution channel, we exited the June 2008 quarter with distribution channel inventory for desktop products at approximately four weeks.

Consumer In fiscal year 2008, we shipped a total of 24.6 million units in the CE market, a decrease of 3% from fiscal year 2007. This decrease was mainly attributable to a decrease of 36% in gaming units shipped compared to fiscal year 2007, only partially offset by a 33% increase in DVR shipments. We believe that increased penetration of DVRs in the home has resulted in incremental demand for disc drives for these applications. We believe the decreased demand for disc drives used in gaming applications has been due in part to some new gaming platforms not utilizing a disc drive and our decision to reduce participation in this market.

Other factors affecting income In fiscal year 2008, our operating results included an expense of $262 million related to variable performance-based compensation, as compared to none in fiscal year 2007. During fiscal year 2008, we recorded restructuring costs of approximately $50 million related to the closure of our Limavady, Northern Ireland operations and approximately $19 million related to the closure of our Milpitas, California operations.

Table of Contents

Seasonality

Historically, we have exhibited seasonally lower unit demand during the second half of each fiscal year, however, there were some recent quarters in fiscal year 2006 in which these seasonal trends were moderated. We saw a return to traditional seasonality in fiscal year 2007 and fiscal year 2008. For the September 2008 quarter, we expect to see demand in the desktop, mobile and CE markets to be seasonally higher than the June 2008 quarter, while we expect demand in the enterprise market to be flat to slightly up compared to the June 2008 quarter.

Recording Heads and Media

The percentage of our requirements for recording media that we produce internally varies from quarter to quarter. Our long-term strategy is to externally purchase approximately 10% of total recording media requirements. In July 2008, we announced the proposed closure of our recording media manufacturing facility in Milpitas, California. The closure is part of our ongoing focus on cost-efficiencies in all areas of our business. We plan to cease production at the Milpitas manufacturing facility in October 2008. We are continuing to expand our recording media production facilities in Singapore. We expect meaningful output from our new media facility in Singapore beginning the first quarter of fiscal year 2009 and we believe we will have adequate internal and external supply plans in place to support our requirements. Similar to our long-term strategy on recording media supply, our future plans include the evaluation and external purchase of up to 10% of recording heads requirements.

We purchase all of our glass substrates from third parties (mainly in Japan), which are used to manufacture our disc drives for mobile and small form factor CE products. Historically, we purchase approximately 70% of our aluminum substrates for recording media production from third parties. In December 2007, we announced the proposed closure of our substrate manufacturing facility in Limavady, Northern Ireland. The proposed closure is part of our ongoing focus on cost-efficiencies in all areas of our business. We plan to cease production at our Limavady facility during the first quarter of fiscal year 2009. We are in the process of adding an aluminum substrate manufacturing facility in Johor, Malaysia which will allow us to be more cost competitive and position us for future expansion, and reduce our external substrate purchases to approximately 50%. We expect meaningful output from our Johor facility in during the first quarter of fiscal year 2009.

Commodity and Other Manufacturing Costs

The production of disc drives requires precious metals, scarce alloys and industrial commodities, that are subject to fluctuations in prices, and the supply of which has at times been constrained. Recent increases in the price of many commodities have resulted in higher material costs for our products. Additionally, adverse economic conditions such as rising fuel costs may further increase our costs related to commodities, manufacturing and freight. Should we not be able to pass these increased costs onto our customers, our gross margins may be impacted.

In order to mitigate susceptibility to these conditions, we may maintain increased inventory of precious metals, scarce alloys and industrial commodities. In addition, we have increased our use of ocean shipments to help offset the increase in freight costs.

Capital Investments

In fiscal year 2008, we made $930 million of capital investments, $293 million of which we incurred in the June 2008 quarter. For fiscal year 2009, we expect approximately $1 billion in capital investment will be required to ensure continued alignment of our manufacturing capacity with customer demand and to finish our planned recording media and substrate capacity expansions in Asia, while we continue to improve our use of capital equipment.

Table of Contents

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 Years Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
		(In millions)	
Revenue	$ 12,708	$ 11,360	$ 9,206
Cost of revenue	9,503	9,175	7,069
Gross margin	3,205	2,185	2,137
Product development	1,028	904	805
Marketing and administrative	659	589	447
Amortization of intangibles	54	49	7
Restructuring and other	88	29	4
Income from operations	1,376	614	874
Other income (expense), net	(47)	(53)	50
Income before income taxes	1,329	561	924
Provision for (benefit from) income taxes	67	(352)	84
Net income	$ 1,262	$ 913	$ 840

	Fiscal Years Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
		(as a percentage of Revenue)	
Revenue	100%	100%	100%
Cost of revenue	75	81	77
Gross margin	25	19	23
Product development	8	8	9
Marketing and administrative	5	5	5
Amortization of intangibles		1	
Restructuring and other	1		
Income from operations	11	5	9
Other income (expense), net			1
Income before income taxes	11	5	10
Provision for (benefit from) income taxes	1	(3)	1
Net income	10%	8%	9%

Fiscal Year 2008 Compared to Fiscal Year 2007

Revenue

	Fiscal Years Ended			
(Dollars in millions)	**June 27, 2008**	**June 29, 2007**	**Change**	**% Change**
Revenue	$ 12,708	$ 11,360	$ 1,348	12%

Revenue growth in fiscal year 2008 reflected a 15% growth in the number of disc drives shipped. We believe unit growth was driven by continued growth in digital content, the resulting increase in demand for storage and customer acceptance of our new products. Industry disc drive demand across all markets grew by

49

18% from fiscal year 2007, with our share of the desktop and enterprise markets increasing by 5% and 6%, respectively, while our share of the mobile compute and consumer electronic markets declined by 6% and 10%, respectively. The increase in the number of units shipped and an improved mix of products shipped was partially offset by price erosion, which was relatively benign during the first half of the fiscal year as a result of favorable industry conditions, including well-balanced disc drive supply and demand, while being more pronounced during the second half of fiscal year 2008, as is consistent with historical seasonal patterns.

Our overall average sales price per unit (ASP) for our products was $68 for fiscal year 2008, down from $71 in fiscal year 2007, as an improved mix of products shipped was more than offset by price erosion.

Unit shipments for our products in fiscal year 2008 were as follows:

Enterprise 20.3 million, up from 16.7 million units in fiscal year 2007.

Mobile 26.7 million, up from 19.4 million units in fiscal year 2007.

Desktop 111 million, up from 97.8 million units in fiscal year 2007.

Consumer 24.6 million, down from 25.3 million units in fiscal year 2007.

We maintain various sales programs such as point-of-sale rebates, sales price adjustments and price protection, aimed at increasing customer demand. We exercise judgment in formulating the underlying estimates related to distributor and retail inventory levels, sales program participation and customer claims submittals in determining the provision for such programs. Sales programs recorded as contra revenue were approximately 9% of our gross revenue, for both fiscal years 2008 and 2007.

Cost of Revenue

	Fiscal Years Ended			
(Dollars in millions)	**June 27, 2008**	**June 29, 2007**	**Change**	**% Change**
Cost of revenue	$ 9,503	$ 9,175	$ 328	4%
Gross margin	$ 3,205	$ 2,185	$ 1,020	47%
Gross margin percentage	25%	19%		

For fiscal year 2008, cost of revenue increased due to a higher number of units shipped and a higher mix of products with higher average capacities, feature sets, and performance, partially offset by a 10% decline in the average cost per unit. The average cost per unit reduction was impacted by the more efficient utilization of our manufacturing capacity resulting from increased demand and the completed integration of Maxtor, transitions to more cost effective products, and the elimination of lower margin Maxtor designed products. The lower cost per unit combined with increased number of units shipped and improved mix of higher margin products resulted in gross margin improvement, which was partially offset by price erosion.

Product Development Expense

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Product development	$ 1,028	$ 904	$ 124	14%

Product development expense for fiscal year 2008 included $82 million in variable performance-based compensation compared to none in fiscal year 2007. Product development expenses associated with developing alternative technologies and storage services increased by $40 million, while depreciation and other research and development costs increased by approximately $29 million. These increases were partially offset by a decrease of $27 million in costs associated with the Maxtor acquisition.

Table of Contents

Marketing and Administrative Expense

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Marketing and administrative	$ 659	$ 589	$ 70	12%

Marketing and administrative expenses increased primarily due to increases of $53 million in variable performance-based compensation compared to none in fiscal year 2007, $29 million in additional payroll expense resulting from increased headcount and salary increases, $38 million increase in expenses related to our data storage services and $32 million in incremental legal expenses. These increases were partially offset by a charge of approximately $40 million in fiscal year 2007 for the provision of doubtful accounts receivable related to eSys Technologies Pte. Ltd. and its related affiliate entities (eSys) and a charge of $35 million for costs associated with the Maxtor acquisition in fiscal year 2007.

Amortization of Intangibles

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Amortization of intangibles	$ 54	$ 49	$ 5	10%

The increase in the amortization of intangibles was due primarily to the acquisition of EVault.

Restructuring and Other

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Restructuring and other	$ 88	$ 29	$ 59	203%

During fiscal year 2008, we recorded restructuring and other charges of $88 million, comprised mainly of restructuring charges related to the planned closures of our Limavady, Northern Ireland and our Milpitas, California operations.

The restructuring charges associated with the Limavady facility were primarily related to employee termination costs of approximately $29 million and approximately $18 million related to expected grant repayments. We plan to cease production at our Limavady facility during the first quarter of fiscal year 2009 and expect all activities related to this closure to be complete by the second half of fiscal year 2009. We expect additional restructuring charges of approximately $10 million to be recorded primarily over the next two quarters, resulting in aggregate restructuring charges of approximately $60 million to $65 million.

We recorded approximately $19 million in restructuring charges associated with employee termination costs related to the planned closure of our media manufacturing facility in Milpitas, California. We plan to cease production at our Milpitas facility during the first quarter of fiscal year 2009 and expect all activities related to this closure to be complete by the second half of fiscal year 2009. We expect additional restructuring charges of approximately $17 million to be recorded primarily over the next two quarters, resulting in an aggregate restructuring charge of approximately $36 million. In addition, as a result of the planned closure of the Milpitas facility, the Company expects approximately $38 million relating to accelerated asset depreciation to be recorded to cost of revenue in the first quarter of fiscal year 2009.

The remaining restructuring and other charges were primarily comprised of employee termination costs as a result of plans to continue the alignment of our global workforce with existing and anticipated business requirements around the world. We expect these restructuring activities to be completed by the end of our fourth quarter of fiscal year 2009.

Table of Contents

Net Other Income (Expense)

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Other income (expense), net	$ (47)	$ (53)	$ 6	-11%

The change in Net other expense was primarily due to the positive impacts of approximately $21 million in gains from asset sales and a $15 million decrease in interest expense due to costs related to the early redemption in fiscal year 2007 of our previously outstanding 8% Senior Notes due 2009, partially offset by a $16 million decrease in interest income due primarily to lower yields and the recognition of a $4 million loss related to deferred compensation plan assets compared to a gain of $19 million in the prior fiscal year. The corresponding gain or loss on deferred compensation plan liabilities is offset against compensation expenses in cost of revenue and operating expenses.

Income Taxes

	Fiscal Years Ended			
(Dollars in millions)	June 27, 2008	June 29, 2007	Change	% Change
Provision for (benefit from) income taxes	$ 67	$ (352)	$ 419	-119%

We recorded a provision for income taxes of $67 million for the fiscal year ended June 27, 2008 compared to a benefit from income taxes of $352 million for the fiscal year ended June 29, 2007. 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, Switzerland and Thailand. These tax holidays or incentives are scheduled to expire in whole or in part at various dates through 2020.

Our provision for income taxes recorded for the fiscal year ended June 27, 2008 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) a decrease in our valuation allowance for certain deferred tax assets, and (iii) tax expense related to intercompany transactions. Our provision for income taxes recorded for the fiscal year ended June 29, 2007 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the net effect of (i) a decrease in our valuation allowance for certain deferred tax assets and (ii) the tax benefit related to the aforementioned tax holidays and tax incentive programs.

Based on our foreign ownership structure and subject to (i) potential future increases in our valuation allowance for deferred tax assets and (ii) limitations imposed by Internal Revenue Code Section 382 (IRC Section 382) on usage of certain tax attributes (further described below), we anticipate that our effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from our U.S. subsidiaries may be subject to U.S. withholding taxes when and if distributed. Deferred tax liabilities have not been recorded on unremitted earnings of certain foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal income tax if remitted to our foreign parent holding company.

As of June 27, 2008, the deferred tax asset valuation allowance recorded was $433 million. Approximately $22 million of this amount relates to deferred tax assets acquired in the Maxtor acquisition for which the related benefit will be credited directly to goodwill when and if realized. The

net increase in the valuation allowance in

fiscal year 2008 was $34 million. In fiscal years 2007 and 2006, the valuation allowance decreased by $580 million and increased by $327 million respectively. The fiscal year 2007 valuation allowance release was largely due to the completion during 2007 of the restructuring of the Company s intercompany arrangements, which enables the Company to forecast future U.S. taxable income with greater certainty and U.S. taxable income from the intercompany sale of certain Maxtor assets.

As of June 27, 2008, we recorded net deferred tax assets of $890 million. The realization of $808 million of these deferred tax assets is primarily dependent on our ability to generate sufficient U.S. and certain foreign taxable income in future periods. Although realization is not assured, we believe that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease, when we reevaluate the underlying basis for our estimates of future U.S. and certain foreign taxable income.

As a result of the Maxtor acquisition, Maxtor underwent a change in ownership within the meaning of IRC Section 382 on May 19, 2006. In general, IRC Section 382 places annual limitations on the use of certain tax attributes such as net operating losses and tax credit carryovers in existence at the ownership change date. As of June 27, 2008, $ 1.3 billion and $337 million of U.S. federal and state net operating losses, respectively, and $36 million of tax credit carryovers acquired from Maxtor are generally subject to an annual limitation of approximately $110 million. Certain amounts may be accelerated into the first five years following the acquisition pursuant to IRC Section 382 and published notices.

On January 3, 2005, we underwent a change in ownership under IRC Section 382 due to the sale of common shares to the public by our then largest shareholder, New SAC. Based on an independent valuation as of January 3, 2005, the annual limitation for this change is $44.8 million. As of June 27, 2008, there were $453 million of U.S. net operating loss carryforwards and $110 million of U.S. tax credit carryforwards subject to IRC Section 382 limitation associated with the January 3, 2005 change. To the extent we believe it is more likely than not that the deferred tax assets associated with tax attributes subject to this IRC Section 382 limitation will not be realized, a valuation allowance has been provided.

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

As a result of the implementation of FIN 48, we increased our liability for net unrecognized tax benefits at the date of adoption. We accounted for the increase primarily as a cumulative effect of a change in accounting principle that resulted in a decrease to retained earnings of $3 million and an increase to goodwill of $25 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $385 million excluding interest and penalties. At June 27, 2008, we had approximately $374 million in total unrecognized tax benefits excluding interest and penalties. The total unrecognized tax benefits that, if recognized, would impact the effective tax rate were $63 million and $75 million as of June 29, 2007 and June 27, 2008, respectively.

Our policy to include interest and penalties related to unrecognized tax benefits in the provision for taxes on the Condensed Consolidated Statements of Operations did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, we had accrued approximately $19 million for the payment of interest and penalties relating to unrecognized tax benefits. This accrual increased by $3 million to approximately $22 million as of June 27, 2008.

During the 12 months ending June 27, 2008, we recognized a previously unrecognized tax benefit of approximately $13 million related to the recognition of foreign uncertain tax benefits as a result of new information obtained during the year. We also recognized a previously unrecognized tax benefit of approximately $9 million for foreign uncertain tax benefits resulting in a reduction of the Maxtor goodwill as a result of the expiration of certain foreign statutes of limitation for pre-acquisition periods.

During the 12 months beginning June 28, 2008, we expect to reduce our unrecognized tax benefits by approximately $21 million as a result of the expiration of certain statutes of limitation. We do not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the resolution or timing of closure on open audits are highly uncertain as to when these events occur.

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

Fiscal Year 2007 Compared to Fiscal Year 2006

The fiscal year 2007 results include the results of Maxtor for the entire year, while fiscal year 2006 include the results of Maxtor from May 19, 2006 to June 30, 2006. In connection with the Maxtor acquisition, we incurred a number of accounting charges and other costs, which impacted our earnings for the entire fiscal year 2007 and during the fourth quarter of fiscal year 2006.

Revenue

	Fiscal Years Ended			
(Dollars in millions)	**June 29, 2007**	**June 30, 2006**	**Change**	**% Change**
Revenue	$ 11,360	$ 9,206	$ 2,154	23%

The increase in revenue from fiscal year 2006 was driven by a 34% increase in the unit volume of disc drives shipped from 118.7 million units to 159.2 million units principally as a result of the retention of a portion of Maxtor s market share, offset by a 9% reduction in our average sales price from $78 to $71 per unit and a weaker than anticipated demand for large capacity 3.5-inch ATA disc drives. The comparative decrease in average sales price per unit in the period resulted from price erosion that more than offset improved product mix.

Unit shipments for our products in fiscal year 2007 were as follows:

Enterprise 16.7 million, up from 14.3 million units in fiscal year 2006.

Mobile 19.4 million, up from 12.5 million units in fiscal year 2006.

Desktop 97.8 million, up from 73.8 million units in fiscal year 2006.

Consumer 25.3 million, up from 18.1 million units in fiscal year 2006.

We maintain various sales programs aimed at increasing customer demand. We exercise judgment in formulating the underlying estimates related to distributor and retail inventory levels, sales program participation and customer claims submittals in determining the provision for such programs. During fiscal year 2007, sales programs recorded as contra revenue, were approximately 9% of our gross revenue, compared to 7% of our gross revenue for fiscal year 2006. The increase in sales programs as a percentage of gross revenue from fiscal year 2006 was primarily the result of a higher mix of sales to distributors and retail customers which generally require higher program support than OEM sales and to a more aggressive pricing environment. Point-of-sale rebates, sales price adjustments and price protection accounted for a substantial portion of the increase in sales programs.

Table of Contents

Cost of Revenue

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Cost of revenue	$ 9,175	$ 7,069	$ 2,106	30%
Gross margin	$ 2,185	$ 2,137	$ 48	2%
Gross margin percentage	19%	23%		

The increase in cost of revenue for fiscal year 2007 was principally as a result of the acquisition of Maxtor. The gross margin percentage decrease from fiscal year 2006 was due to the sale of lower margin Maxtor designed products during the first six months of fiscal year 2007; costs and charges related to our acquisition of Maxtor during fiscal year 2007 (including integration and retention costs of $54 million, stock-based compensation of $27 million, amortization of existing technology of $150 million, and an $18 million accrual for the settlement of customer compensatory claims associated with quality issues related to legacy Maxtor products shipped prior to the closing of the Maxtor acquisition); and an aggressive pricing environment in fiscal year 2007, particularly in the high capacity 3.5-inch and mobile markets in the first half of the year, and the low end OEM desktop and mobile markets in the second half. These effects were partially offset by the elimination of variable performance-based compensation for fiscal year 2007, compared to an expense of $76 million recorded in Cost of revenue in fiscal year 2006.

Product Development Expense

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Product development	$ 904	$ 805	$ 99	12%

The increase in product development expense from fiscal year 2006 was primarily due to increases of $115 million in salaries and benefits resulting from increased staffing levels due in part to the retention of certain Maxtor employees, and $10 million in stock-based compensation related to the Maxtor acquisition, $7 million in non-Maxtor stock-based compensation and $4 million in the write-off of in-process research and development related to our acquisition of EVault, partially offset by the elimination of variable performance-based compensation for fiscal year 2007, compared to an expense of $46 million in fiscal year 2006.

Marketing and Administrative Expense

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Marketing and administrative	$ 589	$ 447	$ 142	32%

The increase in marketing and administrative expense from fiscal year 2006 was primarily due to the recording in our first quarter of a $40 million increase in the provision for doubtful accounts receivable related to eSys, previously a distributor of Seagate products, an increase of $86 million in salaries and benefits resulting from increased staffing levels due in part to the retention of certain Maxtor employees, an increase of $5 million in integration and retention costs related to the Maxtor acquisition, an increase of $11 million in advertising expense and an increase of $11 million in non-Maxtor stock-based compensation. These increases were partially offset by the elimination of variable

performance-based compensation for fiscal year 2007, compared to an expense of $41 million in fiscal year 2006.

Table of Contents

Amortization of Intangibles

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Amortization of intangibles	$ 49	$ 7	$ 42	600%

The increase in the Amortization of intangibles was primarily due Maxtor and EVault acquisitions.

Restructuring and Other

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Restructuring and other	$ 29	$ 4	$ 25	625%

During fiscal year 2007, we recorded restructuring costs of approximately $33 million in connection with our ongoing restructuring activities and reversed $4 million of restructuring accruals relating to the sale of a surplus building impaired in a prior restructuring. These costs were primarily a result of a restructuring plan established to continue the alignment of our global workforce with existing and anticipated business requirements, primarily in our U.S. and Far East operations and asset impairments. The restructuring costs were comprised of employee termination costs of approximately $14 million relating to a reduction in our workforce, approximately $11 million in charges related to impaired facility improvements and equipment as a result of the alignment plan, and approximately $8 million in charges related to impaired other intangibles. These restructuring activities are expected to be completed by the end of fiscal year 2008.

Net Other Income (Expense)

	Fiscal Years Ended			
(Dollars in millions)	June 29, 2007	June 30, 2006	Change	% Change
Other income (expense), net	$ (53)	$ 50	$ (103)	-206%

Net other income changed by $103 million from net other income of $50 million in fiscal year 2006 to net other expense of $53 million in fiscal year 2007. The change in Net other income from fiscal year 2006 was primarily due to an increase in interest expense of $81 million related to our new $1.5 billion long-term debt issued in September 2006, as well as debt acquired in the Maxtor acquisition, and expenses of $19 million incurred in October 2006 related to the early retirement of our 8% Notes.

Income Taxes

	Fiscal Years Ended	
(Dollars in millions)		Change

	June 29, 2007	June 30, 2006		% Change
Provision for (benefit from) income taxes	$ (352)	$ 84	$ (436)	-519%

We recorded a benefit from income taxes of $352 million for the fiscal year ended June 29, 2007 compared to a provision for income taxes of $84 million for the fiscal year ended June 30, 2006. 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, Switzerland and Thailand. These tax holidays or incentives are scheduled to expire in whole or in part at various

dates through 2020. Our provision for income taxes recorded for the fiscal year ended June 29, 2007 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the net effect of (i) a decrease in our valuation allowance for certain deferred tax assets and (ii) the tax benefit related to the aforementioned tax holidays and tax incentive programs. Our provision for income taxes recorded for the fiscal year ended June 30, 2006 differed from the provision for income taxes that would be derived by applying a notional U.S. 35% rate to income before income taxes primarily due to the net effect of (i) the tax benefit related to the aforementioned tax holidays and tax incentive programs, (ii) an increase in our valuation allowance for certain deferred tax assets, and (iii) utilization of research tax credits generated in that year.

Based on our foreign ownership structure and subject to (i) potential future increases in our valuation allowance for deferred tax assets and (ii) limitations imposed by Internal Revenue Code Section 382 (IRC Section 382) on usage of certain tax attributes, we anticipated that our effective tax rate in future periods will generally be less than the U.S. federal statutory rate. Dividend distributions received from our U.S. subsidiaries may be subject to U.S. withholding taxes when and if distributed. Deferred tax liabilities have not been recorded on unremitted earnings of certain foreign subsidiaries, as these earnings will not be subject to tax in the Cayman Islands or U.S. federal income tax if remitted to our foreign parent holding company.

During fiscal year ended June 29, 2007, we reduced our valuation allowance recorded in prior years for our deferred tax assets by $641 million. This release of valuation allowance was largely due to the completion during fiscal 2007 of the restructuring of our intercompany arrangements, which enabled us to forecast our U.S. profits with greater certainty and the recording of a U.S. taxable gain in connection with the intercompany sale of certain Maxtor intangible assets as described below. As a result of the valuation allowance release, we recorded a U.S. deferred tax benefit of $319 million and a $322 million reduction in the goodwill originally recorded in connection with the Maxtor acquisition. The reduction in goodwill was required in accordance with SFAS No. 109 as a result of the reversal of valuation allowance that had been previously recorded as of the date of acquisition against Maxtor related deferred tax assets primarily for tax net operating loss carryovers. The valuation allowance was reduced primarily to reflect the realization of acquired Maxtor net operating loss carryforwards due to increased forecasts of future U.S. taxable income and a $296 million gain for U.S. tax purposes from the intercompany sale of certain intellectual property rights to a foreign subsidiary. Approximately $120 million of tax expense associated with the gain on the intercompany sale of intangibles has been capitalized in accordance with Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB No. 51) and is being amortized to income tax expense over a sixty-month period, which approximates the expected useful life of the intangibles sold in the intercompany transaction.

As of June 29, 2007, we recorded net deferred tax assets of $768 million, the realization of $663 million of which is primarily dependent on our ability to generate sufficient taxable income in future periods. Although realization is not assured, we believe that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when we reevaluate our estimates of future taxable income.

Liquidity and Capital Resources

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

We had approximately $1.1 billion in cash, cash equivalents and short-term investments at June 27, 2008, which includes $990 million of cash and cash equivalents, which was flat from fiscal year 2007. During fiscal year 2008, cash provided by operating activities and cash provided by employee stock option exercises and employee stock purchases were offset by capital expenditures, the repurchase of our common shares, dividends paid to shareholders and the acquisition of MetaLINCS, Inc. (MetaLINCS).

57

Table of Contents

In September 2006, Seagate Technology HDD Holdings (HDD), our wholly-owned direct subsidiary issued senior notes totaling $1.5 billion comprised of $300 million aggregate principal amount of Floating Rate Senior Notes due October 2009 (the 2009 Notes), $600 million aggregate principal amount of 6.375% Senior Notes due October 2011 (the 2011 Notes) and $600 million aggregate principal amount of 6.800% Senior Notes due October 2016 (the 2016 Notes). The notes are guaranteed by Seagate Technology on a full and unconditional basis.

As of June 27, 2008, we held auction rate securities in the amount of $31 million, all of which are collateralized by pools of student loans guaranteed by the Federal Family Education Loan Program. During the fiscal 2008 year, these securities failed to settle at auction and as a result we recorded an unrealized loss of $3 million and reclassified the securities to long-term investments.

At June 27, 2008, our exposure to sub-prime mortgage securities was not significant. As of the date of this filing, we are not aware of any downgrades, losses, or other significant deterioration in the fair value of our cash equivalents or short-term investments since June 27, 2008.

Until required for other purposes, our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk. We mitigate default risk by maintaining portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We 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 intend to maintain a highly liquid portfolio by investing only in those marketable securities that we believe have active secondary or resale markets. We operate in some countries that may have restrictive regulations over the movement of cash and/or foreign exchange across their borders. These restrictions have not impeded our ability to conduct business in those countries, nor do we expect them to in the next 12 months.

The following table summarizes results of statement of cash flows for the periods indicated:

	Fiscal Years Ended		
(Dollars in millions)	**June 27, 2008**	**June 29, 2007**	**June 30, 2006**
Net cash flow provided by (used in):			
Operating Activities	$ 2,538	$ 943	$ 1,457
Investing Activities	$ (991)	$ (402)	$ (561)
Financing Activities	$ (1,545)	$ (463)	$ (732)
Net increase in cash and cash equivalents	$ 2	$ 78	$ 164

Cash Provided by Operating Activities

Cash provided by operating activities for fiscal year 2008 was approximately $2.5 billion and included the effects of:

net income adjusted for non-cash items including depreciation, amortization, and stock-based compensation;

an increase of $351 million in accounts payable, primarily as a result of outsourcing the manufacture of certain sub-assemblies to third parties;

an increase of $238 million in vendor non-trade receivables, primarily as a result of outsourcing the manufacture of certain sub-assemblies to third parties (see Note 2 to the Notes to Consolidated Financial Statements);

an increase of $151 million in inventories, principally raw materials and finished goods; and

an increase of $154 million in accrued expenses, employee compensation and warranty.

Table of Contents

Cash provided by operating activities for fiscal year 2007 was approximately $943 million and included the effects of:

- net income adjusted for non-cash items including depreciation, amortization, stock-based compensation and tax benefits related to a change in our valuation allowance for deferred tax assets;
- a decrease of $391 million in accounts payable;
- a decrease of $465 million in accrued expenses, employee compensation and warranty. A large part of this increase was due to variable performance-based compensation earned during fiscal year 2006 and paid in fiscal year 2007;
- the payment of accrued exit costs and retention bonuses related to the Maxtor acquisition; and
- a reduction of $106 million in inventories.

Cash provided by operating activities for fiscal year 2006 was approximately $1.5 billion and included the effects of:

- net income adjusted for non-cash items including depreciation, amortization and stock-based compensation;
- increases of $190 million in accounts receivable and $113 million in inventories; and
- increases of $91 million in accounts payable and $120 million in accrued expenses, employee compensation and warranty.

Cash Used in Investing Activities

During fiscal year 2008, we used $991 million for net cash investing activities, which was primarily attributable to expenditures for property, equipment and leasehold improvements of approximately $930 million and $74 million for the acquisition of MetaLINCS. The approximately $930 million we invested in property, equipment and leasehold improvements was primarily comprised of:

- $88 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the Far East;
- $490 million to upgrade and expansion of our recording media operations in the United States, Malaysia and Singapore;
- $184 million for manufacturing facilities and equipment for our recording head operations in the United States, the Far East and Northern Ireland;

- $65 million for manufacturing facilities and equipment for alternative technologies in the United States; and

- $103 million for research and development, information technology infrastructure and other facilities and equipment costs.

During fiscal year 2007, we used $402 million for net cash investing activities, which was primarily attributable to expenditures for property, equipment and leasehold improvements of approximately $906 million and $178 million (net of cash acquired) for the acquisition of EVault, partially offset by $675 million of maturities and sales of short-term investments in excess of purchases of short-term investments. The approximately $906 million we invested in property, equipment and leasehold improvements was primarily comprised of:

- $192 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the Far East;

- $414 million to upgrade and expansion of our recording media operations in the United States, Singapore and Northern Ireland;

Table of Contents

- $167 million for manufacturing facilities and equipment for our recording head operations in the United States, the Far East and Northern Ireland;

- $20 million for manufacturing facilities and equipment for alternative technologies in the United States; and

- $113 million for research and development, information technology infrastructure and other facilities and equipment costs.

During fiscal year 2006, we used $561 million for net cash investing activities, which was primarily attributable to expenditures for property, equipment and leasehold improvements partially offset by the maturities and sales of short-term investments in excess of purchases thereof, as well as net cash acquired from Maxtor. Specifically, during fiscal year 2006, we invested approximately $1.0 billion in property, equipment and leasehold improvements primarily comprised of:

- $376 million for manufacturing facilities and equipment related to our subassembly and disc drive final assembly and test facilities in the Far East;

- $143 million to upgrade and expansion of our recording media operations in the United States, Singapore and Northern Ireland;

- $337 million for manufacturing facilities and equipment for our recording head operations in the United States, the Far East and Northern Ireland;

- $10 million for manufacturing facilities and equipment for alternative technologies in the United States; and

- $142 million for research and development, information technology infrastructure, as well as Maxtor and other facilities and equipment costs.

During fiscal years 2006 through 2008, we increased capacity to support increased unit shipments and additional capacity for the ramp-up and production of Seagate-designed disc drive products to replace legacy Maxtor-designed products and to continue with our planned media and substrate capacity expansions in Asia. For fiscal year 2009, we expect approximately $1 billion in capital investment will be required to ensure continued alignment of our manufacturing capacity with of customer demand and to finish our planned recording media and substrate capacity expansions in Asia, while we continue to improve our utilization of capital equipment.

Cash Used in Financing Activities

Net cash used in financing activities of approximately $1.5 billion for fiscal year 2008 was primarily attributable to the repurchases of our common shares totaling $1.5 billion. Additionally, we paid approximately $216 million in dividends to our shareholders, repaid $34 million of our long-term debt and received approximately $178 million in cash from employee stock option exercises and employee stock purchases.

Net cash used in financing activities of $463 million for fiscal year 2007 was primarily attributable to approximately $1.5 billion used for the repurchases of our common shares, $416 million used in the redemption of our 8% Notes and $212 million of dividends paid to our

shareholders, largely offset by approximately $1.5 billion received from the issuance of long-term debt and $219 million cash provided by employee stock option exercises and employee stock purchases.

Net cash used in financing activities of $732 million for fiscal year 2006 was primarily attributable to $399 million used in the repurchases of common shares, the repayment of a $340 million term loan and $155 million of dividends paid to our shareholders, partially offset by $118 million cash provided by employee stock option exercises and employee stock purchases.

Liquidity Sources and Cash Requirements and Commitments

Our principal sources of liquidity as of June 27, 2008, consisted of: (1) approximately $1.1 billion in cash, cash equivalents, and short-term investments, (2) cash we expect to generate from operations and (3) a $500 million revolving credit facility.

Our $500 million revolving credit facility that matures in September 2011 is available for cash borrowings and for the issuance of letters of credit up to a sub-limit of $100 million. Although no borrowings have been drawn under this revolving credit facility to date, we had used $62 million for outstanding letters of credit and bankers guarantees as of June 27, 2008, leaving $438 million for additional borrowings, subject to compliance with financial covenants and other customary conditions to borrowing.

The credit agreement that governs our revolving credit facility contains covenants that we must satisfy in order to remain in compliance with the agreement. This credit agreement contains three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. As of June 27, 2008, we are in compliance with all covenants.

In October 2006, we used $416 million of the net proceeds from the September 2006 issuance of $1.5 billion debt to redeem the $400 million principal amount of our 8% Notes and pay a $16 million redemption premium.

Our principal liquidity requirements are primarily to meet our working capital, research and development, capital expenditure needs, and to service our debt. In addition, since the second half of fiscal year 2002 and through the June 2008 quarter, we have paid dividends to our shareholders.

On August 17, 2007, November 16, 2007, February 16, 2008 and May 16, 2008, we paid dividends aggregating approximately $216 million, or $0.42 per share, to our common shareholders of record as of August 3, 2007, November 2, 2007, February 1, 2008 and May 2, 2008. On July 15, 2008, we declared a quarterly dividend of $0.12 per share that will be paid on or before August 15, 2008 to our common shareholders of record as of August 1, 2008. In deciding whether or not to declare quarterly dividends, our directors will take into account such factors as general business conditions within the disc drive industry, our financial results, our capital requirements, contractual and legal restrictions on the payment of dividends by our subsidiaries to us or by us to our shareholders, the impact of paying dividends on our credit ratings and such other factors as our board of directors may deem relevant.

With respect to the closure of our Limavady and Milpitas facilities, we expect to pay cash restructuring charges aggregating approximately $25 million to $30 million in the next 12 months.

Because we had current earnings and profits in excess of distributions for our taxable year ended June 27, 2008, distributions on our common shares to U.S. shareholders during this period were treated as dividend income for U.S. federal income tax purposes. We anticipate that we will have earnings and profits in excess of distributions in fiscal year 2009. Therefore, distributions to U.S. shareholders in fiscal year 2009 are anticipated to be treated as dividend income for U.S. federal income tax purposes. Non-U.S. shareholders should consult with a tax advisor to determine appropriate tax treatment.

As a result of the acquisition of Maxtor, we assumed all of Maxtor s outstanding debts, including, without limitation, its outstanding convertible senior notes. Maxtor s 2.375% Convertible Senior Notes due August 2012 (the 2.375% Notes), of which $326 million were outstanding as of June 27, 2008, contain a cash conversion feature that will require Seagate to deliver the holders, upon any conversion of these notes, cash in an amount equal to the lesser of (a) the principal amount of the notes converted and (b) the as-converted value of the notes. We will also be required to deliver an additional amount equal to the difference between the as-converted value of the notes and the principal amount in either cash or stock at our election. To the extent holders of the Maxtor

notes choose to convert their notes, Seagate may require additional amounts of cash to meet this obligation. The payment of dividends to holders of the Company s common shares have in certain quarters resulted in upward adjustments to the conversion rate of the 2.375% Notes and may continue in the future. If the conversion rate continues to increase, we may be required to book an increased amount of interest expense.

In December 2007, we completed our acquisition of MetaLINCS, in an all cash transaction valued at approximately $74 million. MetaLINCS provides enterprise level E-Discovery software that helps companies respond to litigation and regulatory issues which requires them to search large volumes of electronic data for relevant information.

During fiscal year 2008, we repurchased approximately 65 million of our common shares through open market repurchases at an average price of $22.89 for a total of approximately $1.5 billion. We repurchased approximately $974 million under the $2.5 billion August 2006 stock repurchase plan and approximately $500 million under a new plan announced on February 4, 2008, to repurchase up to an additional $2.5 billion of our outstanding common shares over 24 months. As of June 27, 2008 we had no amounts remaining under the August 2006 stock repurchase plan and had approximately $2.0 billion remaining under the February 2008 stock repurchase plan. See Part II, Item 5: Market for Registrant s Common Shares, Related Shareholder Matters and Issuer Purchases of Equity Securities Repurchases of Our Equity Securities. During fiscal year 2007, we repurchased 62 million shares for $1.5 billion.

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

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

Contractual Obligations and Commitments

Our contractual cash obligations and commitments as of June 27, 2008, have been summarized in the table below (in millions):

			Fiscal Year(s)		
	Total	**2009**	**2010-2011**	**2012-2013**	**Thereafter**
Contractual Cash Obligations:					
Long term debt (1)	$ 2,037	$ 361	$ 446	$ 630	$ 600
Interest payments on long-term debt	560	113	190	114	143
Capital expenditures	289	243	46		
Operating leases (2)	281	42	77	54	108
Purchase obligations (3)	3,783	3,257	517		9

Subtotal	6,950	4,016	1,276	798	860
Commitments:					
Letters of credit or bank guarantees	89	88	1		
Total	$ 7,039	$ 4,104	$ 1,277	$ 798	$ 860

62

(1) Included in long term debt for fiscal year 2009, is the principal amount of $326 million related to our 2.375% Notes which is payable upon the conversion of the 2.375% Notes, which are currently convertible as our share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the fourth quarter of fiscal year 2008. Unless earlier converted, the 2.375% Notes must be redeemed in August 2012.

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

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

As a result of the adoption of FIN 48, we reclassified unrecognized tax benefits to long-term income taxes payable. As of June 27, 2008, we had a liability for unrecognized tax benefits including accrual for the payment of related interest totaling $210 million, none of which is expected to be paid within one year. We are unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

Off-Balance Sheet Arrangements

As of June 27, 2008, we did not have any material off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Critical Accounting Policies

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 sales program accruals, establishment of warranty accruals, accounting for income taxes, and the valuation of intangibles and goodwill. 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, valuation of inventory, valuation of share-based payments and acquisition related restructuring. We believe that these other accounting policies and 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. For the distribution channel, these programs typically involve rebates related to a distributor s level of sales, order size, advertising or point of sale activity and price protection adjustments. For OEM sales, rebates are typically based on an OEM customer s volume of purchases from Seagate or other agreed upon rebate programs. We provide for these obligations at the time that revenue is recorded based on estimated requirements. We estimate these contra-revenue rebates and adjustments based on various factors, including price reductions during the period reported, estimated future price erosion, customer orders, distributor sell-through and inventory levels, program participation, customer claim submittals and sales returns. Our estimates reflect contractual arrangements but also our judgment relating to variables such as customer claim rates and attainment of program goals, and inventory and sell-through levels reported by our distribution customers.

While we believe we have sufficient experience and knowledge of the market and customer buying patterns to reasonably estimate such rebates and adjustments, actual market conditions or customer behavior could differ from our expectations. As a result, actual payments under these programs, which may spread over several months

after the related sale, may vary from the amount accrued. Accordingly, revenues and margins in the period in which the adjustment occurs may be affected. For example, if the pricing environment is more competitive than we anticipated, accruals for forward price protection rebates may be inadequate. In addition, during periods in which our distributors inventories of our products are at higher than historical levels, our contra-revenue estimates are subject to a greater degree of subjectivity and the potential for actual results to vary is accordingly higher. Currently, our distributors inventories are within the historical range.

Significant actual variations in any of the factors upon which we base our contra-revenue estimates could have a material effect on our operating results. Since fiscal year 2006, total sales programs have ranged from 7% to 9% of gross revenues. Due to the competitive pricing environment in our industry, sales programs as a percentage of gross revenue may increase from the current range. If such rebates and incentives trend upwards, revenues and margins will be reduced. Adjustments to revenues due to under or over accruals for sales programs related to revenues reported in prior periods have averaged 0.3% of quarterly gross revenue for fiscal years 2006 through 2008.

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.

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 three to five years. Our warranty provision considers estimated product failure rates and trends (including the timing of product returns during the warranty periods), estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. We use a statistical model to help with our estimates and we exercise considerable judgment in determining the underlying estimates. Should actual experience in any future period differ significantly from our estimates, or should the rate of future product technological advancements fail to keep pace with the past, our future results of operations could be materially affected. Our judgment is subject to a greater degree of subjectivity with respect to newly introduced products and legacy Maxtor designed products because of limited experience with those products upon which to base our warranty estimates.

The actual results with regard to warranty expenditures could have a material adverse effect on our results of operations if the actual rate of unit failure, the cost to repair a unit, or the actual cost required to satisfy customer compensatory claims are greater than that which we have used in estimating the warranty accrual. Since we typically outsource our warranty repairs, our repair cost is subject to periodic negotiations with vendors and may vary from our estimates. We also exercise judgment in estimating our ability to sell certain repaired disc drives. To the extent such sales fall below our forecast, warranty cost will be adversely impacted.

Our warranty cost has ranged from approximately 2% to 2.5% of revenue over the last three years. We review our warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that will impact the current period gross margins and income. Re-estimates of prior warranty accruals have approximated 0.5% or less of revenue in fiscal years 2006, 2007 and 2008. Higher than anticipated failures of specific products (as we had in fiscal years 2004 and 2005) and significant increases in repair or replacement costs driven by reduced sales for refurbished products (as during the fiscal years 2006 and 2007) have historically been the major reasons for significant re-estimates.

Income Taxes. We account for income taxes pursuant to SFAS No. 109 and related pronouncements. In applying, SFAS No. 109, we make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, recognition of income and deductions and in the calculation of specific tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as tax liabilities associated with uncertain tax positions. The deferred tax assets we record each period depend primarily on our ability to generate future taxable income in the United States and certain foreign jurisdictions. Each

period, we evaluate the need for a valuation allowance on our deferred tax assets and, if necessary, adjust the valuation allowance so that net deferred tax assets are recorded only to the extent we conclude it is more likely than not that these deferred tax assets will be realized. If our outlook for future taxable income changes significantly, our assessment of the need for a valuation allowance may also change.

In the first quarter of fiscal year 2008, we adopted FIN 48 see Part II, Item 8, Note 4 for additional discussion. The calculation of our tax liabilities involves uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the Internal Revenue Service or other tax jurisdiction. If our estimates of these tax liabilities are greater or less than actual results, an additional tax benefit or provision will result.

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

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

At June 27, 2008, our goodwill totaled approximately $2.4 billion and our identifiable other intangible assets totaled $111 million. In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we assess the impairment of goodwill at least annually, or more often if warranted by events or changes in circumstances indicating that the carrying value may exceed its fair value. This assessment may require the projection and discounting of cash flows, analysis of our market capitalization and estimating the fair values of tangible and intangible assets and liabilities. Estimates of cash flow are based upon, among other things, certain assumptions about expected future operating performance; judgment is also exercised in determining an appropriate discount rate. Our estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model, or changes in operating performance. Significant differences between these estimates and actual cash flows could materially affect our future financial results.

Recent Accounting Pronouncements

In June 2008, FASB Emerging Issues Task Force (EITF) issued Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* (EITF No. 07-5). EITF No. 07-5 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock. EITF No. 07-5 would require us to account for our embedded conversion options as derivatives and record them on our balance sheet as a liability with subsequent fair value changes recorded in the income statement. Although EITF No. 07-5 would have no impact on our actual past or future cash flows, it may require us to record an additional liability on our consolidated balance sheet. Subsequent fair value adjustments may result in significant charges or credits recorded in our consolidated statement of operations. As a result, our

financial position and results of operations and earnings per share may be impacted. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. During fiscal year 2009, we will be evaluating the impact of the pending adoption of EITF No. 07-5 on our fiscal year 2010 consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP), Accounting Principles Board (APB) Opinion No. 14, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*) (FSP APB No. 14), which, may require us to recognize additional non-cash interest expense related to our Convertible Senior Notes in our consolidated statements of operations. FSP APB No. 14 requires the issuer to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB No. 14 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. FSP APB No. 14 must be applied retrospectively to all periods presented pursuant to the guidance of SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). Our accounting for the 2.375% Notes acquired from Maxtor and therefore our results of operations and financial condition may be impacted by this FSP APB No. 14. During fiscal year 2009, we will be evaluating the impact of FSP APB No. 14 on our fiscal year 2010 consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. During fiscal year 2009, we will be evaluating the impact of the pending adoption of FSP FAS 142-3 on our fiscal year 2010 consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires disclosure of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We will be evaluating the impact of the pending adoption of SFAS No. 161 on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring liabilities, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We currently believe that the adoption of SFAS No. 141(R) will result in the recognition of certain types of expenses on our results of operations that are currently capitalized pursuant to existing accounting standards, amongst other potential impacts. SFAS No. 141(R) will impact the accounting for business combinations completed by us on or after adoption in our fiscal year 2010.

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

after November 15, 2007. We do not expect to adopt SFAS No. 159 with respect to our current assets and liabilities but will continue to evaluate the potential application of SFAS No. 159 on an on-going basis.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will adopt SFAS No. 157 for financial assets in our fiscal year 2009 and for non-financial assets in our fiscal year 2010. We are currently evaluating the impact of the pending adoption of SFAS No. 157 on our consolidated results of operations and financial condition.

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.

As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk. We mitigate default risk by maintaining portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository. We maintain a highly liquid portfolio by investing only in marketable securities with active secondary or resale markets. At June 27, 2008, our exposure to sub-prime mortgage securities was not significant. As of the date of this filing, we are not aware of any downgrades, losses or other significant deterioration in the fair value of our cash equivalents or short-term investments since June 27, 2008.

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

At June 27, 2008, we had no marketable securities that had been in a continuous unrealized loss position for a period greater than 12 months and determined no investments were other-than-temporarily impaired.

Investment Securities. As of June 27, 2008, we held auction rate securities in the amount of $31 million, all of which are collateralized by pools of student loans guaranteed by the Federal Family Education Loan Program. During the fiscal 2008 year, these securities failed to settle at auction and as a result we recorded an unrealized loss of $3 million and reclassified the securities to long-term investments.

Table of Contents

The table below presents principal amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations as of June 27, 2008. All investments, other than our auction rate securities, mature in three years or less. Included in long term debt for fiscal year 2009, is the principal amount of $326 million related to our 2.375% Notes which is payable upon the conversion of the 2.375% Notes, which are currently convertible, as our share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the fourth quarter of fiscal year 2008. Unless earlier converted, the 2.375% Notes must be redeemed in August 2012.

Fiscal Years Ended

	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value June 27, 2008
				(in millions, except percentages)				
Assets								
Cash equivalents:								
Fixed rate	$ 911	$	$	$	$	$	$ 911	$ 911
Average interest rate	2.41%						2.41%	
Short-term investments:								
Fixed rate	$ 90	$ 35	$ 25	$	$	$	$ 150	$ 151
Average interest rate	4.21%	5.38%	4.33%				4.51%	
Long-term investments:								
Variable rate	$	$	$	$	$	$ 31	$ 31	$ 28
Average interest rate						2.64%	2.64%	
Total investment securities	$ 1,001	$ 35	$ 25	$	$	$ 31	$ 1,092	$ 1,090
Average interest rate	2.57%	5.38%	4.33%			2.64%	2.71%	
Long-Term Debt								
Fixed rate	$ 331	$ 141	$ 5	$ 630	$	$ 600	$ 1,707	$ 1,743
Average interest rate	2.43%	6.76%	5.75%	6.35%		6.80%	5.78%	
Variable rate	$ 30	$ 300					$ 330	$ 323
Average interest rate	3.41%	3.64%					3.62%	

Foreign Currency Exchange Risk. We recognize all of our derivative financial instruments, principally foreign currency forward contracts, on the balance sheet as either assets or liabilities and these derivative financial instruments are carried at fair value.

We may enter into foreign currency forward contracts to manage exposure related to certain foreign currency commitments, certain foreign currency denominated balance sheet positions and anticipated foreign currency denominated expenditures. Our policy prohibits us from entering into derivative financial instruments for speculative or trading purposes. During fiscal years 2008, 2007 and 2006, we did not enter into any hedges of net investments in foreign operations.

We transact business in various foreign countries and our primary foreign currency cash flows are in countries where we have a manufacturing presence. We have established a foreign currency hedging program to protect against the change in value of foreign currency cash flows resulting from operating and capital expenditures over the next year. We hedge portions of our forecasted expenditures denominated in foreign currencies with foreign currency forward contracts designated as cash flow hedges. 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 foreign currency forward contracts designated as hedges. Conversely, as the U.S. dollar strengthens, the decrease in value of the future foreign currency cash flows is offset by losses in the value of the foreign currency forward contracts. These foreign currency forward contracts, carried at fair value, may have maturities of up to twelve months.

Table of Contents

For derivative instruments designated as cash flow hedges, we initially record the effective portion of the gain or loss on the derivative in Other comprehensive income, and the ineffective portion is reported in earnings. Amounts in Other comprehensive income are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings.

We also hedge a portion of our foreign currency denominated balance sheet positions with foreign currency forward contracts to reduce the risk that our earnings will be adversely affected by changes in currency exchange rates. The changes in fair value of these hedges are recognized in earnings in the same period as the gains and losses from the remeasurement of the assets and liabilities. These foreign currency forward contracts are not designated as hedging instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

We evaluate hedging effectiveness prospectively and retrospectively and record any ineffective portion of the hedging instruments in Other income (expense) on the Statement of Operations. We did not have any net gains (losses) recognized in Other income (expense) for cash flow hedges due to hedge ineffectiveness in fiscal years 2008, 2007 and 2006. Nor did we discontinue any cash flow hedges for a probable forecasted transaction that would not occur in fiscal years 2008, 2007, and 2006.

As of June 27, 2008, our notional fair values of foreign currency forward contracts totaled $729 million. We do not believe that these derivatives present significant credit risks, because the counterparties to the derivatives consist of highly rated financial institutions, we manage the notional amount of contracts entered into with any one counterparty, and we maintain limits on maximum tenor of contracts based on the credit rating of the financial institutions. The table below provides information as of June 27, 2008, about our derivative financial instruments, comprised of foreign currency forward contracts. The table is provided in U.S. dollar equivalent amounts and presents the notional amounts (at the contract exchange rates) and the weighted average contractual foreign currency exchange rates.

(In millions, except average contract rate)	Notional Amount	Average Contract Rate	Estimated Fair Value (1)
Foreign currency forward contracts:			
British Pound	$ 25	1.94	$
Euro	27	1.55	
Singapore Dollar	115	1.36	
Thai Baht	510	32.18	(23)
Chinese Yuan	20	6.75	
Malaysian Ringgit	2	3.26	
Japanese Yen	15	103.45	(1)
Czech Koruna	15	15.94	
Total	$ 729		$ (24)

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SEAGATE TECHNOLOGY

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

	June 27, 2008	June 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 990	$ 988
Short-term investments	151	156
Accounts receivable, net	1,410	1,383
Inventories	945	794
Deferred income taxes	274	196
Other current assets	502	284
Total current assets	4,272	3,801
Property, equipment and leasehold improvements, net	2,464	2,278
Goodwill	2,352	2,300
Other intangible assets, net	111	188
Deferred income taxes	616	574
Other assets, net	305	331
Total Assets	$ 10,120	$ 9,472
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,652	$ 1,301
Accrued employee compensation	440	157
Accrued restructuring	80	21
Accrued expenses	519	532
Accrued warranty	226	233
Accrued income taxes	10	75
Current portion of long-term debt	360	330
Total current liabilities	3,287	2,649
Accrued restructuring	7	21
Accrued warranty	219	197
Other non-current liabilities	351	135
Long-term debt, less current portion	1,670	1,733
Total Liabilities	5,534	4,735
Commitments and contingencies (See Notes 8 and 9)		
Shareholders equity:		
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; 485,127,434 issued and outstanding at June 27, 2008 and 534,981,463 issued and outstanding at June 29, 2007		

Additional paid-in capital	3,501	3,204
Accumulated other comprehensive income (loss)	(16)	(4)
Retained earnings	1,101	1,537
Total Shareholders Equity	4,586	4,737
Total Liabilities and Shareholders Equity	$ 10,120	$ 9,472

See notes to consolidated financial statements.

Table of Contents

SEAGATE TECHNOLOGY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Fiscal Year Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
Revenue	$ 12,708	$ 11,360	$ 9,206
Cost of revenue	9,503	9,175	7,069
Product development	1,028	904	805
Marketing and administrative	659	589	447
Amortization of intangibles	54	49	7
Restructuring and other	88	29	4
Total operating expenses	11,332	10,746	8,332
Income from operations	1,376	614	874
Interest income	57	73	69
Interest expense	(126)	(141)	(41)
Other, net	22	15	22
Other income (expense), net	(47)	(53)	50
Income before income taxes	1,329	561	924
Provision for (benefit from) income taxes	67	(352)	84
Net income	$ 1,262	$ 913	$ 840
Net income per share:			
Basic	$ 2.46	$ 1.64	$ 1.70
Diluted	2.36	1.56	1.60
Number of shares used in per share calculations:			
Basic	512	558	495
Diluted	538	587	524
Cash dividends declared per share	$ 0.42	$ 0.38	$ 0.32

See notes to consolidated financial statements.

SEAGATE TECHNOLOGY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Fiscal Year Ended		
	June 27, 2008	**June 29, 2007**	**June 30, 2006**
OPERATING ACTIVITIES			
Net income	$ 1,262	$ 913	$ 840
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	844	851	612
Stock-based compensation	113	128	90
Deferred income taxes	10	(365)	23
Allowance for doubtful accounts receivable, net of recoveries	(3)	40	
Redemption charges on 8% Senior Notes due 2009		19	
In-process research and development	4	4	
Tax benefit from stock options	(6)		(44)
Non-cash portion of restructuring and other	2	19	
Other non-cash operating activities, net	(12)	17	12
Changes in operating assets and liabilities:			
Accounts receivable	(67)	34	(190)
Inventories	(151)	106	(113)
Accounts payable	351	(391)	91
Accrued expenses, employee compensation and warranty	154	(465)	120
Accrued income taxes	13	8	54
Other assets and liabilities	24	25	(38)
Net cash provided by operating activities	2,538	943	1,457
INVESTING ACTIVITIES			
Acquisition of property, equipment and leasehold improvements	(930)	(906)	(1,008)
Proceeds from sale of fixed assets	29	55	
Purchases of short-term investments	(486)	(322)	(3,220)
Maturities and sales of short-term investments	460	997	3,528
Net cash and cash equivalents acquired from Maxtor			297
Acquisitions, net of cash and cash equivalents acquired	(78)	(178)	(28)
Other investing activities, net	14	(48)	(130)
Net cash used in investing activities	(991)	(402)	(561)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt		1,477	
Repayment of long-term debt	(34)	(5)	(340)
Redemption of 8% Senior Notes due 2009		(400)	
Redemption premium on 8% Senior Notes due 2009		(16)	
Proceeds from exercise of employee stock options and employee stock purchase plan	178	219	118
Dividends to shareholders	(216)	(212)	(155)
Tax benefit from stock options	6		44
Repurchases of common shares	(1,479)	(1,526)	(399)

Net cash used in financing activities	(1,545)	(463)	(732)
Increase in cash and cash equivalents	2	78	164
Cash and cash equivalents at the beginning of the period	988	910	746
Cash and cash equivalents at the end of the period	$ 990	$ 988	$ 910
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 121	$ 88	$ 38
Cash paid for income taxes, net of refunds	34	38	15

See notes to consolidated financial statements.

Table of Contents

SEAGATE TECHNOLOGY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For Fiscal Years Ended June 27, 2008, June 29, 2007 and June 30, 2006

(In millions)

	Number of Common Shares	Par Value of Shares	Additional Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at July 1, 2005	477	$	$ 632	$ (3)	$ (9)	$ 1,921	$ 2,541
Comprehensive income, net of tax:							
Change in unrealized gain (loss) on marketable securities, net					(2)		(2)
Change in unrealized gain (loss) on cash flow hedges, net					4		4
Net income						840	840
Comprehensive income							842
Issuance of common shares related to employee stock options and employee stock purchase plan	18		118				118
Issuance of common shares, assumption of options and nonvested shares in connection with the acquisition of Maxtor	98		1,956				1,956
Substantial premium on convertible debt assumed			175				175
Dividends to shareholders			(155)				(155)
Tax benefit from stock options			44				44
Repurchases of common shares	(17)					(399)	(399)
Stock-based compensation			88	2			90
Balance at June 30, 2006	576		2,858	(1)	(7)	2,362	5,212
Comprehensive income, net of tax:							
Change in unrealized gain (loss) on marketable securities, net					7		7
Change in unrealized gain (loss) on cash flow hedges, net					(4)		(4)
Net income						913	913
Comprehensive income							916
Issuance of common shares related to employee stock options and employee stock purchase plan	21		219				219
Dividends to shareholders						(212)	(212)
Repurchases of common shares	(24)					(576)	(576)
Payments made under prepaid forward agreements						(950)	(950)
Shares received under prepaid forward agreements	(38)						
Stock-based compensation			127	1			128
Balance at June 29, 2007	535		3,204		(4)	1,537	4,737

Cumulative effect adjustment to adopt recognition and measurement provisions of FASB Interpretation No. 48 (See Note 4)						(3)	(3)
Comprehensive income, net of tax:							
Change in unrealized gain (loss) on cash flow hedges, net					(9)		(9)
Change in unrealized gain (loss) on auction rate securities, net					(3)		(3)
Net income						1,262	1,262
Comprehensive income							1,250
Issuance of common shares related to employee stock options and employee stock purchase plan	15		178				178
Dividends to shareholders						(216)	(216)
Tax benefit from stock options			6				6
Repurchases of common shares	(65)					(1,479)	(1,479)
Stock-based compensation			113				113
Balance at June 27, 2008	485	$	$ 3,501	$	$ (16)	$ 1,101	$ 4,586

See notes to consolidated financial statements.

74

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Operations Seagate Technology (Seagate, or the Company) designs, manufactures and markets rigid disc drives. Hard disc drives, which are commonly referred to as disc drives or hard drives, are used as the primary medium for storing electronic data in systems ranging from desktop and notebook computers, and consumer electronics devices to data centers delivering electronic data over corporate networks and the Internet. The Company produces a broad range of disc drive products addressing enterprise applications, where its products are primarily used in enterprise servers, mainframes and workstations; desktop applications, where its products are used in desktop computers; mobile computing applications, where its products are used in notebook computers; and consumer electronics applications, where its products are used in a wide variety of devices such as digital video recorders (DVRs), gaming devices and other consumer electronic devices that require storage. The Company sells its disc drives primarily to major original equipment manufacturers (OEMs), distributors and retailers. The Company also sells its branded storage solutions under both the Seagate and Maxtor brands.

Critical Accounting Policies and Use of Estimates The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company s consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company s financial condition and operating results, and require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are highly uncertain at the time of estimation. Based on this definition, the Company s most critical policies include: establishment of sales program accruals, establishment of warranty accruals, accounting for income taxes, as well as the valuation of intangibles and goodwill. Below, these policies are discussed further, as well as the estimates and judgments involved. The Company also has other key accounting policies and accounting estimates relating to uncollectible customer accounts, valuation of inventory, valuation of share-based payments (see Note 3) and acquisition related restructuring (see Note 10). The Company believes that these other accounting policies and accounting estimates either do not generally require it to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on the Company s reported results of operations for a given period.

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

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of three to five years. The Company s warranty provision considers estimated product failure rates and trends (including the timing of product returns during the warranty periods), estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. The Company uses a statistical model to help with its estimates and the Company exercises considerable judgment in determining the underlying estimates. Should actual experience in any future period differ significantly from its estimates, or should the rate of future product technological advancements fail to keep pace with the past, the Company s future results of operations could be materially affected. The Company s judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited experience with those products upon which to base its warranty estimates. The Company continually introduces new products.

The actual results with regard to warranty expenditures could have a material adverse effect on the Company s results of operations if the actual rate of unit failure, the cost to repair a unit, or the actual cost required to satisfy customer compensatory claims are greater than that which the Company has used in estimating the warranty accrual. The Company also exercises judgment in estimating its ability to sell certain repaired disc drives. To the extent such sales fall below the Company s forecast, warranty cost will be adversely impacted.

The Company accounts for income taxes pursuant to Financial Account Standards Board (FASB) Statement (SFAS) No. 109, *Accounting for Income Taxes* (SFAS No. 109) and related pronouncements. In applying SFAS No. 109, the Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, recognition of income and deductions and in the calculation of specific tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as tax liabilities associated with uncertain tax positions. The Company s recording of deferred tax assets each period depends primarily on the Company s ability to generate future taxable income in the United States and certain foreign jurisdictions. Each period, the Company evaluates the need for a valuation allowance for its deferred tax assets and, if necessary, adjusts the valuation allowance so that net deferred tax assets are recorded only to the extent the Company concludes it is more likely than not that these deferred tax assets will be realized. If the Company s outlook for future taxable income changes significantly, the Company s assessment of the need for a valuation allowance may also change.

In the first quarter of fiscal year 2008, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48) (see Note 4). The calculation of tax liabilities involves uncertainties in the application of complex tax rules and the potential for future adjustment of the Company s uncertain tax positions by the Internal Revenue Service or other tax jurisdiction. If estimates of these tax liabilities are greater or less than actual results, an additional tax benefit or provision will result.

In accordance with the provisions of SFAS No. 141, *Business Combinations* (SFAS No. 141), the purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. The Company engages third-party valuation firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant judgments, estimates and assumptions, especially with respect to intangible assets. Management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies, and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from existing technology, customer relationships, trade names, and other intangible assets;

76

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the acquired company s brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

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

At June 27, 2008, the Company s goodwill totaled approximately $2.4 billion and its identifiable other intangible assets totaled $111 million. In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), the Company assesses the impairment of goodwill at least annually, or more often if warranted by events or changes in circumstances indicating that the carrying value may exceed its fair value. This assessment may require the projection and discounting of cash flows, an analysis of the Company s market capitalization and the estimation of the fair values of tangible and intangible assets and liabilities. Estimates of cash flow are based upon, among other things, certain assumptions about expected future operating performance; judgment is also exercised in determining an appropriate discount rate. The Company s estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model, or changes in operating performance. Significant differences between these estimates and actual cash flows could materially affect the Company s future financial results.

Basis of Presentation and Consolidation The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries, after elimination 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 years 2008, 2007 and 2006 comprised 52 weeks and ended on June 27, 2008, June 29, 2007 and June 30, 2006, respectively. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted. Fiscal year 2009 will be 53 weeks and will end on July 3, 2009.

Revenue Recognition, Sales Returns and Allowances, and Sales Incentive Programs The Company s revenue recognition policy complies with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB No. 104). Revenue from sales of products, including sales to distribution customers, is generally recognized when title and risk of loss has passed to the buyer, which typically occurs upon shipment from the Company or third party warehouse facilities, persuasive evidence of an arrangement exists, including a fixed or determinable price to the buyer, and when collectability is reasonably assured. For our direct retail customers, revenue is recognized on a sell-through basis.

Estimated product returns are provided for in accordance with SFAS No. 48, *Revenue Recognition When Right of Return Exists*. The Company also adheres to the requirements of Emerging Issue Task Force (EITF) No. 01-09 *Accounting for Consideration Given by a Vendor to a Customer*, (EITF No. 01-09) for sales incentive programs. 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 No. 01-09 have been met.

Product Warranty The Company warrants its products for periods ranging from three to five years. A provision for estimated future costs relating to warranty returns is recorded when revenue is recognized and is included in cost of revenue. Shipping and handling costs are also included in cost of revenue.

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventory Inventories are valued at the lower of 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. The cost basis of assets acquired in the Maxtor business combination was based on estimated fair values at the date of acquisition (see Note 10). 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. The cost of additions and substantial improvements to property, equipment and leasehold improvements are capitalized. The cost of maintenance repairs to property, equipment and leasehold improvements is expensed as incurred.

Goodwill and Other Intangibles Assets The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination, and is not subject to amortization. In accordance with SFAS No. 142, the Company tests goodwill for impairment at least annually, or more frequently if events and circumstances warrant.

Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives. The Company s acquisition-related intangible assets are comprised of existing technology, customer relationships, trade names, and other intangible assets and are amortized over periods ranging from one to four years on a straight-line basis. SFAS No. 142 further requires that intangible assets be reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144).

Allowances for Doubtful Accounts The Company maintains an allowance for uncollectible accounts receivable based upon expected collectability. This reserve is established based upon historical trends, current economic conditions and an analysis of specific exposures. The provision for doubtful accounts is recorded as a charge to general and administrative expense (see Note 2).

Advertising Expense The cost of advertising is expensed as incurred. Advertising costs were approximately $55 million, $51 million and $40 million in fiscal years 2008, 2007 and 2006, respectively.

Stock-Based Compensation Effective July 2, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123 (Revised 2004), *Share-Based Payment*, (SFAS No. 123(R)), using the modified-prospective-transition method. The Company has included stock-based compensation costs in its results of operations for fiscal years 2008, 2007 and 2006 (see Note 3). The adoption of SFAS No. 123(R) had a material impact on the Company s results of operations. The Company has elected to apply the with-and-without method to assess the realization of excess tax benefits.

Foreign Currency Remeasurement and Translation The U.S. dollar is the functional currency for all of the Company s foreign operations. Monetary assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at current exchange rates. The gains and losses from the remeasurement of foreign currency denominated balances into U.S. dollars are included in net income (loss) for those operations.

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments The Company applies the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, (SFAS No. 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 (see Note 2).

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 (loss), which is a component of shareholders equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification method. The Company invests in auction rate securities. As of June 30, 2006 and June 29, 2007, auction rate securities that had stated maturities greater than three months were classified as short-term investments unless they were purchased three months or less from contractual maturity. As of June 27, 2008, the Company reclassified all auction rate securities to long-term investments due to failed auctions (see Note 2).

Strategic Investments The Company enters into certain strategic investments for the promotion of business and strategic objectives. Strategic investments are included in the accompanying balance sheets in other assets, net, are recorded at cost and are periodically analyzed to determine whether or not there are indicators of impairment. The carrying value of the Company s strategic investments at June 27, 2008 and June 29, 2007 totaled $34 million and $25 million, respectively.

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 doubtful accounts is based upon the expected collectability of all accounts receivable. The Company places its cash equivalents and short-term investments in investment-grade, highly liquid debt instruments and limits the amount of credit exposure to any one issuer.

Supplier Concentration Certain of the raw materials and components 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 and components due to an interruption of supply or increased demand in the industry. If the Company were unable to procure certain of such materials or components, it would be required to reduce its manufacturing operations, which could have a material adverse effect on its results of operations. In addition, the Company has made prepayments to certain suppliers. Should these suppliers be unable to deliver on their obligations or experience financial difficulty, the Company may not be able to recover these prepayments.

Newly Adopted and Recently Issued Accounting Pronouncements In the first quarter of fiscal year 2008, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* see Note 4 for additional discussion. The calculation

of tax liabilities involves uncertainties in the application of complex tax rules and the potential for future adjustment of the Company s uncertain tax positions

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

by the Internal Revenue Service or other tax jurisdiction. If estimates of these tax liabilities are greater or less than actual results, an additional tax benefit or provision will result (see Note 4).

In June 2008, FASB EITF issued Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* (EITF No. 07-5). EITF No. 07-5 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock. EITF No. 07-5 would require the Company to account for its embedded conversion options as derivatives and record them on its balance sheet as a liability with subsequent fair value changes recorded in the income statement. Although EITF No. 07-5 would have no impact on the Company s actual past or future cash flows, it may require it to record an additional liability on its consolidated balance sheet. Subsequent fair value adjustments may result in significant charges or credits recorded in the Company s consolidated statement of operations. As a result, its financial position and results of operations and earnings per share may be impacted. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. During fiscal year 2009, the Company will be evaluating the impact of the pending adoption of EITF No. 07-5 on its fiscal year 2010 consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP), Accounting Principles Board (APB) Opinion No. 14, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*) (FSP APB No. 14), which, may require the Company to recognize additional non-cash interest expense related to its Convertible Senior Notes in its consolidated statements of operations. FSP APB No. 14 requires the issuer to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB No. 14 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. FSP APB No. 14 must be applied retrospectively to all periods presented pursuant to the guidance of SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). The Company s accounting for the 2.375% Notes acquired from Maxtor and therefore its results of operations and financial condition may be impacted by this FSP APB No. 14. During fiscal year 2009, the Company will be evaluating the impact of FSP APB No. 14 on its fiscal year 2010 consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. During fiscal year 2009, the Company will be evaluating the impact of the pending adoption of FSP FAS 142-3 on its fiscal year 2010 consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires disclosure of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company will be evaluating the impact of the pending adoption of SFAS No. 161 on its consolidated results of operations and financial condition.

80

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring liabilities, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company currently believes that the adoption of SFAS No. 141(R) will result in the recognition of certain types of expenses in its results of operations that are currently capitalized pursuant to existing accounting standards, amongst other potential impacts. SFAS No. 141(R) will impact the accounting for business combinations completed by the Company on or after adoption in its fiscal year 2010.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect to adopt SFAS No. 159 with respect to its current assets and liabilities but will continue to evaluate the potential application of SFAS No. 159 on an on-going basis.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS No. 157 for financial assets in its fiscal year 2009 and for non-financial assets in its fiscal year 2010. The Company is currently evaluating the impact of the pending adoption of SFAS No. 157 on its consolidated results of operations and financial condition.

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Income Per Share

In accordance with SFAS No. 128, *Earnings per Share* (SFAS No. 128), the following table sets forth the computation of basic and diluted net income per share:

	Fiscal Years Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
		(In millions, except per share data)	
Numerator:			
Net income	$ 1,262	$ 913	$ 840
Adjustment for interest expense on 6.8% convertible senior notes due April 2010	9		
Net income, as adjusted	$ 1,271	$ 913	$ 840
Denominator:			
Weighted-average common shares outstanding	514	560	496
Weighted-average nonvested shares	(2)	(2)	(1)
Total shares for purpose of calculating basic net income per share	512	558	495
Weighted-average effect of dilutive securities:			
Dilution from employee stock options	17	24	28
2.375% convertible senior notes due August 2012	5	5	1
6.8% convertible senior notes due April 2010	4		
Potential dilutive shares	26	29	29
Total shares for purpose of calculating diluted net income per share	538	587	524
Net Income per share:			
Basic net income per share	$ 2.46	$ 1.64	$ 1.70
Diluted net income per share	$ 2.36	$ 1.56	$ 1.60

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

	Fiscal Years Ended		
	June 27, 2008	**June 29, 2007**	**June 30, 2006**
		(In millions)	
Stock options	23	20	17
Nonvested shares			1
6.8% convertible senior notes due April 2010		4	1

82

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 June 27, 2008 (in millions):

	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value
US Government & Agency	$ 120	$ (1)	$ 119
Asset Backed Securities	16		16
Corporate Bonds	18		18
Municipal Bonds	2		2
Auction Rate Securities	31	(3)	28
Commercial Paper	333		333
Bank Time Deposits	28		28
Money Market	546		546
Total	$ 1,094	$ (4)	$ 1,090
Included in cash and cash equivalents			$ 911
Included in short term investments			151
Included in long term investments			28
			$ 1,090

At June 27, 2008, the Company had no marketable securities that had been in a continuous unrealized loss position for a period greater than 12 months and determined no investments were other-than-temporarily impaired.

The following is a summary of the fair value of available-for-sale securities at June 29, 2007 (in millions):

	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value
US Government & Agency	$ 145	$ (1)	$ 144

Asset Backed Securities	4		4
Corporate Bonds	21		21
Municipal Bonds	5		5
Commercial Paper	768		768
Bank Time Deposits	4		4
Money Market	72		72
Total	$ 1,019	$ (1)	$ 1,018
Included in cash and cash equivalents			$ 862
Included in short term investments			156
			$ 1,018

At June 29, 2007, the Company had marketable securities with a fair value of $23 million that had been in a continuous unrealized loss position for a period greater than 12 months. The Company reviewed these marketable securities and determined that no investments were other-than-temporarily impaired at June 29, 2007. The unrealized loss on these marketable securities was immaterial.

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the Company s investment in debt securities, by remaining contractual maturity, is as follows (in millions):

	June 27, 2008	June 29, 2007
Due in less than 1 year	$ 432	$ 916
Due in 1 to 3 years	85	27
	$ 517	$ 943

Fair Value Disclosures The carrying value of cash equivalents approximates fair value. The fair values of short-term investments, debentures, notes and loans are estimated based on quoted market prices as of June 27, 2008.

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

	June 27, 2008		June 29, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In millions)			
Cash equivalents	$ 911	$ 911	$ 862	$ 862
Short-term investments	151	151	157	156
Long-term investments	28	28		
Floating Rate Senior Notes due October 2009	(300)	(293)	(300)	(300)
6.375% Senior Notes due October 2011	(599)	(584)	(599)	(588)
6.8% Senior Notes due October 2016	(599)	(555)	(598)	(577)
6.8% Convertible Senior Notes due April 2010	(135)	(142)	(135)	(145)
5.75% Subordinated Debentures due March 2012	(41)	(40)	(45)	(45)
2.375% Convertible Senior Notes due August 2012	(326)	(422)	(326)	(455)
LIBOR Based China Manufacturing Facility Loan	(30)	(30)	(60)	(60)

The fair value of the Company s 2.375% and 6.8% convertible securities is a function, in part, of the Company s stock price. Because the Company s stock price has decreased since June 27, 2008, the fair value of these securities has also decreased.

Investment Securities As of June 27, 2008, the Company held auction rate securities in the amount of $31 million, all of which are collateralized by pools of student loans guaranteed by the Federal Family Education Loan Program. During the fiscal 2008 year, these securities failed to settle at auction and as a result the Company recorded an unrealized loss of $3 million and reclassified the securities to long-term investments.

Derivative Financial Instruments The Company recognizes all of its derivative financial instruments, principally foreign currency forward contracts, in the balance sheet as either assets or liabilities and these derivative financial instruments are carried at fair value.

The Company may enter into foreign currency forward 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 speculative or trading purposes. During fiscal years 2008, 2007 and 2006, the Company did not enter into any hedges of net investments in foreign operations.

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company transacts business in various foreign countries and its primary foreign currency cash flows are in countries where it has a manufacturing presence. The Company has established a foreign currency hedging program to protect against the change in value of foreign currency cash flows resulting from operating and capital expenditures over the next year. The Company hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts designated as cash flow hedges. 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 foreign currency forward contracts designated as hedges. Conversely, as the U.S. dollar strengthens, the decrease in value of the future foreign currency cash flows is offset by losses in the value of the foreign currency forward contracts. These foreign currency forward contracts, carried at fair value, may have maturities of up to twelve months.

For derivative instruments designated as cash flow hedges, the company initially records the effective portion of the gain or loss on the derivative in Other comprehensive income, and the ineffective portion is reported in Other income (expense). Amounts in Other comprehensive income are reclassified into Cost of revenue in the same period during which the hedged forecasted transaction affects earnings.

The Company also hedges a portion of its foreign currency denominated balance sheet positions with foreign currency forward contracts to reduce the risk that its earnings will be adversely affected by changes in currency exchange rates. The changes in fair value of these hedges are recognized in Other income (expense) in the same period as the gains and losses from the remeasurement of the assets and liabilities. These foreign currency forward contracts are not designated as hedging instruments under SFAS No. 133.

The Company evaluates hedging effectiveness prospectively and retrospectively and records any ineffective portion of the hedging instruments in Other income (expense) on the Statement of Operations. The Company did not have any net gains (losses) recognized in Other income (expense) for cash flow hedges due to hedge ineffectiveness in fiscal years 2008, 2007 and 2006. In addition, the Company did not discontinue any cash flow hedges for a probable forecasted transaction that would not occur in fiscal years 2008, 2007, and 2006.

As of June 27, 2008, the notional value of the Company s outstanding foreign currency forward contracts was approximately $25 million in British pounds, $27 million in Euros, $115 million in Singapore dollars, $510 million in Thai baht, $20 million in Chinese yuan, $2 million in Malaysian ringgit, $15 million in Japanese yen, and $15 million in Czech koruna. The fair value of the Company s outstanding foreign currency forward contracts at June 27, 2008 was a liability of $24 million. The Company does not believe that these derivatives present significant credit risks, because the counterparties to the derivatives consist of major financial institutions with high credit quality ratings, it limits the notional amount on contracts entered into with any one counterparty and maintains limits on maximum terms of contracts based on the credit rating of the financial institutions. In addition, the exposure related to forward contracts is generally limited to the amount that a counterparty s obligation exceeds the amount owed by the Company. Net foreign currency transaction losses included in the determination of consolidated net income were $1 million, $3 million and $6 million for fiscal years 2008, 2007 and 2006, respectively.

Accounts Receivable

	June 27, 2008	June 29, 2007
	(In millions)	
Accounts receivable	$ 1,416	$ 1,433
Allowance for doubtful accounts	(6)	(50)
	$ 1,410	$ 1,383

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recorded $40 million of allowance for doubtful accounts in fiscal year 2007 due to the inherent uncertainties following the termination of its distribution relationships with eSys, previously a distributor of Seagate products. The Company s distribution relationships were terminated due to eSys failure to comply with the terms of its commercial agreements with the Company. The Company is continuing to pursue collection of all amounts owed by eSys; none has been received as of June 27, 2008. The remaining uncollected balance and the corresponding reserve were written off in fiscal year 2008. Any amounts recovered on these receivables will be recorded in the period received.

Activity in the allowance for doubtful accounts is as follows:

	Balance at Beginning of Period	Charges to Operations	Deductions (1)	Assumed from Maxtor	Balance at End of Period
			(In millions)		
Fiscal year ended June 27, 2008	$ 50	$ (3)	$ (41)	$	$ 6
Fiscal year ended June 29, 2007	$ 37	$ 40	$ (27)	$	$ 50
Fiscal year ended June 30, 2006	$ 32	$ (3)	$ (2)	$ 10	$ 37

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

Inventories

Inventories are summarized below:

	June 27, 2008	June 29, 2007
	(In millions)	
Raw materials and components	$ 352	$ 277
Work-in-process	111	85
Finished goods	482	432
	$ 945	$ 794

Other Current Assets

	June 27, 2008	June 29, 2007
	(In millions)	
Vendor non-trade receivables	$ 348	$ 110
Other current assets	154	174
	$ 502	$ 284

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

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, equipment and leasehold improvements, net

Property, equipment and leasehold improvements consisted of the following:

	Useful Life in Years	June 27, 2008	June 29, 2007
		(In millions)	
Land		$ 21	$ 21
Equipment	3-5	4,404	4,004
Building and leasehold improvements	Life of lease -48	992	731
Construction in progress		428	348
		5,845	5,104
Less accumulated depreciation and amortization		(3,381)	(2,826)
		$ 2,464	$ 2,278

Amortization of leasehold improvements is included in depreciation and amortization expense. Depreciation expense was $750 million, $699 million and $583 million for fiscal years 2008, 2007 and 2006, respectively.

Interest on borrowings related to eligible capital expenditures is capitalized as part of the cost of the qualified assets and amortized over the estimated useful lives of the assets. During fiscal years 2008 and 2007, the Company capitalized interest of $10 million and $11 million, respectively. No interest was capitalized in fiscal year 2006.

Supplemental Cash Flow Information

The components of depreciation and amortization expense are as follows:

	Fiscal Years Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
		(In millions)	
Depreciation and amortization of property, equipment and leasehold improvements	$ 750	$ 699	$ 583

Amortization of intangible assets	94	152	29
	$ 844	$ 851	$ 612

Long-Term Debt and Credit Facilities

The carrying amount of long-term debt consisted of the following:

	June 27, 2008	June 29, 2007
	(In millions)	
Floating Rate Senior Notes due October 2009	$ 300	$ 300
6.375% Senior Notes due October 2011	599	599
6.8% Senior Notes due October 2016	599	598
6.8% Convertible Senior Notes due April 2010	135	135
5.75% Subordinated Debentures due March 2012	41	45
2.375% Convertible Senior Notes due August 2012	326	326
LIBOR Based China Manufacturing Facility Loans	30	60
	2,030	2,063
Less current portion	(360)	(330)
Long-term debt, less current portion	$ 1,670	$ 1,733

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2006, Seagate Technology HDD Holdings (HDD), the Company s wholly-owned direct subsidiary, issued senior notes totaling $1.5 billion comprised of $300 million aggregate principal amount of Floating Rate Senior Notes due October 2009 (the 2009 Notes), $600 million aggregate principal amount of 6.375% Senior Notes due October 2011 (the 2011 Notes) and $600 million aggregate principal amount of 6.8% Senior Notes due October 2016 (the 2016 Notes). These notes are unsecured and rank equally in right of payment with all of HDD s other existing and future senior unsecured indebtedness and senior to any present and future subordinated indebtedness of HDD.

$300 Million Aggregate Principal Amount of Floating Rate Senior Notes due October 2009. The 2009 Notes bear interest at a floating rate equal to three-month LIBOR plus 0.84% per year, payable quarterly on January 1, April 1, July 1 and October 1 of each year. Interest payments commenced on January 1, 2007. The 2009 Notes will mature on October 1, 2009. The Company may not redeem the 2009 Notes prior to maturity.

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

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

$135 Million Aggregate Principal Amount of 6.8% Convertible Senior Notes due April 2010 (the 6.8% Notes). As a result of its acquisition of Maxtor on May 19, 2006 (see Note 10), the Company assumed the 6.8% Notes. The 6.8% Notes require semi-annual interest payments payable on April 30 and October 30. The 6.8% Notes are convertible into common shares of Seagate Technology at a conversion rate of approximately 30.1733 shares per $1,000 principal amount of the notes. Commencing May 5, 2008, the Company may redeem the 6.8% Notes at 100% of their principal amount, plus accrued and unpaid interest, if the closing price of the common shares for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of the mailing of the redemption notice exceeds 130% of the conversion price on such trading day. If, at any time, substantially all of the common shares are exchanged or acquired for consideration that does not consist entirely of common shares that are listed on a United States national securities exchange or approved for quotation on the NASDAQ National Market or similar system, the holders of the notes have the right to require the Company to repurchase all or any portion of the notes at their face value plus accrued interest.

$326 Million Aggregate Principal Amount of 2.375% Convertible Senior Notes due August 2012 (the 2.375% Notes). As a result of its acquisition of Maxtor on May 19, 2006 (see Note 10), the Company assumed the 2.375% Notes. The 2.375% Notes require semi-annual interest

payments payable on February 15 and August 15. The 2.375% Notes are convertible into common shares of Seagate Technology at a conversion rate of

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately 58.6938 shares per $1,000 principal amount of the notes, at the option of the holders, at any time during a fiscal quarter if, during the last 30 trading days of the immediately preceding fiscal quarter the common shares trade at a price in excess of 110% of the conversion price for 20 consecutive trading days. Upon conversion, the 2.375% Notes are subject to net cash settlement whereby the Company will deliver cash for the lesser of the principal amount of the notes being converted or the conversion value of the notes which is calculated by multiplying the conversion rate then in effect by the market price of the Company s common shares at the time of conversion. To the extent that the conversion value exceeds the principal amount of the 2.375% Notes, the Company will, at its election, pay cash or issue common shares with a value equal to the value of such excess. If the 2.375% Notes are surrendered for conversion, the Company may direct the conversion agent to surrender those notes to a financial institution selected by the Company for exchange, in lieu of conversion, into a number of the Company s common shares equal to the applicable conversion rate, plus cash for any fractional shares, or cash or a combination of cash and the Company s common shares in lieu thereof. The 2.375% Notes are classified as a current liability on the consolidated balance sheets because they are currently convertible as the Company s share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the fourth quarter of fiscal year 2008. The payment of dividends to holders of the Company s common shares have in certain quarters resulted in upward adjustments to the conversion rate of the 2.375% Notes and may continue in the future. If the conversion rate continues to increase, the Company may be required to book an increased amount of interest expense.

$55 Million Aggregate Principal Amount of 5.75% Subordinated Debentures due March 2012 (the 5.75% Debentures). As a result of the Maxtor acquisition (see Note 10), the Company assumed the 5.75% Debentures. The 5.75% Debentures require semi-annual interest payments on March 1 and September 1 and annual sinking fund payments of $5 million or repurchases of $5 million in principal amount of debentures in lieu of sinking fund payments. The 5.75% Debentures are currently convertible for a cash payment of $167.50 per $1,000 principal amount of debentures.

$60 million LIBOR Based China Manufacturing Facility Loan. As a result of the Maxtor acquisition (see Note 10), the Company assumed an outstanding plant construction loan in the amount of $30 million and an outstanding project loan in the amount of $30 million. In fiscal year 2008, the Company repaid the $30 million project loan. The interest rate on the plant construction loan is LIBOR plus 70 to 80 basis points, with the borrowings repayable in two installment payments of $15 million each, one due in October 2008 and the other due in April 2009. Interest payments on the construction loan are made semi-annually on October 15 and April 15. The loan requires annual financial covenants, including a maximum liability to assets ratio and a minimum earnings to interest expense ratio, with which the Company is currently in compliance.

In accordance with APBO No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants,* (APBO 14), the Company determined the existence of a substantial premium for both the 2.375% Notes and 6.8% Notes and recorded the notes at par value with the resulting excess over par (the substantial premium) recorded in Additional Paid-In Capital in Shareholders Equity. All other debt assumed in the Maxtor acquisition was recorded at fair market value (see Note 10).

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

The Company has guaranteed all Senior Notes on a full and unconditional basis (see Note 14).

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revolving Credit Facility. HDD has a senior unsecured $500 million revolving credit facility that matures in September 2011. The credit agreement that governs the Company s revolving credit facility contains covenants that must be satisfied in order to remain in compliance with the agreement. The credit agreement contains three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. As of June 27, 2008, the Company is in compliance with all covenants.

The $500 million revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to a sub-limit of $100 million. Although no borrowings have been drawn under this revolving credit facility to date, the Company had utilized $62 million for outstanding letters of credit and bankers guarantees as of June 27, 2008, leaving $438 million for additional borrowings. The credit agreement governing the revolving credit facility includes limitations on the ability of the Company to pay dividends, including a limit of $300 million in any four consecutive quarters.

At June 27, 2008, future minimum principal payments on long-term debt were as follows (in millions):

Fiscal Year	
2009	$ 361
2010	441
2011	5
2012	630
2013	
Thereafter	600
	$ 2,037

Included in future minimum principal payments on long-term debt for fiscal year 2009 is the principal amount of $326 million related to our 2.375% Notes, which are payable upon conversion and are currently convertible, as the Company s share price was in excess of 110% of the conversion price for at least 20 consecutive trading days during the last 30 trading days of the fourth quarter of fiscal year 2008. Unless earlier converted, the 2.375% Notes must be redeemed in August 2012.

3. Compensation

Tax-Deferred Savings Plan

The Company has a tax-deferred savings plan, the Seagate 401(k) Plan (the 40l(k) plan), for the benefit of qualified employees. The 40l(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. Pursuant to the 401(k) plan, the Company matches 50% of employee contributions, up to 6% of compensation, subject to maximum annual contributions of $2,500 per participating employee. During fiscal years 2008, 2007 and 2006, the Company made matching contributions of $15 million, $15 million and $13 million, respectively.

Stock-Based Benefit Plans

The Company s stock-based benefit plans have been established to promote the Company s long-term growth and financial success by providing incentives to its employees, directors, and consultants through grants of share-based awards. The provisions of the Company s stock-based benefit plans, which allow for the grant of various types of equity-based awards, are also intended to provide greater flexibility to maintain the Company s competitive ability to attract, retain and motivate participants for the benefit of the Company and its shareholders.

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Seagate Technology 2001 Share Option Plan In December 2000, the Company s board of directors adopted the Seagate Technology 2001 Share Option Plan (the 2001 Plan). Under the terms of the 2001 Plan, eligible employees, directors, and consultants can be awarded options to purchase common shares of the Company under vesting terms to be determined at the date of grant. A maximum of 100 million common shares is issuable under the 2001 Plan. 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 2001 Plan were granted at fair market value, with options granted up through September 5, 2004 expiring ten years from the date of grant and options granted subsequent to September 5, 2004 expiring seven years from the date of grant. As of June 27, 2008, there were approximately 84,000 shares available for issuance under the 2001 Plan.

Seagate Technology 2004 Stock Compensation Plan On August 5, 2004, the Company s board of directors adopted the Seagate Technology 2004 Stock Compensation Plan (the 2004 Plan), and on October 28, 2004, the Company s shareholders approved the 2004 Plan. A maximum of 63.5 million common shares is issuable under the 2004 Plan. 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. As of June 27, 2008, there were approximately 30 million shares available for issuance under the 2004 Plan.

Assumed Maxtor Stock Options In connection with the Company s acquisition of Maxtor, the Company assumed all outstanding options to purchase Maxtor common stock with a weighted-average exercise price of $16.10 on an as-converted basis. Each option assumed was converted into an option to purchase the Company s common shares after applying the exchange ratio of 0.37 Company common shares for each share of Maxtor common stock. In total, the Company assumed and converted Maxtor options into options to purchase approximately 7.1 million of the Company s common shares. In addition, the Company assumed and converted all outstanding Maxtor nonvested stock into approximately 1.3 million of the Company s nonvested shares, based on the 0.37 exchange ratio. The assumed options and nonvested shares exchanged retained all applicable terms and vesting periods. As of June 27, 2008, approximately 1.3 million of the assumed options and approximately 348,000 of the exchanged nonvested shares were outstanding.

Maxtor Corporation 1996 Stock Plan As a result of the acquisition of Maxtor, the Company assumed all outstanding optionsunder Maxtor s Amended and Restated 1996 Stock Option Plan (the 1996 Plan). Options under the 1996 Plan generally vest over a four-year period from the date of grant with 25% vesting at the first anniversary date of the vesting commencement date and 6.25% each quarter thereafter, expiring ten years from the date of grant.

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

Maxtor (Quantum HDD) Merger Plan As a result of the acquisition of Maxtor, the Company assumed all outstanding options under Maxtor s (Quantum HDD) Merger Plan. Options granted under this plan were completely vested and exercisable as of June 30, 2006.

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Purchase Plan The Company established an Employee Stock Purchase Plan (ESPP) in December 2002. At that time, a total of 20 million common shares had been authorized for issuance under the ESPP. On October 26, 2006, the Company s shareholders approved an amendment to the ESPP to increase the number of common shares available for issuance by 10 million bringing the total amount of common shares authorized to be issued under the ESPP to 30 million. In no event shall the total number of shares issued under the ESPP exceed 75 million shares. The ESPP consists of a six-month offering period with a maximum issuance of 2.5 million shares per offering period. The ESPP permits eligible employees who have completed twenty days of employment prior to the commencement of any offering period to purchase common shares through payroll deductions generally at 85% of the fair market value of the common shares. On January 31, 2008, the Company issued approximately 1.9 million common shares under its ESPP, with a weighted-average purchase price of $17.23. On July 31, 2007, the Company issued approximately 1.6 million common shares under its ESPP, with a weighted-average purchase price of $19.98. As of June 27, 2008, there were approximately 9 million common shares available for issuance under the ESPP.

Adoption of SFAS No. 123(R)

Effective July 2, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123 (Revised 2004), *Share-Based Payment*, (SFAS No. 123(R)), using the modified-prospective-transition method.

Determining Fair Value

Valuation and amortization method The Company estimates the fair value of stock options granted using the Black-Scholes-Merton valuation model and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period or the remaining service (vesting) period.

Expected Term Expected term represents the period that the Company s stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Expected Volatility The Company uses a combination of the implied volatility of its traded options and historical volatility of its share price.

Expected Dividend The Black-Scholes-Merton valuation model calls for a single expected dividend yield as an input. The dividend yield is determined by dividing the expected per share dividend during the coming year by the grant date share price. The expected dividend assumption is based on the Company s current expectations about its anticipated dividend policy. Also, because the expected dividend yield should reflect marketplace participants expectations, the Company does not incorporate changes in dividends anticipated by management unless those changes have been communicated to or otherwise are anticipated by marketplace participants.

Risk-Free Interest Rate The Company bases the risk-free interest rate used in the Black-Scholes-Merton valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term. Where the expected term of the Company s stock-based awards do not correspond with the terms for which interest rates are quoted, the Company performed a straight-line interpolation to determine the rate from the available term maturities.

Estimated Forfeitures When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value The fair value of the Company s stock options granted to employees, assumed from Maxtor and issued from the ESPP for fiscal years 2008, 2007 and 2006 were estimated using the following weighted-average assumptions:

	Fiscal Years Ended		
	2008	**2007**	**2006**
Options under Seagate Plans			
Expected term (in years)	4.0	4.0	3.5 4.0
Volatility	35 36%	37 39%	40 43%
Expected dividend	1.5 2.5%	1.3 1.9%	1.2 2.3%
Risk-free interest rate	2.3 4.2%	4.4 4.8%	4.1 5.0%
Estimated annual forfeitures	4.5%	4.5%	4.6 4.9%
Weighted-average fair value	$7.31	$7.41	$7.15
Options under Maxtor Plans			
Expected term (in years)			0 4.8
Volatility			36 39%
Expected dividend			1.3%
Risk-free interest rate			5.0 5.1%
Weighted-average fair value			$10.49
ESPP			
Expected term (in years)	0.5	0.5	0.5 1.0
Volatility	31 36%	33 34%	37 41%
Expected dividend	1.7 2.3%	1.4 1.5%	1.2 1.7%
Risk-free interest rate	2.0 5.0%	5.0 5.2%	3.6 4.5%
Weighted-average fair value	$4.67	$5.80	$7.28

Stock Compensation Expense

Stock Compensation Expense The Company recorded $98 million, $101 million and $74 million of stock-based compensation during fiscal years 2008, 2007 and 2006, respectively. Additionally, the Company recorded $15 million, $27 million and $16 million of stock-based compensation in fiscal years 2008, 2007 and 2006, respectively, in connection with the assumed options and nonvested shares exchanged in the Maxtor acquisition (see Note 10).

As required by SFAS No. 123(R), management made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

In accordance with guidance in SFAS No. 123(R), the cash flows resulting from excess tax benefits (tax benefits related to the excess of proceeds from employee s exercises of stock options over the stock-based compensation cost recognized for those options) are classified as financing cash flows. The Company recorded approximately $6 million of excess tax benefits as a financing cash inflow during fiscal year 2008. The Company did not recognize any cash flows from excess tax benefits during fiscal year 2007. The Company recorded approximately $44 million of excess tax benefits as a financing cash inflow during fiscal year 2006.

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Option Activity

The Company issues new common shares upon exercise of stock options. The following is a summary of option activity for the Company s stock option plans, including options assumed from Maxtor, for the fiscal year ended June 27, 2008:

Options	Number of Shares (In millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at June 29, 2007	56.6	$ 10.94		
Granted	10.0	24.43		
Exercised	(10.0)	10.94		
Forfeitures and cancellations	(1.6)	22.14		
Outstanding at June 27, 2008	55.0	$ 10.38	4.7	$ 255
Vested and expected to vest at June 27, 2008	51.8	$ 16.74	4.6	$ 254
Exercisable at June 27, 2008	29.5	$ 12.34	4.1	$ 235

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common shares for the 28.0 million options that were in-the-money at June 27, 2008. During fiscal years 2008, 2007 and 2006 the aggregate intrinsic value of options exercised under the Company s stock option plans was $155 million, $280 million and $228 million, respectively, determined as of the date of option exercise. The aggregate fair value of options vested during fiscal year 2008 was approximately $84 million.

At June 27, 2008 the total compensation cost related to options granted to employees under the Company s stock option plans (excluding options assumed in the Maxtor acquisition) but not yet recognized was approximately $122 million, net of estimated forfeitures of approximately $17 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of approximately 2.3 years and will be adjusted for subsequent changes in estimated forfeitures. In addition to the stock-based compensation cost not yet recognized under the Company s stock option plans, the Company has additional stock-based compensation costs related to options assumed in the Maxtor acquisition of approximately $2 million, which will be amortized over a weighted-average period of approximately 0.9 years.

Nonvested Share Activity

The following is a summary of nonvested share activity under the Company s stock option plans, and nonvested stock assumed from Maxtor for the fiscal year ended June 27, 2008:

Nonvested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
	(In millions)	
Nonvested at June 29, 2007	1.7	$ 20.71
Granted	0.2	$ 22.24
Forfeitures and cancellations	(0.2)	$ 22.00
Vested	(0.7)	$ 21.40
Nonvested at June 27, 2008	1.0	$ 19.10

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At June 27, 2008, the total compensation cost related to nonvested shares granted to employees under the Company s stock option plans (excluding nonvested shares exchanged in the Maxtor acquisition) but not yet recognized was approximately $7 million, net of estimated forfeitures of approximately $1 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of 2.1 years and will be adjusted for subsequent changes in estimated forfeitures. In addition, the Company has additional stock-based compensation related to nonvested shares exchanged in the Maxtor acquisition of approximately $7 million, which will be amortized over a weighted-average period of approximately 1.8 years.

Performance Shares

At the Company s 2007 Annual General Meeting on October 25, 2007, the Company s shareholders approved the issuance of 925,000 performance shares to senior officers of the Company. Subject to continued employment, these performance shares will vest based upon the achievement of certain earnings per share performance objectives as defined in the performance share agreements. The requisite service periods for these awards do not commence until fiscal year 2009. As such, no compensation expense was recognized and no shares vested during fiscal year 2008. During fiscal year 2008, 16,000 of these performance shares were cancelled.

ESPP Information

	Number of Shares (In millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In millions)
Outstanding at June 27, 2008	1.9	$ 16.56	0.2	$ 5.6
Vested and expected to vest at June 27, 2008	1.9	$ 16.56	0.2	$ 5.6

During fiscal years 2008 and 2007, the aggregate intrinsic value of options exercised under the Company s ESPP was $12 million and $25 million, respectively. At June 27, 2008, the total compensation cost related to options to purchase the Company s common shares under the ESPP but not yet recognized was approximately $2 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 0.2 years.

The following table shows the shares issued, and their respective weighted-average purchase price, pursuant to the ESPP during fiscal year 2008.

	January 31, 2008	July 31, 2007

Shares issued (in millions)	1.9	1.6
Weighted-average purchase price per share	$ 17.23	$ 19.98

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 EITF No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested* (EITF 97-14). Under EITF 97-14, the assets and liabilities of a rabbi trust must be accounted for as assets and liabilities of the Company. In addition all earnings and expenses of the rabbi

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

trust are recorded as other income or expense in the Company s financial statements. The corresponding gain or loss on deferred compensation plan liabilities is offset against compensation expenses in cost of revenue and operating expenses. At June 27, 2008 and June 29, 2007, the deferred compensation amounts related to the rabbi trust included in Other Assets, net on the accompanying balance sheets were approximately $132 million and $136 million, respectively. At June 27, 2008 and June 29, 2007, the deferred compensation obligation related to the rabbi trust included in Accrued expenses on the accompanying balance sheets were approximately $138 million and $139 million, respectively.

4. Income Taxes

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

	Fiscal Years Ended		
	June 27, 2008	June 29, 2007 (In millions)	June 30, 2006
Current Tax Expense (Benefit):			
U.S. Federal	$ 8	$ 6	$ 35
U.S. State	10	(1)	7
Foreign	26	8	19
Total Current	$ 44	$ 13	$ 61
Deferred Tax Expense (Benefit):			
U.S. Federal	$ 34	$ (319)	$ 29
U.S. State	3	(40)	4
Foreign	(14)	(6)	(10)
Total Deferred	$ 23	$ (365)	$ 23
Provision for (Benefit from) income taxes	$ 67	$ (352)	$ 84

Income before income taxes consisted of the following:

	Fiscal Years Ended		
	June 27, 2008	June 29, 2007 (In millions)	June 30, 2006
U.S	$ 90	$ (125)	$ (18)

Foreign	1,239	686	942
	$ 1,329	$ 561	$ 924

For fiscal year 2008 there were $6 million tax benefits recorded to Additional Paid-In Capital associated with stock option deductions. The Company did not record a tax expense associated with stock option deductions in fiscal year 2007 compared to $44 million recorded in fiscal year 2006; the related tax benefit was recorded directly to Additional Paid-In Capital.

U.S. federal and state deferred tax expense in fiscal year 2008 was $37 million. In fiscal year 2007, the deferred tax benefit of $359 million includes $319 million of deferred tax benefits resulting from the release of valuation allowance recorded in prior years. The fiscal year 2007 valuation allowance release was largely due to the completion during 2007 of the restructuring of the Company s intercompany arrangements, which enables the Company to forecast future U.S. taxable income with greater certainty and U.S. taxable income from the

Table of Contents

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

intercompany sale of certain Maxtor assets. This 2007 valuation allowance release also included a reduction of $322 million in Maxtor goodwill required as a result of the reversal of valuation allowance previously recorded as of the acquisition date against Maxtor related deferred tax assets primarily for tax net operating loss carryovers.

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:

	June 27, 2008
	(In mi
Tax	
warranty	$ 156
valuation	44
le reserves	15
ation and	139
tion	166
ring e	13
ruals and tems	110
ting d tax wards	585
ed and ment	29
ets	13
ferred Tax	1,270
e	(433)
rred Tax	837
Tax es	
ed	(4)
of certain	

ntities intangible	(25)
ferred Tax s	(29)
rred Tax iabilities)	808
taxes on pany ons	82
ferred Tax	$ 890
rted on nce Sheet	
eferred axes	$ 274
ent eferred Tax	

Legislation generally referred to as "FATCA" imposes a 30% U.S. withholding tax on dividends on our common stock and the gross proceeds from a disposition of our common stock paid to:

(i) a "foreign financial institution" (as specifically defined for purposes of FATCA) unless the institution enters into an agreement with the U.S. Treasury to collect and disclose information regarding the institution's U.S. account holders (including certain account holders that are foreign entities with U.S. owners) and to withhold on certain payments, or unless it otherwise qualifies for an exemption, and

(ii) a "non-financial foreign entity" (also as specifically defined for purposes of FATCA) unless the entity provides the payor with a certification that it does not have any substantial direct or indirect U.S. owners or provides information identifying the substantial U.S. owners of the entity (which generally include any U.S. person who directly or indirectly owns more than 10% of the entity), or unless the entity agrees to report that information to the IRS or otherwise qualifies for an exemption.

FATCA withholding would apply to dividends paid after June 30, 2014 (or, in certain circumstances, after later dates) and to gross proceeds from sales or other dispositions of our common stock after December 31, 2016. Where applicable, intergovernmental agreements between the U.S. and other countries with respect to the implementation of FATCA and non-U.S. laws, regulations and other authorities enacted or issued with respect to those intergovernmental agreements may modify the requirements under FATCA described above. You are encouraged to consult with your own tax advisor regarding the possible implications of this legislation on your investment in our common stock.

The summary of material U.S. federal income tax consequences above is included for general information purposes only. Potential purchasers of our common stock are urged to consult their own tax advisors to determine the U.S. federal, state, local and non-U.S. tax considerations of purchasing, owning and disposing of our common stock.

Shares eligible for future sale

Immediately prior to this offering, there was no public market for our common stock. Although our common stock has been approved for listing on the NYSE, we cannot assure you that a significant public market for our common stock will develop or be sustained. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of the contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse, or the perception that such sales could occur, could adversely affect the prevailing market price for our common stock as well as our ability to raise equity capital in the future.

We may issue shares of our common stock from time to time as consideration for future acquisitions, investments or other corporate purposes. In the event any such acquisition, investment or other transaction is significant, the number of shares of common stock that we issue may in turn be significant. In addition, we may also grant registration rights covering those shares of common stock issued in connection with any such acquisitions or investments.

Sale of restricted securities

Upon the completion of this offering, 24,929,350 shares of common stock will be outstanding excluding shares issued to our non-executive employees and one of our directors immediately prior to the execution of the underwriting agreement for this offering. In addition, options to acquire 2,852,150 shares of our common stock are outstanding as of the date of this prospectus. All of the shares sold in this offering will be freely tradable unless held by an "affiliate" of ours, as that term is defined in Rule 144 promulgated under the Securities Act, which shares will be subject to the volume limitations and other restrictions of Rule 144 described below. The remaining shares of common stock that will be outstanding after this offering will be "restricted securities", as defined in Rule 144. Restricted securities may be resold only after registration under the Securities Act or pursuant to an exemption from such registration, including, among others, the exemptions provided by Rules 144 and 701 under the Securities Act, which rules are summarized below. These remaining shares of common stock upon completion of this offering will be available for sale in the public market, taking into account the provisions of Rules 144 and 701 under the Securities Act, as follows:

- no restricted shares will be eligible for immediate sale upon consummation of this offering; and
- 19,929,350 restricted shares will be eligible for sale upon the expiration of lock-up agreements 180 days after the date of this offering.

Rule 144

In general, under Rule 144 a person (or persons whose shares are aggregated) who may be deemed our affiliate is entitled to sell within any three-month period a number of restricted securities that does not exceed the greater of

- 1% of the then outstanding shares of common stock; and
- the average weekly trading volume during the four calendar weeks preceding each such sale,

provided that at least six months has elapsed since such shares of common stock were acquired from us or any affiliate of ours and certain manner of sale, notice requirements and requirements as to availability of

current public information about us are satisfied. Any person who is deemed to be our affiliate must also comply with such provisions of Rule 144 (other than the six-month holding period requirement) in order to sell shares of common stock which are not restricted securities (such as shares of common stock acquired by affiliates through purchases in the open market following this offering). A person who is not our affiliate, and who has not been our affiliate at any time during the 90 days preceding any sale, is entitled to sell shares of common stock (i) subject only to the requirements as to availability of current public information about us, provided that a period of at least six months has elapsed since the shares of common stock were acquired from us or any affiliate of ours, and (ii) without regard to any requirement of Rule 144, provided that at least one year has elapsed since the shares of common stock were acquired from us or any affiliate of ours.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchased shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering, or who purchased shares from us after that date upon the exercise of options granted before that date, are eligible to resell such shares in reliance upon Rule 144 beginning 90 days after we become a reporting company under the Exchange Act. If such person is not an affiliate, the sale may be made under Rule 144 without compliance with its minimum holding period or current public information requirements, but subject to the other Rule 144 restrictions. If such person is an affiliate, the sale may be made under Rule 144 without compliance with its minimum holding period requirements, but subject to the other Rule 144 restrictions.

Lock-up agreements

We, each of our directors and officers and certain of our existing stockholders have agreed to certain restrictions on our ability to sell additional shares of our common stock for a period of 180 days after the date of this prospectus. Specifically, we, each of our directors and officers and certain of our existing stockholders have agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock, without the prior written consent of J.P. Morgan Securities, LLC, Piper Jaffray & Co. and Jefferies LLC. The lock-up agreements provide exceptions for (a) sales to the underwriters in connection with this offering, (b) our sales in connection with existing incentive plans and (c) other customary exceptions. Upon the expiration of the lock-up period, substantially all of the shares subject to such lock-up restrictions will become eligible for sale, subject to the limitations discussed above.

Stock options and restricted stock

As soon as practicable after the completion of this offering, we intend to file one or more Form S-8 registration statements under the Securities Act to register shares of our common stock issued or reserved for issuance under our 2007 Stock Incentive Plan, 2011 Equity Incentive Plan or 2014 Equity Incentive Plan. These Form S-8 registration statements will become effective immediately upon filing, and shares covered by these Form S-8 registration statements will thereupon be eligible for sale in the public markets, subject to vesting restrictions, the lock-up agreements described above and Rule 144 limitations applicable to affiliates. For a more complete discussion of our stock plans, see "Executive and director compensation".

Table of Contents

Registration rights

Pursuant to the terms of a registration rights agreement to be entered into in connection with this offering, we will be required to use our reasonable best efforts to register under the Securities Act, under certain circumstances and subject to certain restrictions, resales of up to 19,871,725 shares of our common stock. Any such securities registered for resale under any registration statement will be available for sale in the open market unless restrictions apply. See "Certain relationships and related party transactions Registration rights agreement".

Table of Contents

Underwriting

We are offering the shares of common stock described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC, Piper Jaffray & Co. and Jefferies LLC are acting as joint book-running managers of the offering and as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters dated the date of this prospectus. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

Name	Number of shares
J.P. Morgan Securities LLC	1,750,000
Piper Jaffray & Co.	1,125,000
Jefferies LLC	1,125,000
Wells Fargo Securities, LLC	500,000
Robert W. Baird & Co. Incorporated	500,000
Total	5,000,000

The underwriters are committed to purchase all the common shares offered by us if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the common shares directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $0.672 per share. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the U.S. may be made by affiliates of the underwriters. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The underwriters have an option to buy up to 750,000 additional shares of common stock from us to cover sales of such shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus to exercise this option to purchase additional shares of common stock. If any shares are purchased with this option to purchase additional shares of common stock, the underwriters will purchase such shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting fee is $1.12 per share. The following table shows the per share and total underwriting discounts and commissions to be paid to the

Table of Contents

underwriters by us assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Paid by us Without exercise of option to purchase additional shares	With full exercise of option to purchase additional shares
Per share	$ 1.12	$ 1.12
Total	$ 5,600,000	$ 6,440,000

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees, legal and accounting expenses and transfer agent and registrar expenses, but excluding the underwriting discounts and commissions, will be approximately $2.9 million. We have also agreed to reimburse the underwriters for certain of their expenses in an amount up to $35,000.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives of the underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

We have agreed that we will not (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock or any such other securities (regardless of whether any of these transactions are to be settled by the delivery of shares of common stock or such other securities, in cash or otherwise), in each case without the prior written consent of J.P. Morgan Securities LLC, Piper Jaffray & Co. and Jefferies LLC for a period of 180 days after the date of this prospectus, other than the shares of our common stock to be sold hereunder and any shares of our common stock issued upon the exercise of options granted under our existing management incentive plans.

Our directors and executive officers and existing stockholders have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 180 days after the date of this prospectus, may not, without the prior written consent of J.P. Morgan Securities LLC, Piper Jaffray & Co. and Jefferies LLC, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock (including without limitation, common stock or such other securities which may be deemed to be beneficially owned by such directors, officers and existing stockholders in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant), or publicly disclose the intention to make any offer, sale, pledge or disposition,

Table of Contents

(2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock or such other securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise, or (3) make any demand for or exercise any right with respect to the registration of any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Our common stock has been approved for listing on the NYSE under the symbol "BOOT".

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional shares of our common stock referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option to purchase additional shares of our common stock, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through their option to purchase additional shares of our common stock. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives of the underwriters can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the NYSE, in the over-the-counter market or otherwise.

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representatives of the underwriters. In

determining the initial public offering price, we and the representatives of the underwriters considered a number of factors including:

- the information set forth in this prospectus and otherwise available to the representatives of the underwriters;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;
- our prospects for future earnings;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and
- other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our common shares, or that the shares will trade in the public market at or above the initial public offering price.

Selling restrictions

General

Other than in the U.S., no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

United Kingdom

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000, or the FSMA, (Financial Promotion) Order 2005, or the Order, or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons". The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Each underwriter has represented and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of our common shares in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to our common shares in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each of which we refer to as a Relevant Member State, an offer to the public of any shares which are the subject of the offering contemplated by this prospectus, which for purposes of this section we refer to as the Shares, may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives of the underwriters for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to

Table of Contents

shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, or the Financial Instruments and Exchange Law, and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, us, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document

Table of Contents

will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority, or FINMA, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or DFSA. This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus, you should consult an authorized financial advisor.

Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission, in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001, or the Corporations Act, and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the shares may only be made to persons, which we refer to as Exempt Investors, who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), "professional investors" (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

Other relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory,

Table of Contents

investment management, investment research, principal investment, hedging, financing and brokerage activities.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Legal matters

The validity of the shares of common stock offered hereby will be passed upon for us by Bingham McCutchen LLP, Costa Mesa, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Cravath, Swaine & Moore LLP. Certain partners of Bingham McCutchen LLP are limited partners in a partnership that is a limited partner of the Freeman Spogli & Co. investment fund that owns equity interests of us.

Experts

The consolidated financial statements of Boot Barn Holdings, Inc. and subsidiaries as of March 29, 2014 and March 30, 2013, and for each of the two years in the period ended March 29, 2014, for the period from December 12, 2011 to March 31, 2012 and of Boot Barn Holding Corporation for the period from April 3, 2011 to December 11, 2011, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein. Such consolidated financial statements have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Where you can find more information

We have filed with the SEC a registration statement on Form S-1 (including exhibits, schedules and amendments) under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus does not contain all the information set forth in the registration statement. For further information about us and the shares of common stock to be sold in this offering, you should refer to the registration statement. Statements contained in this prospectus relating to the contents of any contract, agreement or other document are not necessarily complete, and, in each instance, we encourage you to read in its entirety the copy of the contract, agreement or other document filed as an exhibit to the registration statement. Whenever this prospectus refers to any contract, agreement or other document, you should refer to the exhibits that are a part of the registration statement for a copy of the contract, agreement or document.

You may read and copy all or any portion of the registration statement or any other information we file at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the public reference rooms. Our SEC filings, including the registration statement, are also available to you on the SEC's website (http://www.sec.gov).

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Exchange Act. Under the Exchange Act, we will file annual, quarterly and current reports, as well as proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference room and the website of the SEC referred to above. We also maintain a website at www.bootbarn.com. After the completion of this offering, you may access our periodic reports, proxy statements and other information free of charge at our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information contained on, or accessible through, our website is not part of this prospectus, and you should not consider it part of this prospectus. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

Index to audited consolidated financial statements

Boot Barn Holdings, Inc. and Subsidiaries

Report of independent registered public accounting firm	F-2
Consolidated balance sheets	F-3
Consolidated statements of operations	F-4
Consolidated statements of stockholders' equity	F-5
Consolidated statements of cash flows	F-6
Notes to consolidated financial statements	F-7

Index to unaudited condensed consolidated financial statements

Boot Barn Holdings, Inc. and Subsidiaries

Condensed consolidated balance sheets	F-34
Condensed consolidated statements of operations	F-35
Condensed consolidated statements of stockholders' equity	F-36
Condensed consolidated statements of cash flows	F-37
Notes to condensed consolidated financial statements	F-38

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Boot Barn Holdings, Inc.
Irvine, California

We have audited the accompanying consolidated balance sheets of Boot Barn Holdings, Inc. (formerly WW Top Investment Corporation) and subsidiaries (the "Company") as of March 29, 2014 and March 30, 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended and for the period from December 12, 2011 to March 31, 2012 and of Boot Barn Holding Corporation (the "Predecessor") for the period from April 3, 2011 to December 11, 2011. These 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 (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Boot Barn Holdings, Inc. and subsidiaries as of March 29, 2014 and March 30, 2013, and the results of their operations and their cash flows for the years then ended and for the period from December 12, 2011 to March 31, 2012 and of the Predecessor for the period from April 3, 2011 to December 11, 2011, in conformity with accounting principles generally accepted in the U.S.

/s/ Deloitte & Touche LLP
Costa Mesa, California
June 13, 2014 (October 27, 2014 as to the effect of the common and preferred stock authorization, par value and common stock split discussed in the last paragraph of Note 16)

Boot Barn Holdings, Inc. and Subsidiaries
Consolidated balance sheets
(in thousands except share and per share data)

	March 29, 2014	March 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 1,118	$ 1,190
Accounts receivable	2,191	1,078
Inventories	102,702	67,995
Prepaid expenses and other current assets	8,685	5,311
Total current assets	114,696	75,574
Property and equipment, net	21,450	10,736
Goodwill	93,097	78,033
Intangible assets, net	59,723	58,017
Other assets	2,897	1,922
Total assets	$ 291,863	$ 224,282
Liabilities and stockholders' equity		
Current liabilities:		
Line of credit	$ 28,624	$ 18,910
Accounts payable	36,029	22,488
Accrued expenses and other current liabilities	20,763	14,722
Current portion of notes payable	1,000	2,000
Total current liabilities	86,416	58,120
Deferred taxes	19,960	19,538
Long-term portion of notes payable	98,500	17,000
Related party notes payable		50,500
Other liabilities	2,412	1,500
Total liabilities	207,288	146,658
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Common stock, $0.0001 par value; March 29, 2014 and March 30, 2013 100,000,000 shares authorized, 18,929,350 shares issued and outstanding	2	2
Preferred stock, $0.0001 par value; 10,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	78,834	77,543
Retained earnings (accumulated deficit)	1,652	(3,725)
Total Boot Barn Holdings, Inc. stockholders' equity	80,488	73,820
Non-controlling interest	4,087	3,804
Total stockholders' equity	84,575	77,624
Total liabilities and stockholders' equity	$ 291,863	$ 224,282

The accompanying notes are an integral part of these consolidated financial statements.

Boot Barn Holdings, Inc. and Subsidiaries
Consolidated statements of operations
(in thousands, except per share data)

				Fiscal year ended
			(Successor)	(Predecessor)
	March 29, 2014	March 30, 2013	December 12, 2011 to March 31, 2012	April 3, 2011 to December 11, 2011
Net sales	$ 345,868	$ 233,203	$ 58,267	$ 110,429
Cost of goods sold	231,796	151,357	37,313	72,129
Amortization of inventory fair value adjustment	867	9,199	9,369	
Total cost of goods sold	232,663	160,556	46,682	72,129
Gross profit	113,205	72,647	11,585	38,300
Operating expenses:				
Selling, general and administrative expenses	91,998	62,609	12,769	28,145
Acquisition-related expenses	671	1,138	3,027	7,336
Total operating expenses	92,669	63,747	15,796	35,481
Income (loss) from operations	20,536	8,900	(4,211)	2,819
Interest expense, net	11,594	7,415	1,442	3,684
Other income, net	39	21	5	70
Income (loss) before income taxes	8,981	1,506	(5,648)	(795)
Income tax expense (benefit)	3,321	826	(1,047)	(135)
Net income (loss)	5,660	680	(4,601)	(660)
Net income (loss) attributed to non-controlling interest	283	34	(230)	
Net income (loss) attributed to Boot Barn Holdings, Inc.	$ 5,377	$ 646	$ (4,371)	$ (660)
Net income (loss) per share:				
Basic shares	$ 0.28	$ 0.03	$ (0.23)	$ (3.82)
Diluted shares	$ 0.28	$ 0.03	$ (0.23)	$ (3.82)
Weighted average shares outstanding:				
Basic shares	18,929	18,757	18,633	173
Diluted shares	19,175	18,757	18,633	173

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Boot Barn Holdings, Inc. and Subsidiaries
Consolidated statements of stockholders' equity
(in thousands, except shares)

	Common stock		Preferred stock Series A		Preferred stock Series B		Additional paid-in capital	Retained earnings (accumulated deficit)	Non-controlling interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Predecessor balance at April 3, 2011	172,858	$	31,765	$31,765	1,036	$1,036	$ 17	$ 39	$	$32,857
Net loss								(660)		(660)
Predecessor balance at December 11, 2011	172,858	$	31,765	$31,765	1,036	$1,036	$ 17	$ (621)	$	$32,197
Successor balance at December 11, 2011		$		$		$	$	$	$	$
Issuance of stock	18,632,625	2					74,658		4,000	78,660
Stock-based compensation expense							99			99
Net loss								(4,371)	(230)	(4,601)
Balance at March 31, 2012	18,632,625	2					74,757	(4,371)	3,770	74,158
Issuance of stock	296,725						1,999			1,999
Stock-based compensation expense							787			787
Net income								646	34	680
Balance at March 30, 2013	18,929,350	2					77,543	(3,725)	3,804	77,624
Stock-based compensation expense							1,291			1,291
Net income								5,377	283	5,660
Balance at March 29, 2014	18,929,350	$ 2		$		$	$ 78,834	$ 1,652	$ 4,087	$84,575

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Boot Barn Holdings, Inc. and Subsidiaries
Consolidated statements of cash flows
(in thousands)

	Fiscal year ended		(Successor) December 12, 2011 to March 31, 2012	(Predecessor) April 3, 2011 to December 11, 2011
	March 29, 2014	March 30, 2013		
Cash flows from operating activities				
Net income (loss)	$ 5,660	$ 680	$ (4,601)	$ (660)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	4,628	2,662	656	1,163
Stock-based compensation	1,291	787	99	
Amortization of intangible assets	3,501	2,926	439	55
Amortization of deferred loan fees	2,507	435	81	286
Loss on disposal of property and equipment	1,980	322	17	4
Accretion of above market leases	(230)	(231)	(63)	(93)
Deferred taxes	(1,874)	(633)	(2,374)	(189)
Amortization of inventory fair value adjustment	867	9,199	9,369	
Changes in operating assets and liabilities:				
Accounts receivable	(710)	(209)	629	(892)
Due from related party				52
Inventories	(14,100)	(4,821)	3,466	(9,436)
Prepaid expenses and other current assets	(871)	(2,490)	(615)	587
Other assets	104	199	278	26
Accounts payable	3,190	4,916	915	4,608
Accrued expenses and other current liabilities	5,944	2,494	(12,385)	10,446
Other liabilities	893	(4,312)	52	165
Net cash provided by (used in) operating activities	$ 12,780	$ 11,924	$ (4,037)	$ 6,122
Cash flows from investing activities				
Purchases of property and equipment	$ (11,400)	$ (3,848)	$ (698)	$ (2,055)
Proceeds from sales of property and equipment	24	61		4
Purchase of trademark rights	(200)			
Acquisition of business, net of cash acquired	(15,696)	(41,912)	(85,574)	
Net cash used in investing activities	$ (27,272)	$ (45,699)	$ (86,272)	$ (2,051)
Cash flows from financing activities				
Proceeds from issuance of stock	$	$ 1,999	$ 76,019	$
Line of credit net	9,714	4,324	4,567	101

Proceeds from loan borrowings	100,000	10,583	12,000	
Repayments on debt and capital lease obligations	(70,126)	(1,461)	(294)	(2,204)
Proceeds from borrowings related parties		25,500		
Debt issuance fees	(3,350)	(1,167)	(1,391)	
Payment of assumed contingent consideration and debt from acquisitions	(21,818)	(5,405)		
Net cash provided by (used in) financing activities	$ 14,420	$ 34,373	$ 90,901	$ (2,103)
Net increase (decrease) in cash and cash equivalents	(72)	598	592	1,968
Cash and cash equivalents, beginning of year	1,190	592		567
Cash and cash equivalents, end of year	$ 1,118	$ 1,190	$ 592	$ 2,535
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	$ 4,849	$ 3,337	$ 95	$ 445
Cash paid for interest	$ 9,110	$ 6,275	$ 966	$ 2,782
Supplemental disclosure of non-cash activities:				
Unpaid purchases of property and equipment	$ 132	$ 65	$	$
Equipment acquired through capital lease	$ 28	$	$	$ 41
Exchange of Predecessor shares for Successor shares	$	$	$ 2,641	$
Net replacement of Predecessor debt with the same lender	$	$	$ 17,000	$

The accompanying notes are an integral part of these consolidated financial statements.

Boot Barn Holdings, Inc. and Subsidiaries
Notes to consolidated financial statements

1. Business operations

Boot Barn Holdings, Inc., formerly named WW Top Investment Corporation (the "Company" or "Successor") was formed on November 17, 2011, and is incorporated in the State of Delaware. The equity of the Company consists of 100,000,000 authorized shares and 18,929,350 outstanding shares of common stock as of each of March 29, 2014 and March 30, 2013 with 17,750,000 shares of common stock held by Freeman Spogli & Co. as of each of March 29, 2014 and March 30, 2013. The shares of common stock have voting rights of one vote per share.

Boot Barn Holding Corporation (the "Predecessor"), a Delaware corporation, was incorporated on September 28, 2007 and owns 100% of the common stock of Boot Barn, Inc. (together with Predecessor, "Boot Barn"). The Company was formed to effect the purchase of the Predecessor, including the operations of Boot Barn. On December 12, 2011, the Company acquired 94.9% of the outstanding capital stock of the Predecessor, which is referred to as the Recapitalization. During the period from November 17, 2011 through December 11, 2011, there was no material activity of the Company and the Company had no operations prior to the acquisition. In connection with the Recapitalization, management and other investors purchased shares of the Successor's common stock, collectively representing a 9.6% equity interest in Boot Barn Holding Corporation.

As of June 8, 2014, the Company held all of the outstanding shares of common stock of WW Holding Corporation, which held 95.0% of the outstanding shares of common stock of Boot Barn Holding Corporation. On June 9, 2014, WW Holding Corporation was merged with and into the Company and then Boot Barn Holding Corporation was merged with and into the Company. As a result of this reorganization, Boot Barn, Inc. became a direct wholly owned subsidiary of the Company, and the minority stockholders that formerly held 5.0% of Boot Barn Holding Corporation became holders of 5.0% of the Company. On June 10, 2014, the legal name of the Company was changed from WW Top Investment Corporation to Boot Barn Holdings, Inc.

The Company operates specialty retail stores that sell western and work boots and related apparel and accessories. The Company operates retail locations throughout the U.S. and sells its merchandise via the Internet. The Company operated a total of 152 stores in 23 states as of March 29, 2014 and 117 stores in 21 states as of March 30, 2013. As of the fiscal year ending March 29, 2014, all stores operate under the Boot Barn name (other than two stores, which operate under the "American Worker" name).

2. Summary of significant accounting policies

Basis of presentation

The Company's consolidated financial statements, prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"), include the accounts of the Company and each of its subsidiaries, including WW Holding Corporation, Boot Barn Holding Corporation, Boot Barn, Inc., RCC Western Stores, Inc. ("RCC") and Baskins Acquisition Holdings, LLC ("Baskins"). All intercompany accounts and transactions among the Company and its subsidiaries have been eliminated in consolidation.

Table of Contents

Fiscal year

The Company reports its results of operations and cash flows on a 52- or 53-week basis, and its fiscal year ends on the Saturday closest to March 31. The years ending March 29, 2014 ("fiscal 2014") and March 30, 2013 ("fiscal 2013") each consisted of 52 weeks. The period from December 12, 2011 to March 31, 2012 (the "Successor Period") consisted of approximately 16 weeks. The period from April 3, 2011 to December 11, 2011 (the "Predecessor Period") consisted of approximately 36 weeks.

Comprehensive income (loss)

The Company does not have any components of other comprehensive income (loss) recorded within its consolidated financial statements and, therefore, does not separately present a statement of comprehensive income (loss) in its consolidated financial statements.

Segment reporting

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. The Company has a single operating and reportable segment, which includes net sales generated from its retail stores and e-commerce website. All of the Company's identifiable assets are in the U.S.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Among the significant estimates affecting the Company's consolidated financial statements are those relating to revenue recognition, inventories, goodwill, intangible and long-lived assets, stock-based compensation and income taxes. Management regularly evaluates its estimates and assumptions based upon historical experience and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent actual results differ from those estimates, the Company's future results of operations may be affected.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents also include receivables from credit card sales. The carrying amounts of cash and cash equivalents represent their fair values.

Accounts receivable

The Company's accounts receivable consists of amounts due from commercial customers for merchandise sold, as well as receivables from suppliers under co-operative arrangements. The Company has concluded that no allowance for bad debts is required.

Inventories

Inventory consists primarily of purchased merchandise and is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis and includes the cost of merchandise and import related costs, including freight, duty and agent commissions. The Company assesses the recoverability of inventory through a periodic review of historical usage and present demand. When the inventory on hand exceeds the foreseeable demand, the value of inventory that, at the time of the review, is not expected to be sold is written down to its estimated net realizable value.

Table of Contents

The Company recorded fair value adjustments to reflect the acquired cost of inventory related to its acquisitions of Boot Barn, RCC and Baskins. These amounts were amortized over the period that the related inventory was sold. Amortization of the acquired cost of inventory was $0.9 million, $9.2 million and $9.4 million in the fiscal years ended March 29, 2014 and March 30, 2013, and the Successor Period, respectively.

Deferred loan fees

Deferred loan fees are capitalized and amortized to interest expense over the terms of the applicable loan agreements using the effective interest method. Included in prepaid expenses and other current assets are short-term deferred loan fees of $0.6 million and $0.5 million as of March 29, 2014 and March 30, 2013, respectively. Included in other assets are long-term deferred loan fees of $2.3 million and $1.5 million as of March 29, 2014 and March 30, 2013, respectively.

Property and equipment, net

Property and equipment consists of leasehold improvements, machinery and equipment, furniture and fixtures and vehicles. Property and equipment is subject to depreciation and is recorded at cost less accumulated depreciation. Expenditures for major remodels and improvements are capitalized while minor replacements, maintenance and repairs that do not improve or extend the life of such assets are charged to expense. Gains or losses on disposal of fixed assets, when applicable, are reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives, ranging from five to seven years. Machinery and equipment is depreciated over five years. Furniture and fixtures are depreciated over five to seven years. Vehicles are depreciated over five years. Leasehold improvements are depreciated over the shorter of the terms of the leases or their estimated useful lives.

Goodwill and indefinite-lived intangible assets

Goodwill is recorded as the difference between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. Goodwill is tested for impairment at least annually or more frequently if indicators of impairment exist. An annual goodwill impairment test is performed as of the first day of the fourth fiscal quarter. In fiscal 2013 and prior, the annual goodwill impairment test was performed as of fiscal year-end. The Company changed the timing of its annual impairment test to provide sufficient time to prepare the analysis and meet reporting deadlines. Management evaluates the fair value of the reporting unit using a market-based analysis to review market capitalization as well as reviewing a discounted cash flow analysis using management's assumptions.

The Company conducts a two-step goodwill impairment test. The first step of the impairment test involves comparing the fair value of the reporting unit with its carrying value. The Company's entire operations represent one reporting unit. The Company determines the fair value of its reporting unit using the income approach and market approach to valuation, as well as other generally accepted valuation methodologies. If the carrying amount of the reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test, which involves comparing the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, will be recognized as an impairment loss. No impairment was recorded during the fiscal years ended March 29, 2014 or March 30, 2013, the Successor Period or the Predecessor Period.

Intangible assets with indefinite lives, which include the Boot Barn trademark, are not amortized but instead are measured for impairment at least annually, or when events indicate that impairment may exist. The Company calculates impairment as the excess of the carrying value of indefinite-lived intangible assets over their estimated fair value. If the carrying value exceeds the estimate of fair value an impairment

charge is recorded. No impairment was recorded during the fiscal years ended March 29, 2014, March 30, 2013, the Successor Period or the Predecessor Period.

Definite-lived intangible assets

Definite-lived intangible assets consist of certain trademarks, customer lists, non-compete agreements, and below-market leases. Definite-lived intangible assets are amortized utilizing the straight-line method over the assets' estimated useful lives, with the exception of customer lists, which are amortized based on the estimated attrition rate. The period of amortization for trademarks is six months, for customer lists is five years, for non-compete agreements is four to five years and for below-market leases is two to 17 years.

Long-lived assets

Long-lived assets consist of property and equipment and definite-lived intangible assets. The Company assesses potential impairment of its long-lived assets whenever events or changes in circumstances indicate that an asset or asset group's carrying value may not be recoverable. Factors that are considered important that could trigger an impairment review include a current-period operating or cash flow loss combined with a history of operating or cash flow losses and a projection or forecast that demonstrates continuing losses or insufficient income associated with the use of a long-lived asset or asset group. Other factors include a significant change in the manner of the use of the asset or a significant negative industry or economic trend. This evaluation is performed based on estimated undiscounted future cash flows from operating activities compared with the carrying value of the related assets. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized, measured by the difference between the carrying value, and the estimated fair value of the assets, with such estimated fair values determined using the best information available and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*. The Company has determined that there were no impairments of long-lived assets during the fiscal years ended March 29, 2014 or March 30, 2013, the Successor Period or the Predecessor Period.

Stock-based compensation

Stock-based compensation is accounted for under FASB ASC Topic 718, *Compensation Stock Compensation* ("ASC 718"). The Company accounts for all stock-based compensation transactions using a fair-value method and recognizes the fair value of each award as an expense over the service period. The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model. The use of the Black-Scholes model requires a number of estimates, including the expected option term, the expected volatility in the price of the Company's common stock, the risk-free rate of interest and the dividend yield on the Company's common stock. Judgment is required in estimating the number of share-based awards that the Company expects will ultimately vest upon the fulfillment of service conditions (such as time-based vesting). The consolidated financial statements include amounts that are based on the Company's best estimates and judgments. The Company classifies compensation expense related to these awards in the consolidated statements of operations based on the department to which the recipient reports.

Noncontrolling interest

On December 12, 2011, the Company acquired the majority of the outstanding shares of its consolidated subsidiary Boot Barn Holding Corporation. Certain investors hold approximately 5.0% of the outstanding shares of Boot Barn Holding Corporation. Noncontrolling interests are recorded at the acquisition date fair value plus an allocation of subsidiary earnings (loss) based on the relative ownership interest.

Table of Contents

Revenue recognition

Revenue is recorded for store sales upon the purchase of merchandise by customers. E-commerce sales are recorded when the customer takes title of the merchandise and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, which generally occurs upon delivery of the product. Shipping and handling revenues are included in total net revenue. Shipping costs incurred by the Company are included as cost of goods sold.

Revenue is recorded net of estimated and actual sales returns and deductions for coupon redemptions, estimated future award redemption and other promotions. The sales return reserve reflects an estimate of sales returns based on projected merchandise returns determined through the use of historical average return percentages. The total reserve for returns was $0.4 million, $0.2 million, $0.2 million and $0.1 million as of March 29, 2014 and March 30, 2013 and the end of the Successor Period and the Predecessor Period, respectively. The following table provides a reconciliation of the activity related to the Company's sales returns reserve:

(in thousands)	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	Fiscal year ended (Predecessor) April 3, 2011 to December 11, 2011
Beginning balance	$ 238	$ 169	$ 139	$ 139
Provisions	15,034	9,723	2,821	3,800
Sales returns	(14,842)	(9,654)	(2,791)	(3,800)
Ending balance	$ 430	$ 238	$ 169	$ 139

The Company maintains a customer loyalty program. Under the program, customers accumulate points based on purchase activity. For customers to maintain their active point balance, they must make a qualifying purchase of merchandise at least once in a 365-day period. Once a loyalty program member achieves a certain point level, the member earns awards that may be redeemed for credits on merchandise purchases. To redeem awards, the member must make a qualifying purchase of merchandise within 60 days of the date the award was granted. Unredeemed awards and accumulated partial points are accrued as unearned revenue and as an adjustment to net sales. The unearned revenue for this program is recorded in accrued expenses and other current liabilities on the consolidated balance sheets and was $2.0 million, $1.3 million, $1.1 million and $0.7 million as of March 29, 2014 and March 30, 2013 and the end of the Successor Period and the Predecessor Period, respectively. The following table provides a reconciliation of the activity related to the Company's customer loyalty program:

(in thousands)	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	Fiscal year ended (Predecessor) April 3, 2011 to December 11, 2011
Beginning balance	$ 1,343	$ 1,124	$ 741	$ 270
Provisions	10,440	5,644	1,325	1,512
Usage	(9,833)	(5,425)	(942)	(1,041)
Ending balance	$ 1,950	$ 1,343	$ 1,124	$ 741

Table of Contents

Proceeds from the sale of gift cards are deferred until the customers use the cards to acquire merchandise. Gift cards, gift certificates and store credits do not have expiration dates, and unredeemed gift cards, gift certificates and store credits are subject to state escheatment laws. The Company retains the percentage of the value of such unredeemed gift cards, gift certificates and store credits not escheated and recognize these amounts in net sales. The Company defers recognition of a layaway sale and its related profit to the accounting period when the customer receives the layaway merchandise. Income from the redemption of gift cards, gift card breakage, and the sale of layaway merchandise is included in net sales. In fiscal 2014, the Company elected to participate in a voluntary disclosure program with the State of Delaware in order to settle past due unclaimed property obligations. The Company agreed with the State of Delaware to settle all unreported escheatment liabilities in the amount of $0.3 million. These amounts were recorded in accrued expenses and other current liabilities in fiscal 2014 based upon preliminary settlement amounts. The final settlement was reached with, and amounts were paid to, the State of Delaware in May 2014.

Cost of goods sold

Cost of goods sold includes the cost of merchandise, obsolescence and shrink provisions, store and warehouse occupancy costs (including rent, depreciation and utilities), inbound and outbound freight, supplier allowances, occupancy-related taxes, compensation costs for merchandise purchasing and warehouse personnel and other inventory acquisition-related costs.

Store opening costs

Store opening costs consist of costs incurred prior to opening a new store and primarily consist of manager and other employee payroll, travel and training costs, marketing expenses, initial opening supplies and costs of transporting initial inventory and certain fixtures to store locations, as well as occupancy costs incurred from the time that we take possession of a store site to the opening of that store. Occupancy costs are included in cost of goods sold and the other store opening costs are included in SG&A expenses. All of these costs are expensed as incurred.

Advertising costs

Certain advertising costs, including direct mail, television and radio promotions, event sponsorship, in-store photographs and other promotional advertising are expensed when the marketing campaign commences. The Company had prepaid advertising costs of $0.4 million and $0.2 million as of March 29, 2014 and March 30, 2013, respectively. All other advertising costs are expensed as incurred. The Company recognized $11.3 million and $7.1 million in advertising costs during the fiscal years ended March 29, 2014 and March 30, 2013, respectively. Advertising costs of $1.1 million and $3.5 million were recognized for the Successor Period, and the Predecessor Period, respectively.

Leases

The Company recognizes rent expense for operating leases on a straight-line basis (including the effect of reduced or free rent and rent escalations) over the lease term. The difference between the cash paid to the landlord and the amount recognized as rent expense on a straight-line basis is recognized as an adjustment to deferred rent in the consolidated balance sheets. Cash reimbursements received from landlords for leasehold improvements and other cash payments received from landlords as lease incentives are recorded as deferred rent and are amortized using the straight-line method over the lease term as an offset to rent expense. Contingent rent, determined based on a percentage of sales in excess of specified levels, is recognized as rent expense when the achievement of the specified sales that triggers the contingent rent is probable.

Table of Contents

Income taxes

The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes ("ASC 740"), which requires the asset and liability approach for financial accounting and reporting of income taxes. Deferred tax assets and liabilities are attributable to differences between financial statement and income tax reporting. Deferred tax assets, net of any valuation allowances, represent the future tax return consequences of those differences and for operating loss and tax credit carryforwards, which will be deductible when the assets are recovered. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The Company accounts for uncertain tax positions in accordance with ASC 740, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Such changes in recognition or measurement might result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense (benefit) line in the consolidated statements of operations. Accrued interest and penalties, if incurred, are included within accrued expenses and other current liabilities in the consolidated balance sheets. There were no accrued interest or penalties for the fiscal years ended March 29, 2014, March 30, 2013, for the Successor Period or the Predecessor Period.

Per share information

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of outstanding shares of common stock. In computing diluted earnings (loss) per share, the weighted average number of common shares outstanding is adjusted to reflect the effect of potentially dilutive securities such as stock options. In accordance with ASC 718, the Company utilizes the treasury stock method to compute the dilutive effect of stock options.

Fair value of certain financial assets and liabilities

The Company follows FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, ("ASC 820") which requires disclosure of the estimated fair value of certain assets and liabilities defined by the guidance as financial instruments. The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and debt. ASC 820 defines the fair value of financial instruments as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. The Company's Level 1 assets include investments in money market funds.

Table of Contents

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data.

Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation. The Company's Level 3 assets include certain acquired businesses and its Level 3 liability includes contingent consideration.

Cash and cash equivalents, accounts receivable and accounts payable are valued at fair value and are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified as Level 2 or Level 3 even though there may be certain significant inputs that are readily observable. The Company believes that the recorded value of its financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or duration.

Although market quotes for the fair value of the outstanding debt arrangements discussed in Note 8 "Revolving credit facilities and long-term debt" are not readily available, the Company believes its carrying value approximates fair value due to the variable interest rates, which are Level 2 inputs. There were no financial assets or liabilities requiring fair value measurements as of March 29, 2014 on a recurring basis.

Concentration of credit risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents. At times, such amounts held at banks may be in excess of Federal Deposit Insurance Corporation insurance limits, and the Company mitigates such risk by utilizing multiple banks.

Supplier concentration risk

We purchase merchandise inventories from several hundred suppliers worldwide. Sales of products from our three largest suppliers totaled approximately 40%, 40%, 39% and 39% of our net sales for fiscal 2014, fiscal 2013, the Successor Period and the Predecessor Period, respectively.

Recent accounting pronouncements

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this ASU provide guidance on the financial statements presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. An unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward with certain exceptions, in which case such an unrecognized tax benefit should be presented in the financial statements as a liability. The amendments in this ASU do not require new recurring disclosures. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Companies may choose to apply this guidance retrospectively to each prior reporting period

presented. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standard Board ("IASB") jointly issued a new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. The revenue recognition standard will allow for the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted under GAAP. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

3. Business combinations

In allocating the purchase price of the following acquisitions, the Company recorded all assets acquired and liabilities assumed at fair value. The excess of the purchase price over the aggregate fair values was recorded as goodwill. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisitions.

The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed such excess is allocated to goodwill. The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances existing as of the acquisition date.

Valuations on acquired intangible assets for acquisitions were completed based on Level 3 inputs. The acquired trademarks, customer lists, below-market leases, above-market leases and non-compete agreements are subject to fair value measurements that were based primarily on significant inputs not observable in the market and thus represent Level 3 measurements. The Company recorded the fair values of acquired trademarks using a relief from royalty method. In the relief from royalty method, the fair value of the intangible asset is estimated to be the present value of the royalties saved because the company owns the intangible asset. Revenue projections and estimated useful life were used in estimating the fair value of the trademarks. The non-compete agreements were calculated using the with-or-without method, which utilizes the probability of these employees competing with the Company and revenue projections to calculate the valuation of non-competition agreements. The valuation of the customer list utilized a replacement cost approach, which provides an estimate of the fair value of an asset based on the estimated costs associated with creating a similar asset of like utility. The replacement cost valuation relies on estimates of the average cost to purchase names on a mailing list, as well as response rates. The valuation of the leases below and above market rent were performed using an income approach and were based upon market rent per square foot and market rate inflation.

Baskins Acquisition Holdings, LLC

Effective May 25, 2013, the Company completed the acquisition of 100% of the member interests in Baskins, including 30 stores and an online retail website. Baskins is a specialty western retailer with stores

Table of Contents

in Texas and Louisiana, and the acquisition expanded the Company's operations into these core markets. The goodwill represents the additional amounts paid in order to expand the Company's geographical presence.

The acquisition-date fair value of the consideration transferred totaled $37.7 million, which consisted of $36.0 million in cash and $1.7 million of contingent consideration. The $36.0 million of cash included $13.7 million paid to the members of Baskins, $2.2 million paid into an escrow account and $20.1 million to repay Baskins' outstanding debt. These payments were partially offset by $1.9 million, which represents the amount of cash on hand immediately prior to the closing of the acquisition. As of March 29, 2014, $1.7 million remained in an escrow account and is not included in the Company's consolidated balance sheet. Claims against the escrow account can be made until November 30, 2014. Due to the nature of the escrow account, the cash portion of the consideration transferred has been determined only provisionally and is subject to change pending the outcome of potential escrow claims.

The Company was obligated to make additional earnout payments, contingent on the achievement of milestones relating to 12-month store sales associated with three new stores for the periods beginning January 24, 2013, January 31, 2013 and February 20, 2013 at each of the three stores. The maximum amount payable upon achievement of the milestones was $2.1 million. Each of the milestones was achieved, and the Company made a cash payment of $2.1 million in the fourth quarter of fiscal 2014. As of the acquisition date, the Company estimated that these earnout payments would be $1.7 million, based on then existing facts and circumstances. The estimated fair value of this earnout was determined by using revenue projections and applying a discount rate to reflect the risk of the underlying conditions not being satisfied such that no payment would be due. The fair value measurement of the earnout was based primarily on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. A total of $0.4 million from the revaluation of contingent consideration was recorded in fiscal 2014 to selling, general and administrative expenses in the Company's consolidated statement of operations.

The total fair value of consideration transferred for the acquisition was allocated to the net tangible and intangible assets based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the net tangible and intangible assets was recorded as goodwill. The goodwill is deductible for income tax purposes. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets. The following table summarizes the estimated fair

Table of Contents

values of the assets acquired and liabilities assumed as of the acquisition date based on the preliminary purchase price (in thousands):

	At May 25, 2013 (Level 3)
Assets acquired:	
Cash and cash equivalents	$ 1,935
Current assets	22,083
Property and equipment, net	5,850
Intangible assets acquired	5,006
Goodwill	15,064
Other assets	109
Total assets acquired	50,047
Liabilities assumed:	
Other current liabilities	12,119
Line of credit current	10,259
Notes payable current	9,819
Contingent consideration	1,740
Above-market leases	83
Capital lease obligation	138
Total liabilities assumed	34,158
Total purchase price	$ 15,889

Definite-lived intangible assets are recorded at their fair value as of the acquisition date with amortization computed utilizing the straight-line method over the assets' estimated useful lives, with the exception of customer lists, which are amortized based on the estimated attrition rate. The period of amortization for trademarks is six months, non-compete agreements is four to five years, customer lists is five years, and below-market leases is two to 17 years. For leases under market rent, amortization is based on the discounted future benefits from lease payments under market rents.

Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred. Goodwill represents the additional amounts paid in order to expand the Company's geographical presence. The Company incurred $0.7 million of acquisition-related costs in fiscal 2014. The amount of net revenue and net loss of Baskins included in the Company's consolidated statements of operations from the acquisition date to March 29, 2014 were $63.4 million and $0.1 million, respectively.

Acquisitions from prior years

RCC Western Stores, Inc.

On August 31, 2012, the Company acquired 100% of the capital stock of RCC. The primary reason for the acquisition of RCC was to expand its retail operations into 11 additional states. The total purchase price of $43.5 million was paid in cash. The Company acquired $1.5 million in cash as part of the acquisition. Acquisition-related costs totaling $1.1 million are recorded within the consolidated statement of operations for fiscal 2013.

In connection with the acquisition of RCC, the Company entered into certain debt agreements in which loan fees of $1.2 million were incurred and are recorded as prepaid loan fees within other assets in the

Table of Contents

consolidated balance sheet as of March 30, 2013. In addition, the Company issued 296,725 shares of its common stock in connection with the acquisition for cash proceeds of $2.0 million.

Allocation of the purchase price for the acquisition of RCC was based on the fair value of the net assets that were acquired. As of August 31, 2012, the purchase price was allocated as follows (in thousands):

		Significant unobservable inputs (Level 3)
Current assets	$	19,528
Property and equipment		3,616
Goodwill		31,103
Intangible assets acquired		5,002
Other assets		21
Total assets acquired		59,270
Current liabilities assumed		10,252
Line of credit current		5,405
Below market lease liability		154
Total purchase price	$	43,459

Definite-lived intangible assets acquired include trademarks, customer list, non-compete agreements and below-market leases. The amount of net revenue and net loss of RCC included in the Company's consolidated statements of operations from the acquisition date to March 30, 2013 were $35.5 million and $0.5 million, respectively.

Boot Barn Holding Corporation

Effective December 12, 2011, the Company acquired the Predecessor. The primary reason for the Predecessor acquisition was to monetize the initial investment made by the Predecessor. Of the total purchase price, $88.1 million was paid in cash, and $2.6 million was contributed in the form of equity interests by new investors and former owners of the Predecessor. The Company acquired $2.5 million in cash as part of the transaction. Acquisition-related costs totaled $3.0 million and $7.3 million for the Successor and Predecessor periods, respectively, and are recorded within the fiscal 2012 consolidated statement of operations. All costs were incurred by Boot Barn Holding Corporation in the respective periods.

Allocation of the purchase price for the Predecessor is based on estimates of the fair value of net assets acquired. As of December 11, 2011, the purchase price was allocated as follows (in thousands):

		Significant unobservable inputs (Level 3)
Current assets	$	71,869
Property and equipment		6,228
Goodwill		46,930
Intangible assets acquired		56,380
Other assets		336
Total assets acquired		181,743
Current liabilities assumed		36,087
Line of credit current		21,692
Below market lease liability		33,214
Total purchase price	$	90,750

The change in the carrying amount of goodwill is as follows (in thousands):

Balance as of March 31, 2012	$	46,930
Goodwill as a result of the RCC Acquisition		31,103
Balance as of March 30, 2013		78,033
Goodwill as a result of the Baskins Acquisition		15,064
Balance as of March 29, 2014	$	93,097

Supplemental as adjusted data (unaudited)

The unaudited as adjusted statements of operations data below gives effect to the acquisitions described above, as if they had all occurred as of April 3, 2011. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Baskins, RCC and the Predecessor to reflect the effects of amortization of purchased intangible assets and acquired inventory valuation step-up, additional financing as of April 3, 2011 in order to complete the acquisitions, income tax expense and other transaction costs directly associated with the acquisitions such as legal, accounting and banking fees. The adjustments are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. Pre-acquisition net sales and net income numbers for acquired entities are derived from their books and records prepared prior to the acquisition. This as adjusted data is presented for informational purposes only and does not purport to be indicative of the

Table of Contents

results of future operations or of the results that would have occurred had the acquisitions taken place as of the date noted above.

As adjusted net sales unaudited (in thousands)	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	(Predecessor) April 3, 2011 to December 12, 2011
Net sales (as reported)	$ 345,868	$ 233,203	$ 58,267	$ 110,429
Baskins	8,290	58,058	18,169	29,118
RCC		21,503	16,595	31,246
Boot Barn Holding Corporation				
As adjusted net sales	$ 354,158	$ 312,764	$ 93,031	$ 170,793

As adjusted net income (loss) unaudited (in thousands)	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	(Predecessor) April 3, 2011 to December 12, 2011
Net income (loss) (as reported)	$ 5,660	$ 680	$ (4,601)	$ (660)
Baskins	580	396	468	(3,831)
RCC	(1,100)	2,818	413	(7,108)
Boot Barn Holding Corporation	3,183	4,487	8,125	(15,794)
As adjusted net income (loss)	$ 8,323	$ 8,381	$ 4,405	$ (27,393)

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 29, 2014	March 30, 2013
Prepaid rent and property taxes	$ 2,096	$ 1,331
Prepaid advertising	401	186
Prepaid insurance	81	280
Deferred taxes	4,748	2,452
Income tax receivable		31
Deferred loan fees current	558	548
Other	801	483
Total prepaid expenses and other current assets	$ 8,685	$ 5,311

Table of Contents

5. Property and equipment, net

Property and equipment, net, consisted of the following (in thousands):

	March 29, 2014	March 30, 2013
Leasehold improvements	$ 12,491	$ 5,634
Machinery and equipment	5,964	3,781
Furniture and fixtures	9,373	4,085
Construction in progress	754	104
Vehicles	387	325
	28,969	13,929
Less: Accumulated depreciation	(7,519)	(3,193)
Property and equipment, net	$ 21,450	$ 10,736

Depreciation expense was $4.6 million, $2.7 million, $0.7 million and $1.2 million for the periods ended March 29, 2014 and March 30, 2013, the Successor Period and the Predecessor Period, respectively. Amortization related to assets under capital lease is included in the above depreciation expense (see Note 11 "Leases").

6. Intangible assets, net

Net intangible assets consisted of the following (in thousands):

	March 29, 2014			
	Gross carrying amount	Accumulated amortization	Net	Weighted average useful life
Intangible assets				
Trademarks	$ 2,490	$ (2,490)	$	0.9
Customer list	7,300	(2,732)	4,568	5.0
Non-compete agreements	1,380	(500)	880	4.7
Below-market leases	5,318	(1,143)	4,175	10.4
Total definite lived	16,488	(6,865)	9,623	
Trademarks indefinite lived	50,100		50,100	
Total intangible assets	$ 66,588	$ (6,865)	$ 59,723	

Table of Contents

			March 30, 2013	
	Gross carrying amount	Accumulated amortization	Net	Weighted average useful life
Intangible assets				
Trademarks	$ 1,550	$ (1,338)	$ 212	1.1
Customer list	6,700	(1,292)	5,408	5.0
Non-compete agreements	1,200	(211)	989	4.9
Below-market leases	2,032	(524)	1,508	6.7
Total definite lived	11,482	(3,365)	8,117	
Trademarks indefinite lived	49,900		49,900	
Total intangible assets	$ 61,382	$ (3,365)	$ 58,017	

Amortization expense for intangible assets totaled $3.5 million, $2.9 million, $0.4 million and $0.1 million for the periods ended March 29, 2014 and March 30, 2013, the Successor Period, and the Predecessor Period, respectively, and is included in selling, general and administrative expenses.

As of March 29, 2014, estimated future amortization of intangible assets was as follows (in thousands):

Fiscal year	
2015	$ 2,308
2016	2,225
2017	1,993
2018	947
2019	500
Thereafter	1,650
Total	$ 9,623

7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	March 29, 2014	March 30, 2013
Accrued compensation	$ 5,225	$ 3,780
Deferred revenue gift cards and layaways	3,752	2,645
Sales tax liability	2,900	1,816
Accrued interest	1,738	1,761
Sales award redemption liability	1,950	1,343
Capital leases short term	61	43
Other	5,137	3,334
Total accrued expenses	$ 20,763	$ 14,722

Table of Contents

8. Revolving credit facilities and long-term debt

Revolving credit facility (PNC Bank, N.A.)

On December 11, 2011, the Company obtained a collateral-based revolving line of credit with PNC Bank, N.A. (the "PNC Line of Credit"), which the Company amended on August 31, 2012 and May 31, 2013. These amendments increased the borrowing capacity from $35.0 million to $60.0 million as of May 31, 2013 with a Company option to increase the maximum to $70.0 million. The PNC Line of Credit is to be used for working capital and general corporate purposes, and has a maturity date of May 31, 2018. The available borrowing is based on the collective value of eligible inventory and credit card receivables multiplied by specific advance rates, and is recalculated weekly. The obligations under the PNC Line of Credit are secured by substantially all of the Company's assets. The PNC Line of Credit bears interest at a rate equal to the sum of (1) 0.75% if the average utilization (borrowings plus letters of credit) over the prior calendar quarter is less than 60% of the maximum borrowing capacity or 1.00% if the average utilization is greater than 60% of the maximum borrowing capacity, plus (2) the higher of (a) PNC's publicly announced commercial lending rate or the daily federal funds open rate plus 0.50%, or (b) the London Interbank Offered Rate ("LIBOR") for a period of one month plus 1.00%. The Company can also elect to use the Eurodollar (LIBOR) rate for the applicable interest period term (one, two, three or six months as elected by the Company) plus 0.75% if the average utilization is less than 60% of the maximum borrowing capacity or 1.00% if the average utilization is greater than 60% of the maximum borrowing capacity. As of March 29, 2014, a total of $28.6 million was outstanding under the PNC Line of Credit (including letters of credit) and there was $2.8 million of unused availability under the borrowing base formula. The outstanding borrowings as of March 29, 2014 consisted of $25.0 million outstanding at a rate of 1.91% and $3.6 million outstanding at a rate of 4.0%.

The PNC Line of Credit includes certain financial and nonfinancial covenants. The financial covenants include minimum fixed charge coverage ratio only when "excess availability" falls below specified floor levels, while nonfinancial covenants include restrictions on a number of other activities. As of March 29, 2014, the Company was not subject to the financial covenant based on the "excess availability" test.

$100 million term loan due May 2019 (Golub Capital LLC)

The Company entered into a loan and security agreement with Golub Capital LLC on May 31, 2013, as amended by the first amendment to term loan and security agreement dated September 23, 2013 (the "Golub Loan"). The Golub Loan consists of a term loan facility of $100.0 million. As of March 29, 2014, the outstanding balance on the Golub Loan was $99.5 million. The obligations under the Golub Loan are secured by substantially all of the Company's assets. The principal of the Golub Loan is payable in quarterly installments of $250,000 beginning on September 30, 2013 and ending on the maturity date of the term loan, which is May 31, 2019. The balance of the unpaid principal will be paid on the maturity date.

Interest on the Golub Loan is paid quarterly beginning on September 30, 2013. The Golub Loan bears interest calculated on either a base rate or the LIBOR rate. The base rate is a floating interest rate that is the sum of 4.75% plus the higher of (1) the prime rate, (2) the one-month LIBOR Rate plus 1% with a LIBOR floor of 1.25% or (3) the Federal Funds rate, plus 50 basis points. The LIBOR Rate is 5.75%, plus the LIBOR rate for a period of one, two, three, six, or, if available to all lenders, nine or 12 months (with a LIBOR floor of 1.25%), as elected by the Company. Interest is payable quarterly in arrears on the last day of each quarter. Interest charges are computed on the actual principal outstanding. As of March 29, 2014, the interest rate on the Golub Loan was 7.0%. Total interest expense incurred on the Golub Loan was $5.9 million for fiscal 2014.

The Golub Loan requires the Company to meet certain financial and non-financial covenants. Financial covenants include a minimum interest coverage ratio and a maximum total leverage ratio. In addition, the term loan agreement also limits the amount that we can spend on capital expenditures per year. The Company was in compliance with all of its financial covenants as of March 29, 2014. The Golub Loan also requires that 50% of the Company's annual excess cash flow be used to make prepayments of outstanding loan amounts. The Company is also subject to early termination fees in certain instances of voluntary prepayments of the Golub Loan in excess of $10.0 million.

If there is an event of default under the Golub Loan, the principal and the interest accrued thereon may be declared immediately due and payable, subject to certain conditions set forth in the Golub Loan. Events of default under the Golub Loan include, but are not limited to, the Company becoming delinquent in making certain payments due under the Golub Loan, the Company incurring events of default with respect to certain other indebtedness or obligations, the Company undergoing a change in control or the Company becoming subject to certain bankruptcy proceedings or orders. As of March 29, 2014, no events of default had occurred.

7.5% term loan (PNC Bank, N.A.)

The Company entered into a loan and security agreement with PNC Bank N.A. on December 11, 2011, as amended by the first amendment to term loan agreement dated August 31, 2012 (the "PNC Term Loan"). The PNC Term Loan consisted of a term loan facility of $20.0 million. Interest accrued on outstanding amounts under the PNC Term Loan at the rate of 7.5% per annum, due monthly. Effective October 1, 2012, monthly principal payments of $166,667 were required. In May 2013, the Company converted all outstanding amounts on the PNC Term Loan to borrowings under the PNC Line of Credit.

12.5% senior subordinated term loans (related party term loans)

On December 11, 2011, the Company obtained senior subordinated term loans from certain subordinated lenders, in the aggregate amount of $25.0 million, bearing interest at the rate of 12.5%, due quarterly. The subordinated lenders are related parties. On August 31, 2012, the Company borrowed an additional $25.5 million from the subordinated lenders. As of March 30, 2013, the outstanding balance of the loans was $50.5 million. See Note 14 "Related party transactions". In connection with the closing of the Golub Loan in May 2013, the Company paid off all outstanding amounts on its senior subordinated term loans.

The Company incurred approximately $3.4 million of deferred loan fees related to the issuance of the Golub Loan and the PNC Line of Credit, which are being amortized to interest expense using the effective interest method over the term of the loan through May 31, 2019. The remaining balance of deferred loan fees as of March 29, 2014 is $2.9 million.

Aggregate contractual maturities for the Company's line of credit and long-term debt as of March 29, 2014 are as follows (in thousands):

Fiscal year		
2015	$	1,000
2016		1,000
2017		1,000
2018		1,000
2019		29,624
Thereafter		94,500
Total	$	128,124

9. Stock-based compensation

On January 27, 2012, the Company approved the 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan authorized the Company to issue options to employees, consultants and directors to purchase up to a total of 3,750,000 shares of common stock. As of March 29, 2014, all awards granted by the Company have been nonqualified stock options. Options granted under the 2011 Plan have a life of 10 years and vest over service periods of five years or in connection with certain events as defined by the 2011 Plan.

For the year ended March 29, 2014, the Company granted certain members of management with options to purchase a total of 312,500 shares of common stock under the 2011 Plan. The total grant date fair value of stock options granted in fiscal years 2014 and 2013 and the Successor Period was $2.1 million, $3.5 million and $4.4 million, respectively, before applying an estimated forfeiture rate, with grant date fair values ranging from $6.64 to $6.92 per share in fiscal 2014, $3.43 to $4.31 per share in fiscal 2013, and $1.60 to $2.26 per share in the Successor Period. There were no stock options granted in the Predecessor Period. The Company is recognizing the expense relating to these stock options, net of estimated forfeitures, on a straight-line basis over the five-year service period of the awards. The exercise prices of these awards range between $4.00 and $11.21 and have a weighted-average fair value of $6.82 per share, $3.87 per share, and $1.93 per share for the fiscal years ended March 2014, March 30, 2013 and the Successor Period, respectively.

The stock option awards discussed above were measured at fair value on the grant date using the Black-Scholes option valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility of the Company's stock price over the option's expected term, the risk-free interest rate over the option's expected term and the Company's expected annual dividend yield, if any. The Company's estimate of pre-vesting forfeitures, or forfeiture rate, was based on its internal analysis, which included the award recipients' positions within the Company and the vesting period of the awards. The Company will issue shares of common stock when the options are exercised.

Intrinsic value for stock options is defined as the difference between the market price of the Company's common stock on the last business day of the fiscal quarter and the weighted average exercise price of in-the-money stock options outstanding at the end of each fiscal period. The market value per share was $11.40 and $7.47 at March 29, 2014 and March 30, 2013, respectively. The following table summarizes the stock award activity for the fiscal year ended March 29, 2014 (aggregate intrinsic value in thousands):

	Stock options	Grant date weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at March 30, 2013	2,202,500	$ 7.09		
Granted	312,500	$ 9.53		
Canceled, forfeited or expired		$		
Outstanding at March 29, 2014	2,515,000	$ 7.40	8.3	$ 10,072
Vested and expected to vest at March 29, 2014	2,515,000	$ 7.40	8.3	$ 10,072
Exerciseable at March 29, 2014	721,450	$ 6.45	7.9	$ 3,570

Stock-based compensation expense was $1.3 million, $0.8 million and $0.1 million for the fiscal years ended March 29, 2014 and March 30, 2013 and the Successor Period, respectively. There was no stock-based compensation expense in the Predecessor Period. Stock-based compensation expense of $0.2 million and $0.2 million was recorded as cost of goods sold in the fiscal years ended March 29, 2014 and March 30, 2013, respectively. All other stock-based compensation expense is included in selling, general and administrative expenses. As of March 29, 2014, there was $5.8 million of total unrecognized stock-based compensation expense related to unvested stock options. This cost has a weighted average remaining recognition period of 2.4 years.

The fair values of stock options granted in fiscal years 2014, 2013 and the Successor Period were estimated on the grant dates using the following assumptions:

	Fiscal year ended		
	March 29, 2014	March 30, 2013	March 31, 2012
Expected option term[1]	6.5 years	6.5 years	6.5 years
Expected volatility factor[2]	56%	58%	56%
Risk-free interest rate[3]	1.91% - 2.03%	1.01%	2.37%
Expected annual dividend yield[4]	0%	0%	0%

(1) The Company has limited historical information regarding expected option term. Accordingly, the Company determined the expected life of the options using the simplified method.

(2) Stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company's competitors' common stock over the most recent period equal to the expected option term of the Company's awards.

(3) The risk-free interest rate is determined using the rate on treasury securities with the same term as the expected life of the stock option as of the grant date.

(4) The board of directors paid a dividend to stockholders in April 2014 (See Note 16 "Subsequent events"). The Company's board of directors does not plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

A summary of the status of non-vested stock options as of March 29, 2014 and changes during fiscal 2014 is presented below:

	Shares		Weighted-average grant date fair value
Nonvested at March 30, 2013	1,915,125	$	1.56
Granted	312,500	$	6.82
Vested	(434,075)	$	2.73
Nonvested shares forfeited		$	
Nonvested at March 29, 2014	1,793,550	$	3.55

10. Commitments and contingencies

The Company has employment agreements with two key officers of the Company. One of the employment agreements expires in November 2015. This agreement automatically renews for successive one-year terms and will continue to do so unless otherwise terminated. The other employment agreement does not expire. The employee agreements provide for minimum salary levels and incentive bonuses that are payable under certain business conditions, as well as guaranteed payments in the event of termination or employment in

certain circumstances. The future amounts payable under these employment agreements have not been recorded in the consolidated financial statements as of March 29, 2014 and March 30, 2013.

The Company is involved, from time to time, in litigation that is incidental to its business. The Company has reviewed these matters to determine if reserves are required for losses that are probable and reasonable to estimate in accordance with FASB ASC Topic 450, *Contingencies*. The Company evaluates such reserves, if any, based upon several criteria, including the merits of each claim, settlement discussions and advice from outside legal counsel, as well as indemnification of amounts expended by the Company's insurers or others, if any. In management's opinion, none of these legal matters, individually or in the aggregate, will have a material effect on the Company's financial position, results of operations or liquidity.

During the normal course of its business, the Company has made certain indemnifications and commitments under which the Company may be required to make payments for certain transactions. These indemnifications include those given to various lessors in connection with facility leases for certain claims arising from such facility leases, and indemnifications to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. The majority of these indemnifications and commitments do not provide for any limitation of the maximum potential future payments the Company could be obligated to make, and their duration may be indefinite. The Company has not recorded any liability for these indemnifications and commitments in the consolidated balance sheets as the impact is expected to be immaterial.

11. Leases

Operating leases

The following is a schedule by year of non-cancelable future minimum rental payments under operating leases as of March 29, 2014 (in thousands):

Fiscal year	Related party[1]	Other	Total
2015	$ 190	$ 19,442	$ 19,632
2016	195	16,626	16,821
2017	199	14,088	14,287
2018	101	12,272	12,373
2019		9,318	9,318
Thereafter		23,971	23,971
Total	$ 685	$ 95,717	$ 96,402

(1) See Note 14 "Related party transactions".

Minimum rent payments consist primarily of future minimum lease commitments related to store operating leases. Minimum lease payments do not include common area maintenance, insurance or tax payments. Rent expense related to store operating leases was $25.0 million, $17.0 million, $3.9 million and $8.1 million for the fiscal years ended March 29, 2014 and March 30, 2013, the Successor Period and the Predecessor Period, respectively, and includes common area maintenance and contingent rent payments.

Capital leases

As of March 29, 2014, the Company had nine non-cancelable capital leases with principal and interest payments due monthly. The gross value of assets under capital lease arrangements totals $0.2 million and is included as property and equipment in the consolidated balance sheets. Accumulated depreciation of these assets totaled $0.1 million as of March 29, 2014. The interest rates range from 0% to 12.0%. As of March 29, 2014, future minimum capital lease payments are as follows (in thousands):

Fiscal year		
2015	$	61
2016		23
2017		4
Total minimum lease payments		88
Less: Amount representing interest		(4)
Present value of minimum lease payments		84
Less: Current portion		(61)
Long-term portion	$	23

Long-term lease related liabilities are as follows:

		March 29, 2014		**March 30, 2013**
Above-market leases	$	266	$	412
Deferred rent long-term		2,123		1,043
Long-term portion of capital lease obligation		23		45
Total other liabilities	$	2,412	$	1,500

12. Defined contribution plan

The Boot Barn 401(k) Plan (the "401(k) Plan") is a qualified plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan covers all employees that work a minimum of 1,000 hours per year and have been employed by the Company for at least one year. Contributions to the plan are based on certain criteria as defined in the agreement, governing the 401(k) Plan. Participating employees are allowed to contribute up to the statutory maximum set by the Internal Revenue Service. The Company provides a safe harbor matching contribution that matches 100% of employee contributions up to 3% of their respective wages and then 50% of further contributions up to 5% of their respective wages. Contributions to the plan and charges to selling, general and administrative expenses were $0.3 million, $0.2 million, $0.1 million and $0.1 million for the fiscal years ended March 29, 2014, March 30, 2013, the Successor Period and the Predecessor Period, respectively.

Table of Contents

13. Income taxes

Income tax expense (benefit) consisted of the following:

(in thousands)	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	Fiscal year ended (Predecessor) April 3, 2011 to December 11, 2011
Current:				
Federal	$ 4,510	$ 1,148	$ 2,004	$ (17)
State	685	314	463	71
Total current	5,195	1,462	2,467	54
Deferred:				
Federal	(1,536)	(530)	(2,873)	(102)
State	(338)	(106)	(641)	(87)
Total deferred	(1,874)	(636)	(3,514)	(189)
Total income tax expense (benefit)	$ 3,321	$ 826	$ (1,047)	$ (135)

The reconciliation between the Company's effective tax rate on income from operations and the statutory tax rate is as follows:

	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	Fiscal year ended (Predecessor) April 3, 2011 to December 11, 2011
Expected provision at statutory U.S. federal tax rate	34.0%	34.0%	34.0%	34.0%
State and local income taxes, net of federal tax benefit	4.5	4.2	2.0	1.5
Change in tax rates	(0.1)	(2.9)		
State credits	(1.8)			
Acquisition costs		20.0	(17.4)	(18.7)
Other	0.4	(0.5)	(0.1)	0.2
Effective tax rate	37.0%	54.8%	18.5%	17.0%

Differences between the effective tax rate and the statutory rate relate primarily to state taxes and acquisition costs.

Deferred taxes reflect the net tax effects of the temporary differences between the carrying amount of assets and liabilities for financial reporting and the amount used for income tax purposes. Significant

Table of Contents

components of the Company's net deferred tax assets as of March 29, 2014 and March 30, 2013 consisted of the following (in thousands):

	March 29, 2014	March 30, 2013
Deferred tax assets:		
State taxes	$ 1,002	$ 972
Accrued liabilities	813	381
Award program liabilities	787	542
Deferred revenue	434	277
Inventory	2,997	1,565
Stock options	879	358
Other	257	171
Total deferred tax assets	7,169	4,266
Deferred tax liabilities:		
Depreciation and amortization	(22,084)	(21,037)
Prepaid expenses	(297)	(315)
Total deferred tax liabilities	(22,381)	(21,352)
Deferred income taxes, net	$ (15,212)	$ (17,086)

Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. To this end, the Company has considered and evaluated its sources of taxable income, including forecasted future taxable income, and the Company has concluded that at this time no valuation allowance is required. The Company will continue to evaluate the need for a valuation allowance at each period end.

The Company applies ASC 740, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments. At March 29, 2014 and March 30, 2013, no amounts were necessary to be recorded for any unrecognized tax liabilities nor any tax benefits.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits as of March 29, 2014 and March 30, 2013.

The major jurisdictions in which the Company files income tax returns include the U.S. federal jurisdiction, as well as various state jurisdictions within the U.S. The Company's fiscal years 2010 through 2014 returns are subject to examination by the U.S. federal and various state tax authorities.

Table of Contents

14. Related party transactions

Leases and other transactions

The Company has entered into a lease agreement for one of its stores for the fiscal years ended March 29, 2014 and March 30, 2013 and the Successor Period at a location owned by one minority stockholder of the Company. The Company had entered into lease agreements at several locations with several minority stockholders during the Predecessor Period. The Company paid $0.2 million, $0.2 million, $0.1 million and $1.0 million for these leases during the fiscal years ended March 29, 2014 and March 30, 2013, the Successor Period and the Predecessor Period, respectively. These lease payments are included in selling, general and administrative expenses in the consolidated statements of operations.

Related party loans

As of March 30, 2013, the Company had notes payable (see Note 8 "Revolving credit facilities and long-term debt") to the subordinated lenders who own common stock of the Company or its subsidiary, Boot Barn Holding Corporation. These notes were paid in full in May 2013. Interest and early termination fees paid to these entities totaled $3.6 million, $4.5 million, $0.1 million and $2.1 million for the fiscal years ended March 29, 2014 and March 30, 2013, the Successor Period and the Predecessor Period, respectively.

Payments relating to the purchase of Predecessor

In connection with the purchase of Predecessor, Freeman Spogli & Co. received an advisory services fee of $1.3 million for its services provided in structuring and arranging the recapitalization of the Company. In addition, one of our directors received $0.1 million in connection with his services provided to the Company in connection with the Recapitalization.

15. Earnings (loss) per share

Earnings (loss) per share is computed under the provisions of FASB ASC Topic 260, *Earnings Per Share*. Basic earnings (loss) per share is computed based on the weighted average number of outstanding shares of common stock during the period. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method, whereby proceeds from such exercise, unamortized compensation and hypothetical excess tax benefits, if any, on share-based awards are assumed to be used by the Company to purchase the common shares at the average market price during the period. Dilutive potential shares of common stock represent outstanding stock options. The dilutive effect of stock options and restricted stock is applicable only in periods of net income.

Table of Contents

The components of basic and diluted earnings per share of common stock, in aggregate, for the fiscal years ended March 29, 2014, March 30, 2013, Successor Period and the Predecessor Period are as follows (in thousands, except per share amounts):

				Fiscal year ended
	March 29, 2014	March 30, 2013	(Successor) December 12, 2011 to March 31, 2012	(Predecessor) April 3, 2011 to December 11, 2011
Net income (loss) attributed to Boot Barn Holdings, Inc.	$ 5,377	$ 646	$ (4,371)	$ (660)
Weighted average basic shares outstanding	18,929	18,757	18,633	173
Dilutive effect of stock options	246			
Weighted average diluted shares outstanding	19,175	18,757	18,633	173
Basic earnings (loss) per share	$ 0.28	$ 0.03	$ (0.23)	$ (3.82)
Diluted earnings (loss) per share	$ 0.28	$ 0.03	$ (0.23)	$ (3.82)

Awards to purchase approximately 1,059,850 and 2,202,500 shares of common stock during the fiscal years ended March 29, 2014 and March 30, 2013 were outstanding, but were not included in the computation of weighted average diluted common shares amounts as the effect of doing so would have been anti-dilutive.

Because the Company incurred net losses in the Successor Period, and the Predecessor Period, the potential dilutive effect of the Company's outstanding stock options was not included in the computation of diluted loss per share because these securities were anti-dilutive.

16. Subsequent events

The Company evaluated subsequent events through June 13, 2014, the date on which the consolidated financial statements were originally available to be issued, and October 20, 2014, the date on which the retrospectively revised consolidated financial statements were issued (as to the 25-for-1 stock split described below under "Stock split and authorization of additional shares").

Dividend payment

On April 11, 2014, the Company declared and subsequently paid a pro rata cash dividend to its stockholders totaling $39.9 million, made a cash payment of $1.4 million to holders of vested options, and lowered the exercise price of 1,918,550 unvested options by $2.00 per share. The board of directors of the Company was obligated under the antidilution provisions of the 2011 Equity Incentive Plan to approve the option repricing. Approval took place subsequent to the end of fiscal year ended March 29, 2014 and will be reflected in the consolidated financial statements.

Amended line of credit

On April 15, 2014, the Company amended the PNC Line of Credit to increase the borrowing capacity from $60.0 million to up to $70.0 million. All other material terms of the PNC Line of Credit remain unchanged from the description in Note 8 "Revolving credit facilities and long-term debt".

Table of Contents

Amended and restated term loan and security agreement (Golub Loan)

On April 14, 2014, the Company entered into an amended and restated term loan and security agreement for the Golub Loan. The amended and restated loan and security agreement increased the borrowings on the Golub Loan from $99.2 million outstanding at April 14, 2014 to $130.0 million. The obligations under the Golub Loan are secured by substantially all of the Company's assets and the Company's guarantors' assets. A provision allowing the Company to conduct an initial public offering was also added to the amended and restated loan and security agreement. The principal on the term loan will be payable in quarterly installments of $0.3 million made each calendar quarter and ending on the maturity date of the Golub Loan, which is May 31, 2019. The balance of the unpaid principal will be paid on the maturity date. All other material terms of the Golub Loan remain unchanged from what is described in Note 8 "Revolving credit facilities and long-term debt". The proceeds of the amendment to the Golub Loan were used to fund a portion of the $39.9 million dividend that was paid in April 2014.

Stock split and authorization of additional shares

On October 19, 2014, the Company's board of directors authorized the amendment of its certificate of incorporation to increase the number of shares that the Company is authorized to issue to 100,000,000 shares of common stock, par value $0.0001 per share. In addition, the amendment of the certificate of incorporation will authorize the Company to issue 10,000,000 shares of preferred stock, par value $0.0001 per share, and effect a 25-for-1 stock split of its outstanding common stock. The amendment will become effective prior to the Company's initial public offering of its common stock. Accordingly, all common share and per share amounts in these consolidated financial statements and the notes thereto, other than those presented for the Predecessor Period, have been adjusted to reflect the 25-for-1 stock split as though it had occurred at the beginning of the initial period presented.

Boot Barn Holdings, Inc. and Subsidiaries
Condensed consolidated balance sheets
(unaudited)
(in thousands, except share and per share data)

	June 28, 2014	March 29, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,115	$ 1,118
Accounts receivable	2,093	2,191
Inventories	110,265	102,702
Prepaid expenses and other current assets	10,616	8,685
Total current assets	124,089	114,696
Property and equipment, net	21,877	21,450
Goodwill	93,097	93,097
Intangible assets, net	59,065	59,723
Other assets	3,211	2,897
Total assets	$ 301,339	$ 291,863
Liabilities and stockholders' equity		
Current liabilities:		
Line of credit	$ 42,594	$ 28,624
Accounts payable	40,944	36,029
Accrued expenses and other current liabilities	20,216	20,763
Current portion of notes payable	1,308	1,000
Total current liabilities	105,062	86,416
Deferred taxes	20,341	19,960
Long-term portion of notes payable	128,692	98,500
Other liabilities	2,114	2,412
Total liabilities	256,209	207,288
Commitments and contingencies (see Note 6)		
Stockholders' equity:		
Common stock, $0.0001 par value; June 28, 2014 100,000,000 shares authorized, 19,929,350 shares issued and outstanding; March 29, 2014 100,000,000 shares authorized, 18,929,350 shares issued and outstanding	2	2
Preferred stock, $0.0001 par value; 10,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	43,719	78,834
Retained earnings	1,409	1,652
Total Boot Barn Holdings, Inc. stockholders' equity	45,130	80,488
Non-controlling interest		4,087
Total stockholders' equity	45,130	84,575
Total liabilities and stockholders' equity	$ 301,339	$ 291,863

The accompanying notes are an integral part of these condensed consolidated financial statements.

Boot Barn Holdings, Inc. and Subsidiaries
Condensed consolidated statements of operations (unaudited)
(in thousands, except per share data)

	Thirteen weeks ended	
	June 28, 2014	June 29, 2013
Net sales	$ 82,497	$ 64,574
Cost of goods sold	55,607	42,146
Amortization of inventory fair value adjustment		145
Total cost of goods sold	55,607	42,291
Gross profit	26,890	22,283
Operating expenses:		
Selling, general and administrative expenses	21,497	18,845
Acquisition-related expenses		671
Total operating expenses	21,497	19,516
Income from operations	5,393	2,767
Interest expense, net	2,757	5,078
Other income, net	18	8
Income (loss) before income taxes	2,654	(2,303)
Income tax expense (benefit)	1,241	(858)
Net income (loss)	1,413	(1,445)
Net income (loss) attributed to non-controlling interest	4	(72)
Net income (loss) attributed to Boot Barn Holdings, Inc.	$ 1,409	$ (1,373)
Net income (loss) per share:		
Basic shares	$ (0.00)	$ (0.07)
Diluted shares	$ (0.00)	$ (0.07)
Weighted average shares outstanding:		
Basic shares	19,149	18,929
Diluted shares	19,149	18,929

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Boot Barn Holdings, Inc. and Subsidiaries
Condensed consolidated statement of stockholders' equity
(unaudited)
(in thousands, except shares)

	Common stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Noncontrolling interest	Total
	Shares	Amount				
Balance at March 29, 2014	18,929,350	$ 2	$ 78,834	$ 1,652	$ 4,087	$ 84,575
Net income				1,409	4	1,413
Stock-based compensation expense			442			442
Dividend paid			(39,648)	(1,652)		(41,300)
Reorganization and issuance of stock	1,000,000		4,091		(4,091)	
Balance at June 28, 2014	19,929,350	$ 2	$ 43,719	$ 1,409	$	$ 45,130

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Boot Barn Holdings, Inc. and Subsidiaries
Condensed consolidated statements of cash flows (unaudited) (in thousands)

	Thirteen weeks ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities		
Net income (loss)	$ 1,413	$ (1,445)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	1,400	841
Stock-based compensation	442	210
Amortization of intangible assets	658	739
Amortization of deferred loan fees	194	2,042
Loss on disposal of property and equipment	62	
Accretion of above market leases	(48)	51
Deferred taxes	381	339
Amortization of inventory fair value adjustment		145
Changes in operating assets and liabilities:		
Accounts receivable	98	54
Inventories	(7,563)	(2,456)
Prepaid expenses and other current assets	(1,931)	(2,118)
Other assets	191	(17)
Accounts payable	4,830	(6,066)
Accrued expenses and other current liabilities	(547)	(214)
Other liabilities	(249)	(16)
Net cash used in operating activities	(669)	(7,911)
Cash flows from investing activities		
Purchases of property and equipment	(1,803)	(1,909)
Acquisition of business, net of cash acquired		(13,784)
Net cash used in investing activities	(1,803)	(15,693)
Cash flows from financing activities		
Line of credit net	13,970	17,639
Proceeds from loan borrowings	30,750	100,000
Repayments on debt and capital lease obligations	(269)	(69,512)
Debt issuance fees	(682)	(3,302)
Dividends paid	(41,300)	
Repayment of debt in connection with acquisition		(20,078)
Net cash provided by financing activities	2,469	24,747
Net increase (decrease) in cash and cash equivalents	(3)	1,143
Cash and cash equivalents, beginning of period	1,118	1,190
Cash and cash equivalents, end of period	$ 1,115	$ 2,333

Supplemental disclosures of cash flow information:				
Cash paid for income taxes	$	1,123	$	218
Cash paid for interest	$	2,013	$	4,718
Supplemental disclosure of non-cash activities:				
Unpaid purchases of property and equipment	$	218	$	239

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Boot Barn Holdings, Inc. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

1. Business operations

Boot Barn Holdings, Inc., formerly named WW Top Investment Corporation (the "Company") was formed on November 17, 2011, and is incorporated in the State of Delaware. The equity of the Company consists of 100,000,000 authorized shares and 19,929,350 issued and outstanding shares of common stock as of June 28, 2014, with 17,750,000 shares of common stock held by Freeman Spogli & Co. as of June 28, 2014. The shares of common stock have voting rights of one vote per share.

As of June 8, 2014, the Company held all of the outstanding shares of common stock of WW Holding Corporation, which held 95.0% of the outstanding shares of common stock of Boot Barn Holding Corporation. On June 9, 2014, WW Holding Corporation was merged with and into the Company and then Boot Barn Holding Corporation was merged with and into the Company. As a result of this reorganization, Boot Barn, Inc. became a direct wholly owned subsidiary of the Company, and the minority stockholders that formerly held 5.0% of Boot Barn Holding Corporation became holders of 5.0% of the Company. Net income (loss) attributed to non-controlling interest was recorded for all periods through June 9, 2014. Subsequent to June 9, 2014, there was no non-controlling interest recorded. On June 10, 2014, the legal name of the Company was changed from WW Top Investment Corporation to Boot Barn Holdings, Inc.

The Company operates specialty retail stores that sell western and work boots and related apparel and accessories. The Company operates retail locations throughout the U.S. and sells its merchandise via the internet. The Company operated a total of 155 stores in 24 states as of June 28, 2014 and 152 stores in 23 states as of March 29, 2014. As of June 28, 2014, all stores operate under the Boot Barn name (other than two stores which operate under the "American Worker" name).

2. Summary of significant accounting policies

Basis of presentation

The Company's condensed consolidated financial statements as of June 28, 2014 and March 29, 2014 and for the thirteen weeks ended June 28, 2014 and June 29, 2013 are prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"), include the accounts of the Company and each of its subsidiaries, including Boot Barn, Inc., RCC Western Stores, Inc. ("RCC") and Baskins Acquisition Holdings, LLC ("Baskins"). All intercompany accounts and transactions among the Company and its subsidiaries have been eliminated in consolidation. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted.

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments that are of a normal and recurring nature necessary to fairly present the Company's financial position and results of operations and cash flows in all material respects as of the dates and for the periods presented. The results of operations presented in the interim condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the fiscal year ending March 28, 2015.

Table of Contents

Fiscal year

The Company reports its results of operations and cash flows on a 52- or 53-week basis, and its fiscal year ends on the Saturday closest to March 31. The years ending March 29, 2014 ("fiscal 2014") and March 30, 2013 ("fiscal 2013") each consisted of 52 weeks. Fiscal quarters contain thirteen weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen weeks. The first quarter of fiscal 2015 and fiscal 2014 ended on June 28, 2014 and June 29, 2013, respectively.

Comprehensive income

The Company does not have any components of other comprehensive income (loss) recorded within its condensed consolidated financial statements and, therefore, does not separately present a statement of comprehensive income (loss) in its condensed consolidated financial statements.

Segment reporting

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. The Company operates in a single operating segment, which includes net sales generated from its retail stores and e-commerce website. All of the Company's identifiable assets are in the U.S.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Among the significant estimates affecting the Company's consolidated financial statements are those relating to revenue recognition, inventories, goodwill, intangible and long-lived assets, stock-based compensation and income taxes. Management regularly evaluates its estimates and assumptions based upon historical experience and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. As of June 28, 2014, the Company had identified no indicators of impairment with respect to its goodwill, intangible and long-lived asset balances. To the extent actual results differ from those estimates, the Company's future results of operations may be affected.

Fair value of certain financial assets and liabilities

The Company follows FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, ("ASC 820") which requires disclosure of the estimated fair value of certain assets and liabilities defined by the guidance as financial instruments. The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and debt. ASC 820 defines the fair value of financial instruments as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants the measurement date. ASC 820 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. The Company's Level 1 assets include investments in money market funds.

Table of Contents

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data.

Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation. The Company's Level 3 assets include certain acquired businesses and its Level 3 liability includes contingent consideration.

Cash and cash equivalents, accounts receivable and accounts payable are valued at fair value and are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified as Level 2 or Level 3 even though there may be certain significant inputs that are readily observable. The Company believes that the recorded value of its financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or duration.

Although market quotes for the fair value of the outstanding debt arrangements discussed in Note 4 "Revolving credit facilities and long-term debt" are not readily available, the Company believes its carrying value approximates fair value due to the variable interest rates, which are Level 2 inputs. There were no financial assets or liabilities requiring fair value measurements as of June 28, 2014 on a recurring basis.

Recent accounting pronouncements

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. An unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward with certain exceptions, in which case such an unrecognized tax benefit should be presented in the financial statements as a liability. The amendments in this ASU do not require new recurring disclosures. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Companies may choose to apply this guidance retrospectively to each prior reporting period presented. The Company adopted this ASU on March 30, 2014, and the adoption of this guidance did not have a material impact on its consolidated financial statements.

In April 2014, the Financial Accounting Standards Board ("FASB") issued amended guidance on the presentation of financial statements and reporting discontinued operations and disclosures of disposals of components of an entity within property, plant and equipment. This guidance amends the definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued-operations criteria. The effective date is for disposals that occur in annual periods (and interim periods therein) beginning on or after December 15, 2014. Early adoption is permitted, and the Company intends to early adopt.

In May 2014, the FASB and the IASB jointly issued a new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. The revenue recognition standard will allow for the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted under GAAP. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending March 31, 2018 and the Company will continue to assess the impact on its consolidated financial statements.

3. Business combinations

Baskins Acquisition Holdings, LLC

Effective May 25, 2013, the Company completed the acquisition of 100% of the member interests in Baskins, including 30 stores and an online retail website. Baskins is a specialty western retailer with stores in Texas and Louisiana, and the acquisition expanded the Company's operations into these core markets. The goodwill represents the additional amounts paid in order to expand the Company's geographical presence.

The acquisition-date fair value of the consideration transferred totaled $37.7 million, which consisted of $36.0 million in cash and $1.7 million of contingent consideration. The $36.0 million of cash included $13.7 million paid to the members of Baskins, $2.2 million paid into an escrow account and $20.1 million to repay Baskins' outstanding debt. These payments were partially offset by $1.9 million, which represents the amount of cash on hand immediately prior to the closing of the acquisition. As of June 28, 2014, $1.7 million remained in an escrow account and is not included in the Company's condensed consolidated balance sheet. Claims against the escrow account can be made until November 30, 2014. Due to the nature of the escrow account, the cash portion of the consideration transferred has been determined only provisionally and is subject to change pending the outcome of potential escrow claims.

The Company was obligated to make additional earnout payments, contingent on the achievement of milestones relating to 12-month store sales associated with three new stores for the periods beginning January 24, 2013, January 31, 2013 and February 20, 2013 at each of the three stores. The maximum amount payable upon achievement of the milestones was $2.1 million. Each of the milestones was achieved, and the Company made a cash payment of $2.1 million in the fourth quarter of fiscal 2014. As of the acquisition date, the Company estimated that these earnout payments would be $1.7 million, based on then existing facts and circumstances. The estimated fair value of this earnout was determined by using revenue projections and applying a discount rate to reflect the risk of the underlying conditions not being satisfied, such that no payment would be due. The fair value measurement of the earnout was based primarily on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. A total of $0.4 million from the revaluation of contingent consideration was recorded in the fourth quarter of fiscal 2014 to selling, general and administrative expenses in the Company's consolidated statement of operations.

The total fair value of consideration transferred for the acquisition was allocated to the net tangible and intangible assets based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the net tangible and intangible assets was recorded as goodwill. The goodwill is deductible for income tax purposes. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date based on the purchase price (in thousands):

	At May 25, 2013 (Level 3)
Assets acquired:	
Cash and cash equivalents	$ 1,935
Current assets	22,083
Property and equipment, net	5,850
Intangible assets acquired	5,006
Goodwill	15,064
Other assets	109
Total assets acquired	50,047
Liabilities assumed:	
Other current liabilities	12,119
Line of credit current	10,259
Notes payable current	9,819
Contingent consideration	1,740
Above-market leases	83
Capital lease obligation	138
Total liabilities assumed	34,158
Total purchase price	$ 15,889

Definite-lived intangible assets are recorded at their fair value as of the acquisition date with amortization computed utilizing the straight-line method over the assets' estimated useful lives, with the exception of customer lists, which are amortized based on the estimated attrition rate. The period of amortization for trademarks is six months, non-compete agreements is four to five years, customer lists is five years, and below-market leases is two to 17 years. For leases under market rent, amortization is based on the discounted future benefits from lease payments under market rents.

Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred. Goodwill represents the additional amounts paid in order to expand the Company's geographical presence. The Company incurred $0.7 million of acquisition-related costs during the thirteen weeks ended June 29, 2013. The amount of net revenue and net loss of Baskins included in the Company's condensed consolidated statements of operations from the acquisition date to June 29, 2013 were $4.4 million and $0.2 million, respectively.

Supplemental as adjusted data (unaudited)

The unaudited as adjusted statements of operations data below gives effect to the acquisitions described above, as if they had all occurred as of March 30, 2013. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Baskins, RCC Western Stores, Inc.

and Boot Barn Holding Corporation to reflect the effects of amortization of purchased intangible assets and acquired inventory valuation step-up, additional financing as of April 3, 2011 in order to complete the acquisitions, income tax expense and other transaction costs directly associated with the acquisitions such as legal, accounting and banking fees. The adjustments are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. Pre-acquisition net sales and net income numbers for acquired entities are derived from their books and records prepared prior to the acquisition. This as adjusted data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisitions taken place as of the date noted above.

As adjusted net sales unaudited

(in thousands)		Thirteen weeks ended June 29, 2013
Net sales (as reported)	$	64,574
Baskins		8,290
As adjusted net sales	$	72,864

As adjusted net income unaudited

(in thousands)		Thirteen weeks ended June 29, 2013
Net loss (as reported)	$	(1,445)
Baskins		418
RCC		(290)
Boot Barn Holding Corporation		1,320
As adjusted net income	$	3

4. Revolving credit facilities and long-term debt

Revolving credit facility (PNC Bank, N.A.)

On December 11, 2011, the Company obtained a collateral-based revolving line of credit with PNC Bank, N.A. (the "PNC Line of Credit"), which the Company amended on August 31, 2012 and May 31, 2013. On April 15, 2014, the Company amended the PNC Line of Credit to increase the borrowing capacity from $60.0 million to up to $70.0 million. All other material terms of the PNC Line of Credit remained unchanged. The PNC Line of Credit is to be used for working capital and general corporate purposes, and has a maturity date of May 31, 2018. The available borrowing under the PNC Line of Credit is based on the collective value of eligible inventory and credit card receivables multiplied by specific advance rates, and is recalculated weekly. The PNC Line of Credit bears interest at (1) 0.75% if the amount of borrowings are less than 60% of the maximum borrowing capacity or 1.00% if the total borrowings are greater than 60% of the maximum borrowing capacity, plus (2) the highest of the bank's public lending rate, federal funds open rate plus 0.50%, or the LIBOR rate for a period of one month plus 1.00%. The Company can also elect to use the Eurodollar rate plus 0.75% if the amount of borrowings is less than 60% of the maximum borrowing capacity or 1.00% if the total borrowings are greater than 60% of the maximum borrowing capacity. As of June 28, 2014, the total amount available to borrow was $25.4 million and the outstanding

balance was $42.6 million. The outstanding borrowings as of June 28, 2014 consisted of $41.0 million outstanding at a rate of 1.90% and $1.6 million outstanding at a rate of 4.0%.

The PNC Line of Credit includes certain financial and nonfinancial covenants. The financial covenants include minimum fixed charge coverage ratio only when "excess availability" falls below specified floor levels, while nonfinancial covenants include restrictions on a number of other activities. The Company was in compliance with its financial covenants as of June 28, 2014.

$130 million term loan due May 2019 (Golub Capital LLC)

The Company entered into a loan and security agreement with Golub Capital LLC on May 31, 2013, as amended by the first amendment to term loan and security agreement dated September 23, 2013 (the "Golub Loan"). On April 14, 2014, the Company entered into an amended and restated term loan and security agreement for the Golub Loan. The amended and restated loan and security agreement increased the borrowings on the Golub Loan from $99.2 million to $130.0 million. The obligations under the Golub Loan are secured by substantially all of the Company's assets and the Company's guarantors' assets. A provision allowing the Company to conduct an initial public offering was also added to the amended and restated loan and security agreement. The principal on the Golub Loan will be payable in quarterly installments of $327,000 made each calendar quarter and ending on the maturity date of the Golub Loan, which is May 31, 2019. The balance of the unpaid principal will be paid on the maturity date. All other material terms of the Golub Loan remain unchanged from the May 31, 2013 Golub Loan. The proceeds of the amendment to the Golub Loan were used to fund a portion of the $39.9 million dividend that was paid in April 2014 See Note 5 "Stock-based compensation". The outstanding balance of the Golub Loan was $130.0 million at June 28, 2014.

Interest on the Golub Loan is paid quarterly and is calculated on either a base rate or LIBOR. The base rate is a floating interest rate that is 4.75% plus the higher of (1) the prime rate, (2) the one-month London Interbank Offered Rate ("Published LIBOR") plus 1% with a Published LIBOR floor of 1.25% or (3) the Federal Funds rate, plus 50 basis points. LIBOR is 5.75%, plus the higher of 1.25% or Published LIBOR. Interest is payable quarterly in arrears on the last day of each quarter. Interest charges are computed on the actual principal outstanding. As of June 28, 2014, the interest rate on the Golub Loan was 7.0%. Total interest expense incurred on the Golub Loan for the three months ended June 28, 2014 was $2.2 million.

The Golub Loan requires the Company to meet certain financial and non-financial covenants. Financial covenants include a minimum interest coverage ratio and a maximum total leverage ratio. In addition, the term loan agreement also limits the amount that the Company can spend on capital expenditures per year. The Company was in compliance with all of its financial covenants as of June 28, 2014. The Golub Loan also requires that 50% of the Company's excess cash flow receipts be used to make prepayments of outstanding loan amounts. The Company is also subject to early termination fees in certain instances of voluntary prepayments of the Golub Loan in excess of $10.0 million.

If there is an event of default under the Golub Loan, the principal and the interest accrued thereon may be declared immediately due and payable, subject to certain conditions set forth in the amended and restated term loan and security agreement. Events of default under the Golub Loan include, but are not limited to, the Company becoming delinquent in making certain payments due under the Golub Loan, the Company incurring certain events of default with respect to other indebtedness or obligations, the Company undergoing a change in control or the Company becoming subject to certain bankruptcy proceedings or orders. As of June 28, 2014, no events of default had occurred.

Table of Contents

$20 million term loan (PNC Bank, N.A.)

The Company entered into a loan and security agreement with PNC Bank N.A. on December 11, 2011, as amended by the first amendment to term loan agreement dated August 31, 2012 (the "PNC Term Loan"). The PNC Term Loan included a term loan facility of $20.0 million. Interest accrued on outstanding amounts under the PNC Term Loan at the rate of 7.5% per annum, due monthly. Effective October 1, 2012, monthly principal payments of $166,667 were required. In connection with the closing of the Golub Loan in May 2013, the Company converted all outstanding amounts on the PNC Term Loan to borrowings under the PNC Line of Credit.

Senior subordinated term loans (related party term loans)

On December 11, 2011, the Company obtained senior subordinated term loans from certain subordinated lenders, in the aggregate amount of $25.0 million, bearing interest at the rate of 12.5%, due quarterly. The subordinated lenders were related parties. On August 31, 2012, the Company borrowed an additional $25.5 million from the subordinated lenders. See Note 9 "Related party transactions". In connection with the closing of the Golub Loan in May 2013, the Company paid off all outstanding amounts on its senior subordinated term loans.

The Company incurred approximately $4.0 million of deferred loan fees related to the issuance of the Golub Loan and the PNC Line of Credit, which are being amortized to interest expense using the effective interest method over the term of the loan through May 31, 2019. The remaining balance of deferred loan fees as of June 28, 2014 is $3.4 million.

Aggregate contractual maturities for the Company's line of credit and long-term debt as of June 28, 2014 are as follows (in thousands):

Fiscal year		
2015	$	981
2016		1,308
2017		1,308
2018		1,308
2019		43,902
Thereafter		123,787
Total	$	172,594

5. Stock-based compensation

On January 27, 2012, the Company approved the 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan authorized the Company to issue options to employees, consultants and directors to purchase up to a total of 3,750,000 shares of common stock. As of June 28, 2014, all awards granted by the Company have been nonqualified stock options. Options granted under the 2011 Plan have a life of 10 years and vest over service periods of five years or in connection with certain events as defined by the 2011 Plan.

On April 11, 2014, the Company declared and subsequently paid a pro rata cash dividend to its stockholders totaling $39.9 million, made a cash payment of $1.4 million to holders of vested options, and lowered the exercise price of 1,918,550 unvested options by $2.00 per share. The cash payments totaling $41.3 million reduced retained earnings to zero and reduced additional paid-in capital by $39.7 million. The Company's 2011 Equity Incentive Plan has nondiscretionary antidilution provisions that require the fair value of the option awards to be equalized in the event of an equity restructuring. Consequently, the board of directors of the Company was obligated under the antidilution provisions to approve the reduction of the exercise price on the unvested options and make the cash payment to the holders of vested options. No incremental stock-based compensation expense was recognized for the dividend for the vested options or reduction in exercise price for the unvested options.

Table of Contents

During the thirteen weeks ended June 28, 2014, the Company granted certain members of management options to purchase a total of 237,500 shares of common stock under the 2011 Plan. The total grant date fair value of stock options granted in the thirteen weeks ended June 28, 2014 was $1.5 million, before applying an estimated forfeiture rate, with grant date fair values per share ranging from $6.20 to $6.36. The Company is recognizing the expense relating to these stock options, net of estimated forfeitures, on a straight-line basis over the five-year service period of the awards. The exercise prices of these awards range between $11.14 and $11.40. No stock options were granted during the thirteen weeks ended June 29, 2013.

The fair values of stock options granted during the thirteen weeks ended June 28, 2014 were estimated on the grant dates using the following assumptions:

	Thirteen weeks ended June 28, 2014
Expected option term[1]	6.5 years
Expected volatility factor[2]	56%
Risk-free interest rate[3]	2.03% - 1.97%
Expected annual dividend yield[4]	0%

(1) The Company has limited historical information regarding expected option term. Accordingly, the Company determined the expected life of the options using the simplified method.

(2) Stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company's competitors' common stock over the most recent period equal to the expected option term of the Company's awards.

(3) The risk-free interest rate is determined using the rate on treasury securities with the same term.

(4) The board of directors paid a dividend to stockholders in April 2014. The Company's board of directors does not plan to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

The stock option awards discussed above were measured at fair value on the grant date using the Black-Scholes option valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility of the Company's stock price over the option's expected term, the risk-free interest rate over the option's expected term and the Company's expected annual dividend yield, if any. The Company's estimate of pre-vesting forfeitures, or forfeiture rate, was based on its internal analysis, which included the award recipients' positions within the Company and the vesting period of the awards. The Company will issue shares of common stock when the options are exercised.

Intrinsic value for stock options is defined as the difference between the market price of the Company's common stock on the last business day of the fiscal quarter and the weighted average exercise price of in-the-money stock options outstanding at the end of each fiscal period. The estimated market value per share was $11.14 and $11.40 at June 28, 2014 and March 29, 2014, respectively. The decrease in market value between June 28, 2014 and March 29, 2014 was due to return of capital resulting from the dividend paid to stockholders and option holders during the thirteen weeks ended June 28, 2014, as discussed

Table of Contents

above. The following table summarizes the stock award activity for the thirteen weeks ended June 28, 2014 (aggregate intrinsic value in thousands):

	Stock options		Grant date weighted-average exercise price[1]	Weighted average remaining contractual life (in years)		Aggregate intrinsic value
Outstanding at March 29, 2014	2,515,000	$	5.97			
Granted	237,500	$	10.23			
Canceled, forfeited or expired		$				
Outstanding at June 28, 2014	2,752,500	$	6.34	8.2	$	13,222
Vested and expected to vest at June 28, 2014	2,752,500	$	6.34	8.2	$	13,222
Exerciseable at June 28, 2014	721,450	$	6.45	7.6	$	3,382

(1) The grant date weighted-average exercise price reflects the reduction of the exercise price by $2.00 per share for the 1,918,550 unvested options that were part of the April 2014 dividend discussed above.

Stock-based compensation expense was $0.4 million and $0.2 million for the thirteen weeks ended June 28, 2014 and June 29, 2013, respectively. Stock-based compensation expense of $0.1 million and less than $0.1 million was recorded in cost of goods sold in the condensed consolidated statements of operations for the thirteen weeks ended June 28, 2014 and June 29, 2013, respectively. All other stock-based compensation expense is included in selling, general and administrative expenses in the condensed consolidated statements of operations. As of June 28, 2014, there was $6.9 million of total unrecognized stock-based compensation expense related to unvested stock options. This cost has a weighted-average remaining recognition period of 2.3 years.

A summary of the status of non-vested stock options as of June 28, 2014 and changes during the thirteen weeks ended June 28, 2014 is presented below:

	Shares		Weighted-average grant date fair value
Nonvested at March 29, 2014	1,793,550	$	3.55
Granted	237,500	$	6.28
Vested		$	
Nonvested shares forfeited		$	
Nonvested at June 28, 2014	2,031,050	$	3.87

6. Commitments and contingencies

The Company has employment agreements with three key officers of the Company. One of the employment agreements expires in November 2015. This agreement automatically renews for successive one-year terms and will continue to do so unless otherwise terminated. The two other employment agreements do not expire. The employment agreements provide for minimum salary levels and incentive bonuses that are payable under certain business conditions, as well as guaranteed payments in the event of termination of employment in certain circumstances. The future amounts payable under these employment agreements

have not been recorded in the condensed consolidated financial statements as of June 28, 2014 and March 29, 2014.

The Company is involved, from time to time, in litigation that is incidental to its business. The Company has reviewed these matters to determine if reserves are required for losses that are probable and reasonable to estimate in accordance with FASB ASC Topic 450, *Contingencies*. The Company evaluates such reserves, if any, based upon several criteria, including the merits of each claim, settlement discussions and advice from outside legal counsel, as well as indemnification of amounts expended by the Company's insurers or others, if any. In management's opinion, none of these legal matters, individually or in the aggregate, will have a material effect on the Company's financial position, results of operations, cash flows or liquidity.

During the normal course of its business, the Company has made certain indemnifications and commitments under which the Company may be required to make payments for certain transactions. These indemnifications include those given to various lessors in connection with facility leases for certain claims arising from such facility leases, and indemnifications to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. The majority of these indemnifications and commitments do not provide for any limitation of the maximum potential future payments the Company could be obligated to make, and their duration may be indefinite. The Company has not recorded any liability for these indemnifications and commitments in the condensed consolidated balance sheets, statements of operations or cash flows as the impact is expected to be immaterial.

7. Income taxes

Income tax expense (benefit) for interim periods is based on an estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Significant management judgment is required in projecting ordinary income (loss) to estimate the Company's annual effective tax rate. The expected annual effective income tax rate was 40.1% and 37.3% for the thirteen weeks ended June 28, 2014 and June 29, 2013, respectively. The effective tax rate for the thirteen weeks ended June 29, 2013 reflects a discrete item related primarily to state taxes and acquisition costs.

8. Related party transactions

Leases and other transactions

The Company has a lease agreement for one of its stores at a location owned by one minority stockholder of the Company. The Company paid less than $0.1 million for these leases during each of the thirteen weeks ended June 28, 2014 and June 29, 2013. These lease payments are included in selling, general and administrative expenses in the consolidated statements of operations.

Related party loans

As of March 30, 2013, the Company had notes payable (see Note 5 "Revolving credit facilities and long-term debt") to the subordinated lenders who own common stock of the Company. These notes were paid in full in May 2013. Interest and early termination fees paid to these entities totaled $3.6 million in the thirteen weeks ended June 29, 2013.

Table of Contents

9. Earnings (loss) per share

Earnings (loss) per share is computed under the provisions of FASB ASC Topic 260, *Earnings Per Share*. Basic earnings (loss) per share is computed based on the weighted average number of outstanding shares of common stock during the period. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method, whereby proceeds from such exercise, unamortized compensation and hypothetical excess tax benefits, if any, on share-based awards are assumed to be used by the Company to purchase the common shares at the average market price during the period. Dilutive potential shares of common stock represent outstanding stock options. The dilutive effect of stock options and restricted stock is applicable only in periods of net income.

As discussed in Note 5 "Stock-based compensation", holders of vested stock options received a cash payment of $1.4 million, which the Company deducted from net income for purposes of the earnings per share calculation to determine the net income available to common shareholders. This resulted in a net loss available to common shareholders of $34,630 for the thirteen weeks ended June 28, 2014, which represents a basic loss per share of $0.00. Because all earnings were distributed, the impact of any potentially dilutive shares are antidilutive and therefore excluded from the weighted average diluted shares outstanding. Potentially dilutive options of 539,850 are therefore excluded from the weighted average diluted shares outstanding.

The components of basic and diluted loss per share of common stock, in aggregate, for the thirteen weeks ended June 28, 2014 and June 29, 2013 are as follows (in thousands, except per share amounts):

	Thirteen weeks ended	
	June 28, 2014	June 29, 2013
Net income (loss) attributed to Boot Barn Holdings, Inc.	$ 1,409	$ (1,373)
Weighted average basic shares outstanding	19,149	18,929
Dilutive effect of stock options		
Weighted average diluted shares outstanding	19,149	18,929
Basic loss per share	$ (0.00)	$ (0.07)
Diluted loss per share	$ (0.00)	$ (0.07)

Awards to purchase 848,925 shares and 595,650 shares of common stock during the thirteen weeks ended June 28, 2014 and June 29, 2013, respectively, were outstanding, but were not included in the computation of weighted average diluted common shares amounts as the effect of doing so would have been anti-dilutive.

10. Subsequent events

The Company evaluated subsequent events through June 13, 2014, the date on which the consolidated financial statements were originally available to be issued, and October 20, 2014, the date on which the retrospectively revised consolidated financial statements were issued (as to the 25-for-1 stock split described below under "Stock split and authorization of additional shares").

Table of Contents

Stock split and authorization of additional shares

On October 19, 2014, the Company's board of directors authorized the amendment of its certificate of incorporation to increase the number of shares that the Company is authorized to issue to 100,000,000 shares of common stock, par value $0.0001 per share. In addition, the amendment of the certificate of incorporation will authorize the Company to issue 10,000,000 shares of preferred stock, par value $0.0001 per share, and effect a 25-for-1 stock split of its outstanding common stock. The amendment will become effective prior to the Company's initial public offering of its common stock. Accordingly, all common share and per share amounts in these condensed consolidated financial statements and the notes thereto have been adjusted to reflect the 25-for-1 stock split as though it had occurred at the beginning of the initial period presented.

Table of Contents

5,000,000 shares

Common stock

Prospectus

J.P. Morgan **Piper Jaffray** **Jefferies**

Wells Fargo Securities **Baird**

October 29, 2014

Through and including November 23, 2014 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.