

Seagate Technology plc  
Form 10-K  
August 05, 2016

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

---

(Mark One)

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

For the fiscal year ended July 1, 2016

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 PUBLIC LIMITED COMPANY**

(Exact name of registrant as specified in its charter)

**Ireland**

(State or other jurisdiction of  
incorporation or organization)

**98-0648577**

(I.R.S. Employer  
Identification Number)

**38/39 Fitzwilliam Square  
Dublin 2, Ireland**

(Address of principal executive offices)

**Registrant's telephone number, including area code: (353) (1) 234-3136**

---

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

| Title of Each Class                            | Name of Each Exchange<br>on Which Registered |
|--|--|
| Ordinary Shares, par value \$0.00001 per share | The NASDAQ Global Select Market              |

## Edgar Filing: Seagate Technology plc - Form 10-K

### 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  NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is 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       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting ordinary shares held by non-affiliates of the registrant as of January 1, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$11.0 billion based upon the closing price reported for such date by the NASDAQ.

The number of outstanding ordinary shares of the registrant as of July 29, 2016 was 298,609,231.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the registrant's Annual General Meeting of Shareholders, to be held on October 19, 2016, will be incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III. The definitive proxy statement will be filed with the SEC no later than 120 days after the registrant's fiscal year ended July 1, 2016.

---

Table of Contents

SEAGATE TECHNOLOGY PLC

TABLE OF CONTENTS

| Item       |   | Page No.   |
|------------|---|------------|
|            | <b><u>PART I</u></b>  |            |
| <u>1.</u>  | <u>Business</u>   | <u>5</u>   |
| <u>1A.</u> | <u>Risk Factors</u>   | <u>18</u>  |
| <u>1B.</u> | <u>Unresolved Staff Comments</u>  | <u>36</u>  |
| <u>2.</u>  | <u>Properties</u>   | <u>37</u>  |
| <u>3.</u>  | <u>Legal Proceedings</u>  | <u>37</u>  |
| <u>4.</u>  | <u>Mine Safety Disclosures</u>  | <u>37</u>  |
|            | <b><u>PART II</u></b>   |            |
| <u>5.</u>  | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>38</u>  |
| <u>6.</u>  | <u>Selected Financial Data</u>  | <u>41</u>  |
| <u>7.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>43</u>  |
| <u>7A.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>60</u>  |
| <u>8.</u>  | <u>Financial Statements and Supplementary Data</u>  | <u>63</u>  |
| <u>9.</u>  | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | <u>117</u> |
| <u>9A.</u> | <u>Controls and Procedures</u>  | <u>117</u> |
| <u>9B.</u> | <u>Other Information</u>  | <u>118</u> |

**PART III**

|            |   |            |
|------------|---|------------|
| <u>10.</u> | <u>Directors, Executive Officers and Corporate Governance</u>   | <u>119</u> |
| <u>11.</u> | <u>Executive Compensation</u>   | <u>119</u> |
| <u>12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>119</u> |
| <u>13.</u> | <u>Certain Relationships and Related Transactions, and Director Independence</u>                      | <u>119</u> |
| <u>14.</u> | <u>Principal Accountant Fees and Services</u>   | <u>119</u> |

**PART IV**

|            |   |            |
|------------|---|------------|
| <u>15.</u> | <u>Exhibits and Financial Statement Schedules</u> | <u>120</u> |
|            | <u>SIGNATURES</u>                                 | <u>121</u> |
|            | <u>EXHIBIT INDEX</u>                              | <u>123</u> |

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," the "Company" and "our" refer to Seagate Technology public limited company ("plc"), an Irish public limited company, and its subsidiaries. References to "\$" are to United States dollars.

We have compiled the market size information 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%.

Seagate, Seagate Technology, Lacie, Xyratex, Dot Hill, the Spiral Logo, are trademarks or registered trademarks of Seagate Technology LLC or one of its affiliated companies in the United States and/or other countries. All other trademarks or registered trademarks are the property of their respective owners.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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 September 30, 2016 and the fiscal year ending June 30, 2017 and beyond. These statements identify prospective information and may include words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "projects" and similar expressions. These forward-looking statements are based on information available to the Company as of the date of this Annual Report on Form 10-K and are based on management's current views and assumptions. These forward-looking statements are conditioned upon and also involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or events to differ materially from those anticipated by these forward-looking statements. Such risks, uncertainties and other factors may be beyond our control and may pose a risk to our operating and financial condition. Such risks and uncertainties include, but are not limited to:

the uncertainty in global economic conditions;

the impact of variable demand and the adverse pricing environment for disk drives, particularly in view of current business and economic conditions;

the Company's ability to successfully qualify, manufacture and sell its disk drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disk drive products with lower cost structures;

the impact of competitive product announcements;

the Company's ability to achieve projected cost savings in connection with restructuring plans

fluctuations in interest rates currency fluctuations that may impact the Company's margins and international sales;

possible excess industry supply with respect to particular disk drive products;

disruptions to its supply chain or production capabilities;

Edgar Filing: Seagate Technology plc - Form 10-K

unexpected advances in competing technologies;

the development and introduction of products based on new technologies and expansion into new data storage markets; and

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

cyber-attacks or other data breaches that disrupt its operations or results in the dissemination of proprietary or confidential information.

Information concerning risks, uncertainties and other factors that could cause results to differ materially from those projected in such forward-looking statements is also set forth in "Item 1A. Risk Factors" of this Annual Report on Form 10K, 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.

Table of Contents

*PART I*

**ITEM 1. BUSINESS**

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

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

Our products are designed for mission critical and nearline applications in enterprise servers and storage systems; client compute applications, where our products are designed primarily for desktop and mobile computing; and client non-compute applications, where our products are designed for a wide variety of end user devices such as digital video recorders ("DVRs"), personal data backup systems, portable external storage systems, digital media systems and surveillance systems.

Our Cloud Systems and Solutions builds on the Seagate legacy to extend innovation from the device into the information infrastructure, onsite and in the cloud. Our approach to data management supports HPC, open source and software-defined solutions. Our portfolio includes HPC storage solutions, modular original equipment manufacturers ("OEM") storage systems and scale-out storage systems.

**Industry Overview**

*Electronic Data Storage Industry*

The electronic data storage industry is comprised of companies that manufacture components or subcomponents designed for electronic data storage devices and companies that provide storage solutions, software and services for enterprise cloud, big data and computing platforms.

*Markets*

The principal markets served by the electronic data storage industry are:

*Enterprise Storage.* We define enterprise storage as dedicated storage area networks and hyperscale cloud storage environments. Enterprise data centers run solutions which are designed for mission critical performance and nearline high capacity applications.

Mission critical applications are defined as those that are vital to the operation of large-scale enterprise work loads, requiring high performance and high reliability storage solutions. We expect the market for mission critical enterprise storage solutions to continue to be driven by enterprises utilizing dedicated storage area networks. Our storage solutions are comprised principally of high performance enterprise class disk drives with sophisticated firmware and communications technologies.

Nearline applications are defined as those which require high capacity and energy efficient storage solutions. We expect such applications, which include storage for cloud computing, content delivery and backup services, will continue to grow and drive demand for solutions designed with these attributes. With the increased requirements for storage driven by the creation and consumption of media-rich digital



Table of Contents

content, we expect the increased exabyte demand will require further build-out of data centers by cloud service providers and other enterprises which utilize high capacity nearline devices.

Enterprise SAS SSDs are designed to deliver superior performance, reliability and enterprise features to meet the demands of I/O-intensive applications, with potential for substantial power savings. PCIe accelerator cards are designed to optimize enterprise applications with a persistent, high-performance, high-capacity memory design. Accelerated flash also targets flash and software to accelerate any server virtualized deployment and moves any big data to the realm of real time. From industry solutions perspective, PCIe cards are changing the storage architecture in many industries including the financial sector, government, telecommunications and media and entertainment.

*Client Compute.* We define client compute applications as solutions designed for desktop and mobile compute applications ranging from traditional laptops, tablets and convertible systems. We believe that the demand resulting from the proliferation of digital content will continue to maintain demand for the client compute market. As the storage of digital content in the cloud becomes more prominent and accessible, some client compute applications rely less on built-in storage, which is supplemented by cloud computing solutions and branded external hard drives.

*Client Non-Compute.* We define client non-compute applications as solutions designed for consumer electronic devices and disk drives used for external storage and network attached storage ("NAS"). Disk drives designed for consumer electronic devices are primarily used in applications such as DVRs and surveillance systems that require a higher capacity, low cost-per-gigabyte storage solution. Disk drives for external storage and NAS devices are designed for purposes such as personal data backup and portable external storage, and to augment storage capacity in the consumer's current desktop, notebook, tablet or DVR devices. We believe the proliferation and personal creation of media-rich digital content will continue to create increasing consumer demand for higher capacity storage solutions.

*Cloud Systems and Solutions.* We define cloud systems and solutions as applications that provide cloud based solutions to businesses for the purpose of HPC, scale-out storage solutions and modular systems. Systems can contain HDDs and SSDs and can offer file management systems, software, and even compute power.

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 that supply spindle motors, heads and media, application specific integrated circuits ("ASICs").

*Hardware storage solutions manufacturers.* Companies that transform components into storage products include disk drive manufacturers and semiconductor storage manufacturers which include integrating flash memory into storage products such as SSDs.

*System integrators.* Companies, such as OEMs, that bundle and package storage solutions into client compute, client non-compute or enterprise applications as well as enterprise storage solutions. Distributors that integrate storage hardware and software into end-user applications and Cloud Service Providers ("CSP") that provide cloud based solutions to businesses for the purpose of HPC, scale-out storage solutions and modular systems that are also included in this category.

*Storage services.* Companies that provide and host services and solutions, which include storage, backup, archiving, recovery and discovery of electronic data.

*Hyperscale Data Centers.* Increasingly, large hyperscale data center companies are designing their own storage subsystems and having those built by contract manufacturers for use inside their own data centers. This trend is reshaping the storage system and subsystem market and driving innovation in system design and changes in the competitive landscape of the large storage system vendors.

Table of Contents

*Demand for Electronic Data Storage*

The continued advancement of the cloud, the proliferation of a variety of mobile devices globally, development of the Internet of Things ("IoT"), increasingly pervasive use of video surveillance, evolution of consumer electronic devices, and enterprise use of big data analytics are driving the growth of digital content. Factors contributing to this growth include:

Creation, sharing, and consumption of media-rich digital content, such as high-resolution photos, high definition video, and digital music through smart phones, tablets, digital cameras, personal video cameras, DVRs, gaming consoles or other digital devices;

Creation, aggregation and distribution of digital content through services and other offerings such as Facebook®, Instagram®, iTunes®, Netflix®, Google® and YouTube®;

New surveillance systems which feature higher resolution digital cameras and thus require larger data storage capacities;

Creation and collection of data through the evolution of the IoT ecosystem, big data analytics and new technology trends such as self-driving cars and drones;

Build out of large numbers of cloud data centers by cloud service providers and private companies transitioning on-site data centers into the cloud;

Protection of increased digital content through redundant storage on backup devices and externally provided storage services.

As a result of these factors, the nature and volume of content being created requires greater storage, which is more efficiently and economically facilitated by higher capacity storage devices in order to store, manage, distribute, analyze and backup such content. We expect this to support the growth in demand for electronic data storage solutions in developed and emerging economies well into the future.

The amount of data created as well as where and how data is stored continues to evolve with the proliferation of mobile devices, the growth of cloud computing, and the evolving IoT. In addition, the economics of storage infrastructure are also evolving with the utilization of public and private hyper-scale storage and open-source solutions reducing the total cost of ownership of storage while increasing the speed and efficiency with which customers can leverage massive computing and storage devices. Accordingly, we expect these trends will continue to create significant demand for electronic data storage solutions going forward.

*Demand Trends for Disk Drives*

We believe that continued growth in digital content requires increasingly higher storage capacity in order to store, aggregate, host, distribute, analyze, manage, backup and use such content. We also believe that as architectures evolve to serve the growing commercial and consumer user base throughout the world, the manner which hard drives are delivered to market and utilized by our customers will evolve as well.

We believe that in the foreseeable future the traditional enterprise and client compute markets that require high capacity storage solutions, and the data intensive client non-compute markets will continue to be best served by hard disk drives due to the industry's ability to deliver the most cost effective, reliable and energy efficient mass storage devices. Furthermore, the increased use of client non-compute devices that both consume media-rich digital content streamed from the cloud and create rich digital content that is stored in the cloud, increases the demand for high capacity hard disk drives in enterprise Nearline applications.

Table of Contents

We also believe that as hard disk drive capacities continue to increase, unit demand does not reflect the increase in Exabytes demand. In recent years, this trend has resulted in demand for fewer units, but with higher average capacity per drive.

*Industry Supply Balance*

From time to time the HDD industry has experienced periods of imbalance between supply and demand. To the extent that the disk drive industry builds or maintains capacity based on expectations of demand that do not materialize, price erosion may become more pronounced. Conversely, during periods where demand exceeds supply, price erosion is generally muted.

**Our Business**

*Disk Drive Technology*

The design and manufacturing of disk drives depends on highly advanced technology and manufacturing techniques and therefore requires high levels of research and development spending and capital equipment investments. We design, fabricate and assemble a number of the most important components found in our disk drives, including read/write heads and recording media. Our design and manufacturing operations are based on technology platforms that are used to produce various disk drive products that serve multiple data storage applications and markets. Our core technology platforms are focused around the areal density of media and read/write head technologies. Using an integrated platform design and manufacturing leverage approach allows us to deliver a portfolio of disk drive products to service a wide range of electronic data storage applications and industries.

Disk drives that we manufacture are commonly differentiated by the following key characteristics:

storage capacity, commonly expressed in gigabytes ("GB") or terabytes ("TB"), which is the amount of data that can be stored on the disk drive;

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 disk 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 disk surface;

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

input/output operations per second ("IOPS"), commonly expressed in megabytes per second, which is the maximum number of reads and writes to a storage location;

product quality and reliability, commonly expressed in annualized return rates; and

energy efficiency, commonly measured by the power output necessary to operate the disk drive.

Areal density is a measure of storage capacity per square inch on the recording surface of a disk. The storage capacity of a disk drive is determined by the number of disks it contains as well as the areal density capability of these disks. We have been pursuing, and will continue to pursue, a number of technologies to increase areal densities across the entire range of our products for expanding disk drive capacities and reducing the number of disks and heads per drive to further reduce product costs.



Table of Contents

*Manufacturing*

We design and produce our own read/write heads and recording media, which are critical technologies for disk drives. This integrated approach enables us to lower costs and to improve the functionality of components so that they work together efficiently.

We believe that because of our vertical design and manufacturing strategy, we are well suited to take advantage of the opportunities to leverage the close interdependence of components for disk drives. Our manufacturing efficiency and flexibility are critical elements of our integrated business strategy. We continuously seek to improve our manufacturing efficiency and reduce manufacturing cost by:

employing manufacturing automation;

improving product quality and reliability;

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

operating our facilities at optimal capabilities.

A vertically integrated model, however, tends to have less flexibility when demand moderates as it exposes us to higher unit costs as capacity utilization is not optimized.

*Components and Raw Materials*

Disk drives incorporate certain components, including a head disk assembly and a printed circuit board mounted to the head disk assembly, which are sealed inside a rigid base and top cover containing the recording components in a contamination controlled environment. 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 recording heads and media.

*Read/Write Heads.* The function of the read/write head is to scan across the disk 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 disk drive industry. We perform all primary stages of design and manufacture of read/write heads at our facilities. We use a combination of internally manufactured and externally sourced read/write heads, the mix of which varies based on product mix, technology and our internal capacity levels.

*Media.* Information is written to the media, or disk, as it rotates at very high speeds past the read/write head. The media is made from non-magnetic material, usually aluminum alloy or glass, and is coated with thin layers of magnetic materials. We use a combination of internally manufactured and externally sourced finished media and aluminum substrates, the mix of which varies based on product mix, technology and our internal capacity levels. We purchase all of our glass substrates from third parties.

*Printed Circuit Board Assemblies.* The printed circuit board assemblies ("PCBAs") are comprised of standard and custom ASICs and ancillary electronic control chips. The ASICs control the movement of data to and from the read/write heads and through the internal controller and interface, which communicates with the host computer. The ASICs and control chips form electronic circuitry that delivers instructions to a head positioning mechanism called an actuator to guide the heads to the selected track of a disk where the data is recorded or retrieved. Disk drive manufacturers use one or more industry standard interfaces such as serial advanced technology architecture ("SATA"); small computer system interface



Table of Contents

("SCSI"); serial attached SCSI ("SAS"); or Fibre Channel ("FC") to communicate to the host systems. We outsource to third parties the manufacture and assembly of the PCBAs used in our disk drives. We do not manufacture any ASICs, but we participate in their proprietary design.

*Head Disk Assembly.* The head disk assembly consists of one or more disks attached to a spindle assembly powered by a spindle motor that rotates the disks at a high constant speed around a hub. Read/write heads, mounted on an arm assembly, similar in concept to that of a record player, fly extremely close to each disk surface and record data on and retrieve it from concentric tracks in the magnetic layers of the rotating disks. The read/write heads are mounted vertically on an E-shaped assembly ("E-block") that is actuated by a voice-coil motor to allow the heads to move from track to track. The E-block and the recording media are mounted inside the head disk assembly. We purchase spindle motors from outside vendors and from time to time participate in the design of the motors that go into our products. We use a combination of internally manufactured and externally sourced head disk assemblies.

*Disk Drive Assembly.* Following the completion of the head disk assembly, it is mated to the PCBA, and the completed unit goes through extensive defect mapping and testing prior to packaging and shipment. Disk drive assembly and test operations occur primarily at facilities located in China 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 addition, third parties manufacture and assemble components and disk drive assemblies for us in various countries worldwide.

*Suppliers of Components and Industry Constraints.* There are a limited number of independent suppliers of components, such as recording heads and media, available to disk drive manufacturers. Vertically integrated disk drive manufacturers, who manufacture their own components, are less dependent on external component suppliers than less vertically integrated disk drive manufacturers.

*Commodity and Other Manufacturing Costs.* The production of disk drives requires rare earth elements, precious metals, scarce alloys and industrial commodities, which are subject to fluctuations in prices and the supply of which has at times been constrained. In addition to increased costs of components and commodities, volatility in fuel costs may also increase our costs related to commodities, manufacturing and freight. As a result, we may increase our use of ocean shipments to help offset any increase in freight costs.

**Products**

We offer a broad range of storage solutions for the enterprise, data center, client compute and client non-compute applications. We offer more than one product within each product category and differentiate products on the basis of price, performance, form factor, capacity, interface, power consumption efficiency, security features, and other customer integration requirements. Our industry is characterized by continuous and significant advances in technology which contribute to rapid product life cycles. We list our main current product offerings below.

*Enterprise Storage*

*Enterprise Performance HDDs.* Our 10,000 and 15,000 RPM Enterprise Performance disk drives feature increased throughput and improved energy efficiency, targeted at high random performance server application needs. Performance 10,000 RPM HDDs ship in storage capacities ranging from 300GB to 1.8TB, and our 15,000 RPM HDDs ship in storage capacities ranging from 146GB to 600GB.

*Enterprise Capacity and Archive HDDs.* Our Enterprise Capacity disk drives ship in 2.5-inch and 3.5-inch form factors and in storage capacities of up to 10TB that rotate at 7,200 RPM speeds. These products are designed for bulk data storage and server environments that require high capacity, enterprise reliability, energy efficiency, integrated security, and SATA and SAS interfaces. Our Archive HDDs

Table of Contents

provide up to 8TB of low-cost storage designed specifically for active archive storage environments in cloud data centers where very low cost and power are paramount.

*Enterprise SSDs.* Available in capacities up to 3.8TB, the SSD features 12GB per second SAS, and delivers the speed and consistency needed for demanding enterprise storage and server applications. We also offer our Nytro family of accelerator cards with capacities up to 4TB.

*Client Compute*

*Desktop HDDs and SSHDs.* Our 3.5-inch desktop drives ship in both traditional HDD and SSHD configurations and offer up to 8TB of capacity. Desktop drives are designed for applications such as personal computers and workstations.

*Mobile HDDs and SSHDs.* Our family of laptop drives ship in a variety of form factors (5mm to 9.5mm drive height), capacities (up to 4TB) and technologies (HDD and SSHD) to support mobile needs. Used in applications ranging from traditional laptops, convertible systems and external storage, our drives are built to address a range of performance needs and sizes for affordable, high capacity storage.

*Client Non-Compute*

*Video HDDs.* Our Video HDDs are used in video applications like DVR's and media centers. These disk drives are optimized for video streaming in always-on applications with capacities up to 4TB to support leading-edge digital entertainment.

*Surveillance HDDs.* Our surveillance drives are built to support the high-write workload of an always-on, always-recording video surveillance system. These surveillance optimized drives are built to support the growing needs of the surveillance market with support for multiple hard drive ("HD") streams and capacities up to 10TB.

*NAS HDDs.* Our NAS drives are built to support the performance and reliability demanded by small and medium businesses, and incorporate interface software with custom-built error recovery controls, power settings, and vibration tolerance. Our NAS HDD solutions are available in capacities up to 10TB.

*Branded Solutions.* Our external backup storage solutions are shipped under the Backup Plus and Expansion product lines, as well as under the Maxtor and LaCie brand names. These product lines are available in capacities up to 48TB, respectively. Our Seagate and LaCie Wireless drives provide tablet and smartphone users with additional storage for media content, with capacities up to 2TB. Our NAS and Personal Cloud solutions provide centralized network storage in capacities up to 32TB and secure, anywhere file access for users on-the-go.

**Customers**

We sell our products to major OEMs, distributors and retailers.



Table of Contents

The following table summarizes our revenue by channel and by geography:

|  | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| <i>Revenues by Channel (%)</i>                 |                    |                 |                  |
| OEM  | 70%                | 71%             | 68%              |
| Distributors                                   | 16%                | 17%             | 20%              |
| Retail   | 14%                | 12%             | 12%              |
| <i>Revenues by Geography (%)<sup>(1)</sup></i> |                    |                 |                  |
| Americas                                       | 29%                | 28%             | 27%              |
| EMEA   | 17%                | 17%             | 19%              |
| Asia Pacific                                   | 54%                | 55%             | 54%              |

(1)

Revenue is attributed to countries based on the shipping location.

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 including sales programs offered to promote selected products. Deliveries are scheduled only after receipt of purchase orders. In addition, with limited lead-time, customers may 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.

Our retail channel consists of our branded storage products 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.

In fiscal years 2016, 2015 and 2014, Dell Inc. accounted for approximately 12%, 14% and 13% of consolidated revenue, respectively. In fiscal year 2015 and 2014, Hewlett-Packard Company accounted for approximately 12% and 13% of consolidated revenue, respectively. In fiscal year 2016, HP Inc., formerly known as Hewlett-Packard Company, completed its separation with Hewlett Packard Enterprise Company, and each company accounted for less than 10% of our consolidated revenue. See "Item 1A. Risk Factors-Risks Related to Our Business-We may be adversely affected by the loss of, or reduced, delayed or canceled purchases by, one or more of our larger customers."

## Competition

We compete primarily with manufacturers of hard drives used in the enterprise, client compute and client non-compute applications. We are also a supplier of Enterprise SSDs, PCIe accelerator cards, cloud storage solutions, HDD test equipment, and storage subsystems through our acquisitions. The markets that we participate in are highly competitive. Disk drive manufacturers compete for a limited number of major disk drive customers but also compete with other companies in the electronic data storage industry that provide SSDs and PCIe technology. Some of the principal factors used by customers to differentiate among electronic data storage solutions manufacturers are storage capacity, product performance, product quality and reliability, price per unit and price per gigabyte, time-to-market and time-to-volume leadership, storage/retrieval access times, data transfer rates, form factor, product warranty and support capabilities, supply continuity and flexibility, power consumption, total cost of ownership, and brand. While different

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

markets and customers place varying levels of emphasis on these factors, we believe that our products are competitive with respect to many of these factors in the markets that we currently address.

*Principal Disk Drive Competitors.* There are three companies in the electronic data storage industry that manufacture disk drives:

Seagate, selling the Seagate, LaCie, Maxtor and Samsung brands;

Western Digital Corporation, operating the Western Digital and Hitachi Global Storage Technologies subsidiaries; and

Toshiba Corporation

*Other Competition.* We are seeing direct competition from SSD's that is adversely impacting demand for HDD in some markets including Notebook and Enterprise Mission Critical. We expect that this trend will continue although we believe both product types will be required in the market to satisfy the growing demand for electronic data storage.

*Price Erosion.* Historically, our industry has been characterized by price declines for disk drive products with comparable capacity, performance and feature sets ("like-for-like products"). Price declines for like-for-like products ("price erosion") have been more pronounced during periods of:

economic contraction in which competitors may use discounted pricing to attempt to maintain or gain market share;

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

industry supply exceeding demand.

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

We believe the HDD industry experienced benign price erosion in fiscal year 2014, whereas price erosion increased in fiscal years 2015 and 2016.

*Product Life Cycles and Changing Technology.* Success in our industry has been dependent to a large extent on the ability to balance the introduction and transition of new products with time-to-volume, performance, capacity and quality metrics at a competitive price, level of service and support that our customers expect. Generally, the drive manufacturer that introduces a new product first benefits from improved product mix, favorable profit margins and less pricing pressure until comparable products are introduced. Changing technology also necessitates on-going investments in research and development, which may be difficult to recover due to rapid product life cycles and economic declines. Further, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields continue to be of significant competitive importance.

### **Seasonality**

The disk 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. We believe fiscal year 2015 reflected seasonality consistent with historical patterns, whereas in fiscal year 2014 our industry experienced more muted seasonal patterns as supply and demand were relatively in balance. In fiscal year 2016, beyond traditional seasonality, variability of sales was a reflection of more cyclical demand from CSPs based on the timing of large systems installations and the shift of the underlying technology.

Table of Contents

**Research and Development**

We are committed to developing new component technologies, products and alternative storage technologies. 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 design platform and/or subsystem within product families to serve different market needs. This platform strategy allows for more efficient resource utilization, leverages best design practices, reduces exposure to changes in demand, and allows for achievement of lower costs through purchasing economies. Our advanced technology integration effort focuses disk drive and component research on recording subsystems, including read/write heads and recording media; market-specific product technology; and 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 2016, 2015 and 2014, we had product development expenses of approximately \$1,237 million, \$1,353 million and \$1,226 million, respectively, which represented 11%, 10% and 9% of our consolidated revenue, respectively.

**Patents and Licenses**

As of July 1, 2016, we had approximately 5,000 U.S. patents and 1,300 patents issued in various foreign jurisdictions as well as approximately 1,500 U.S. and 1,200 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, in addition to patent protection, the improvement of existing products, reliance upon trade secrets, protection of unpatented proprietary know-how and development of new products are also important to our business in establishing and maintaining a competitive advantage. Accordingly, we intend to continue our efforts to broadly protect our intellectual property, including obtaining patents, where available, in connection with our research and development program.

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 patent licenses.

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 8. Financial Statements and Supplementary Data Note 14. Legal, Environmental and Other Contingencies." The costs of engaging in intellectual property litigation in the past have been, and in the future may be, substantial, irrespective of the merits of the claim or the outcome.

**Backlog**

In view of industry practice, whereby customers may cancel or defer orders with little or no penalty, we believe backlog in the disk drive industry is of limited indicative value in estimating future performance and results.

Table of Contents

**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.

We have established environmental management systems and continually update 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 have been identified as a potentially responsible party at several 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 current estimates of cleanup costs and our expected allocation of these costs, we do not expect costs in connection with these 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, which prohibits the use of certain substances, including lead, in certain products, including disk drives, put on the market after July 1, 2006. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, Taiwan, China, Japan and others. The European Union REACH Directive (Registration, Evaluation, Authorization, and Restriction of Chemicals, EC 1907/2006) also restricts substances of very high concern ("SVHCs") in products.

**Employees**

At July 1, 2016, we employed approximately 45,500 employees and temporary employees worldwide, of which approximately 36,100 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.

**Financial Information**

Financial information for our reportable business segment and about geographic areas is set forth in "Item 8. Financial Statements and Supplementary Data-Note 13. Business Segment and Geographic Information."

Table of Contents

**Corporate Information**

Seagate Technology public limited company, is a public limited company organized under the laws of Ireland.

**Available Information**

*Availability of Reports.* We are a reporting company under the Securities Exchange Act of 1934, as amended (the "1934 Exchange Act"), and we file reports, proxy statements and other information with the U.S. 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. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because we make filings to the SEC electronically, the public may access this information at the SEC's website: [www.sec.gov](http://www.sec.gov). This site contains reports, proxies and information statements and other information regarding issuers that file electronically with the SEC.

*Web Site Access.* Our website is [www.seagate.com](http://www.seagate.com). We make available, free of charge at the "Investors" section of our website, 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.

Investors and others should note that we routinely use the Investors section of our website to announce material information to investors and the marketplace. While not all of the information that the Company posts on its corporate website is of a material nature, some information could be deemed to be material. Accordingly, the Company encourages investors, the media, and others interested in the Company to review the information that it shares on [www.seagate.com](http://www.seagate.com). Information in, or that can be accessed through, our web site is not incorporated into this Form 10-K.

**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 5, 2016. There are no family relationships among any of our executive officers.

| <b>Name</b>         | <b>Age</b> | <b>Positions</b>  |
|---------------------|------------|---|
| Stephen J. Luczo    | 59         | Chairman and Chief Executive Officer                          |
| William D. Mosley   | 49         | President and Chief Operating Officer                         |
| Philip G. Brace     | 45         | President, Cloud Systems and Electronics Solutions            |
| David H. Morton Jr. | 44         | Executive Vice President, Finance and Chief Financial Officer |
| Regan J. MacPherson | 53         | Senior Vice President, General Counsel and Secretary          |
| Mark Re             | 56         | Senior Vice President, Chief Technology Officer               |

Stephen J. Luczo. Mr. Luczo, 59, has served as our CEO since January 2009 and as Chairman of the Board since 2002. Mr. Luczo joined Seagate in October 1993 as Senior Vice President of Corporate Development. In September 1997, he was promoted to President and Chief Operating Officer of Seagate Technology (Seagate Technology plc's predecessor) and, in July 1998, he was promoted to CEO at which time he joined the Board as a director of Seagate Technology. Mr. Luczo resigned as CEO effective as of July 2004, but remained as Chairman of the Board. He served as non-employee Chairman from October 2006 to January 2009. From October 2006 until he rejoined us in January 2009, Mr. Luczo was a private investor. Mr. Luczo also served as our President from January 2009 until October 2013. Prior to joining Seagate in 1993, Mr. Luczo was Senior Managing Director of the Global Technology Group of Bear,

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

Stearns & Co. Inc., an investment banking firm, from February 1992 to October 1993. Mr. Luczo served on the board of directors of Microsoft Corporation from May 2012 to March 2014.

William D. Mosley. Mr. Mosley, 49, was promoted to our President, Chief Operating Officer on June 27, 2016. He was previously our President, Operations and Technology from October 2013 to June 2016 and our Executive Vice President, Operations from March 2011 until October 2013. Prior to that, he served as Executive Vice President, Sales and Marketing from September 2009 through March 2011; Executive Vice President, Sales, Marketing and Product Line Management from February 2009 to September 2009; Senior Vice President, Global Disk Storage Operations from 2007 to 2009; and Vice President, Research and Development, Engineering from 2002 to 2007.

Philip G. Brace. Mr. Brace, 45, has served as our President, Cloud Systems and Electronics Solutions since July 2015. Mr. Brace joined Seagate in September 2014 as Executive Vice President and Chief Technology Officer of Silicon Solutions, and was promoted to Interim President of Cloud Systems and Electronics Solutions on April 30, 2015. He was previously employed by LSI Corporation ("LSI") from August 2005 through September 2014. At LSI, he was the Executive Vice President of the Storage Solutions Group from July 2012 to September 2014, Senior Vice President and General Manager from January 2009 to July 2012, and Senior Vice President of Corporate Planning and Marketing from August 2005 to January 2009.

David H. Morton Jr. Mr. Morton, 44, assumed the role of Executive Vice President and Chief Financial Officer on October 21, 2015. He was previously our Senior Vice President, Finance, Treasurer and Principal Accounting Officer from April 2014 to October 2015 and our Vice President, Finance, Treasurer and Principal Accounting Officer from October 2009 to April 2014; Vice President of Finance, Sales and Marketing from March 2009 to October 2009; Vice President of Sales Operations from July 2007 to March 2009; Vice President of Finance, Storage Markets from October 2006 to July 2007; Executive Director of Consumer Electronics Finance from October 2005 to October 2006; and Executive Director of Corporate FP&A from June 2004 to October 2005.

Regan J. MacPherson. Ms. MacPherson, 53, has served as our Senior Vice President and General Counsel since March 2015. She was previously our Vice President and Interim General Counsel from March 2015 to August 2015 and our Deputy General Counsel from September 2013 until August 2015. Prior to that, she was Assistant General Counsel from 2010 through 2013, Associate General Counsel from 2008 to 2010 and a Senior Manager in Legal from 2005 to 2008.

Mark Re. Mr. Re, 56, has served as our Senior Vice President and Chief Technology Officer since July 2013. Prior to that, he served as our Vice President, Research, from August 2003 to August 2006. Mr. Re currently serves on the Scientific Advisory Board for the Data Storage Institute, as well as on the Advanced Storage Technology Consortium.

Table of Contents

**ITEM 1A. RISK FACTORS**

*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.*

Our industry operates primarily on quarterly purchasing cycles, with much of the order flow in any given quarter typically 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.

Our revenues in any quarter are substantially dependent upon customer orders in that quarter. We attempt to project future orders based in part on estimates from our major customers. Our customers' estimated requirements are not always accurate and we therefore cannot predict our quarterly revenues with any degree of certainty. In addition, we derive a portion of our revenues in each quarter from a number of relatively large orders. If one or more of our major customers decide to defer a purchase order or delays product acceptance in any given quarter, this is likely to result in reduced total revenues for that quarter.

The difficulty in forecasting demand also 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, adversely affecting our ability to meet customer requirements and our market share. 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 disk drives;

the impact of competitive product announcements and possible excess industry supply both with respect to particular disk drive products and with respect to competing alternative storage technology solutions such as SSDs in tablet, 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 disk drive products, particularly the new disk drive products with lower cost structures;

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

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

accelerated reduction in the price of our disk drives due to technological advances and/or an oversupply of disk drives in the market and shifting trends in demand which can create supply and demand imbalances;

manufacturing delays or interruptions, particularly at our manufacturing facilities in China, Malaysia, Northern Ireland, Singapore, Thailand, the United Kingdom, or the United States;

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



Table of Contents

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.

In addition, the demand for client non-compute products can be even more volatile and unpredictable than the demand for client compute products. In some cases, our products manufactured for client non-compute applications are uniquely configured for a single customer's application, which creates a risk of unwanted and unsellable inventory 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 disk 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 client non-compute applications could materially adversely impact our future results of operations.

***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.***

The markets for our products are characterized by rapid technological change, frequent new product introductions and technology enhancements, uncertain product life cycles and changes in customer demand. 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.

Historically, our results of operations have substantially depended upon our ability to be among the first-to-maturity with new product offerings. Our market share and results of operations in the future may be adversely affected if we fail to:

consistently maintain our time-to-maturity 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.

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, 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, eroding prices, and declining gross margins on our current generation products. If the delivery of our products is delayed, our OEM customers may use our competitors' products to meet their production requirements. We cannot assure 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.

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

Table of Contents

compared to new products. As a result, even if we are among the first-to-maturity 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.

If we cannot successfully deliver competitive products, our future results of operations may be adversely affected.

***Our industries are highly competitive and our failure to anticipate and respond to technological and market developments could harm our ability to compete.***

We operate in markets that are highly competitive and subject to rapid change and that are significantly affected by new product introductions, substantial price erosion and lower prices as part of a strategy to gain or retain market share and customers. Should these practices continue, we may need to continually reduce our prices for existing products to retain our market share, which could adversely affect our results of operations.

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 supply exceeds demand for a particular product.

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 that 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.

Our principal sources of competition include:

disk drive manufacturers, such as Western Digital Corporation and Toshiba;

companies providing storage subsystems and components to OEMs;

electronic manufacturing services ("EMS") companies acquiring the necessary skills and intellectual property to enter the enterprise data storage marketplace;

other high performance computing ("HPC") data storage providers; and

collaborations between in-house development teams of existing and potential customers and a combination of EMS, contract electronic manufacturing ("CEM") or emerging technology companies.

We also experience competition from other companies that produce alternative storage technologies like flash memory, where increasing capacity, decreasing cost, energy efficiency and improvements in performance ruggedness have resulted in competition with our lower capacity, smaller form factor disk drives. This competition has traditionally been in the markets for handheld consumer electronics applications and now it also includes solid state drives ("SSDs") for tablet, notebook and enterprise compute applications. Certain customers for both notebook and enterprise compute applications are adopting SSDs as alternatives to hard drives in certain applications. Further adoption of these alternative storage technologies may impact the competitiveness of our product portfolio and reduce our market share and adversely affect our results of operation.

The markets for our data storage system products are also characterized by technological change driven in part by the adoption of new industry standards. These standards provide mechanisms to ensure technology component interoperability can occur and may reduce our capability for differentiation or innovation and our affected products would revert to commodity status. This could lower the barriers to

Table of Contents

entry to our market away from our specialist research and development skills and enable entry for the general-purpose design skills found in some large EMS and CEM companies. Commodity markets are driven by extremely low margins and very aggressive competitive pricing. If our market becomes more commoditized and we fail to deliver innovative value-added alternatives to our customers, we will have difficulty competing against the larger EMS and CEM companies. If we are unable to compete successfully against our current and future competitors, we could experience profit margin reductions or loss of market share, which could significantly harm our financial condition.

*If we do not develop products in time to keep pace with technological changes, our results of operations will be adversely affected.*

Our customers have demanded new generations of disk 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 results of operations 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 disk drive manufacturers or competing technologies.

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

Our products are components in computers, data storage systems, and consumer electronics devices. The demand for these products has been volatile. Unexpected slowdowns in demand for computer systems, storage subsystems or consumer electronics devices generally cause sharp declines in demand for our products. Declines in consumer spending could have a material adverse effect on demand for our products and services and on our financial condition and results of operations.

While sales to Client Non-Compute and Cloud Systems and Solutions markets are becoming a more significant source of revenue, sales to the Client Compute market remain an important part of our business. The Client Compute market, however, has been, and we expect it to continue to be, adversely affected by the growth of tablet computers, smart phones and similar devices and that perform many of the same capabilities as computers, the lengthening of product life cycles and macroeconomic conditions. We believe that the deterioration of the Client Compute market has accelerated recently, and that this accelerated deterioration may continue or further accelerate, which could cause our operating results to suffer. Additionally, if demand in the Client Compute market is worse than expected as a result of these or other conditions, demand for our products in the Client Compute market may decrease at a faster rate and our operating results may be adversely affected.

The Enterprise Storage market has been adversely affected by the growth of the utilization of NAND flash in mission critical applications. This deterioration of the Enterprise Storage market could cause our operating results to suffer.

Table of Contents

Causes of declines in demand for our products in the past have included weakness in macroeconomic environments, announcements or introductions of major new operating systems or semiconductor improvements or changes in consumer preferences, such as the shift to mobile devices. 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 our products causes participants in our industry to have higher than anticipated inventory levels, we experience even more intense price competition from other manufacturers than usual.

***Increases in the areal density of disk drives may outpace customers' demand for storage capacity.***

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

***We may not be successful in our efforts to grow our cloud systems and solutions business.***

We have made and are continuing to make investments to expand and develop our cloud systems and solutions business. Our cloud systems and solutions business is subject to the following risks:

the cloud systems and solutions market may develop more slowly than we expect;

we may not be able to offer compelling solutions to enterprises and consumers; and

our cloud systems and solutions business generally has a long and unpredictable sales cycle, and growth in this business is likely to depend on relatively large customer orders, which may increase the variability of our results of operations and the difficulty of matching revenues with expenses.

Our results of operations and share price may be adversely affected if we are not successful in our efforts to grow our cloud computing business as anticipated. In addition, our growth in this sector may bring us into closer competition with some of our customers or potential customers, which may decrease their willingness to do business with us.

***Changes in the macroeconomic environment have negatively impacted, and may continue to, negatively impact our results of operations.***

Due to the continuing uncertainty about current macroeconomic conditions affecting consumer and enterprise spending, we believe our customers may postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values, which could have a material adverse effect on the demand for our products. Continuing high unemployment rates, low levels of consumer liquidity, risk of default on sovereign debt and volatility in credit and equity markets have weakened consumer confidence and decreased consumer and enterprise spending in many regions around the world. Other factors that could influence demand include conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results.

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

***Our quarterly results of operations fluctuate, sometimes significantly, from period to period, and may cause our share price to decline.***

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

current uncertainty in global economic conditions may pose a risk to the overall economy;

adverse changes in the level of economic activity in the major regions in which we do business;

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 disk drives with lower cost structures, the inability to achieve high production yields or delays in customer qualification or initial product quality issues;

changes in purchasing patterns by our distributor customers;

application of new or revised industry standards;

disruptions in our supply chain;

increased costs or adverse changes in availability of supplies of raw materials or components;

the impact of corporate restructuring activities that we have and may continue to engage in;

changes in the demand for the computer systems and data storage products that contain our products due to seasonality, economic conditions and other factors;

changes in purchases from period to period by our primary customers;

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

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

any impairments in goodwill or other long-lived assets;

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

adverse changes in the performance of our products.

## Edgar Filing: Seagate Technology plc - Form 10-K

As a result, we believe that quarter-to-quarter comparisons of our revenue and results of operations may not be meaningful, and that these comparisons may not be an accurate indicator of our future performance. Our results of operations 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 ordinary shares.

***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 our products. In particular, we anticipate that sales of our products will continue to be lower during the second half of our fiscal year. In the client compute and client non-compute market applications of our disk drive business, this seasonality is partially attributable to the historical trend in our

Table of Contents

results derived from our customers' increased sales of desktop computers, notebook computers, and consumer electronics during the back-to-school and winter holiday season. In the enterprise market 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 results of operations 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 client non-compute market, as well as macroeconomic conditions.

***We have a long and unpredictable sales cycle for enterprise data storage solutions.***

Our enterprise data storage solutions are technically complex and we typically supply them in high quantities to a small number of customers. Many of our products are also tailored to meet the specific requirements of individual customers, and are often integrated by our customers into the systems and products that they sell. Factors that affect the length of our sales cycle include:

the time required for testing and evaluating our products before they are deployed;

the size of the deployment; and

the degree of system configuration necessary to deploy our products.

As a result, our sales cycle for enterprise data storage solutions is often in excess of one year, and the length of our sales cycle is frequently unpredictable. In addition, the emerging and evolving nature of the market for the products that we sell may lead prospective customers to postpone their purchasing decisions. We invest resources and incur costs during this cycle that may not be recovered if we do not successfully conclude sales. These factors lead to difficulty in matching revenues with expenses, and to increased expenditures which together may adversely impact our results of operations.

***We may be adversely affected by the loss of, or reduced, delayed or canceled purchases by, one or more of our larger customers.***

Some of our key customers account for a large portion of our disk drive revenue. While we have longstanding relationships with many of our customers, 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.

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

A substantial portion of our sales has been to distributors of disk 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. In

Table of Contents

addition, deterioration in business and economic conditions could exacerbate price erosion and volatility as distributors lower prices to compensate for lower demand and higher inventory levels. Our distributors' ability to access credit for purposes of funding their operations may also affect purchases of our products by these customers.

If distributors reduce their purchases of our products or prices decline significantly in the distribution channel or if distributors experience financial difficulties or terminate their relationships with us, our revenues and results of operations would be adversely affected.

We believe that industry demand for storage products in the long-term is increasing due to the proliferation of media-rich digital content in consumer applications and is fueling increased consumer demand for storage. This has led to the expansion of our branded 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. Consumer spending on retail sales of our branded solutions has deteriorated in some markets and may continue to do so if poor global economic conditions continue and higher levels of unemployment persist. This could have a material adverse effect on demand for our products and services and on our financial condition and results of operations.

In addition, such retail sales of our branded solutions traditionally experience seasonal variability in demand with higher levels of demand in the first half of our fiscal 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 us maintaining effective working relationships with major retailers and 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.

***Our international sales and manufacturing operations subject us to risks related to disruptions in foreign markets, currency exchange fluctuations, longer payment cycles, seasonality, limitations imposed by a variety of legal and regulatory regimes, potential adverse tax consequences, increased costs, our customers' credit and access to capital, health-related risks, and access to personnel.***

We have significant sales and manufacturing 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 client compute disk 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, United Kingdom and the European Union 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. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside of the U.S. where we sell in dollars. This could adversely impact our sales and market share in such areas or increase pressure on us to lower our price, and adversely impact our profit margins. A weakened dollar could increase the cost of expenses such as payroll, utilities, tax, and marketing expenses, as well as overseas capital expenditures. Any of these events could have a material adverse effect on our results of operations. We may attempt to manage the impact of foreign currency exchange rate changes by, among other things, entering into foreign currency



Table of Contents

forward exchange contracts. However, these contracts may not cover our full exposure and subject us to certain counterparty credit risks. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk-Foreign Currency Exchange Risk" of this report for additional information about our foreign currency exchange risk.

*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.

*Legal and Regulatory Limitations.* Our international operations are affected by limitations on imports, tariffs, duties, currency exchange control regulations, price controls, export control laws, including the trade and economic sanctions administered by the Office of Foreign Assets Control, and other restraints on trade. In addition, the governments of many countries, including China, Malaysia, Northern Ireland, 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. Although we have implemented policies and procedures designed to ensure compliance, there can be no assurance that our employees, contractors, or agents will not violate these or other applicable laws and regulations to which we may be subject. Violations of these laws and regulations could lead to significant penalties, including restraints on our export or import privileges, monetary fines, criminal proceedings and regulatory or other actions that could materially adversely affect our results of operations.

*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 our subsidiaries. In addition, our taxable income in any jurisdiction is dependent upon acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies in application of the arm's length standard among taxing authorities, as well as a lack of adequate treaty-based protection, transfer pricing challenges by tax authorities could, if successful, substantially increase our income tax expense. We are subject to tax audits around the world, and are under audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax positions are reasonable, the final determination of tax audits could be materially different from our recorded income tax provisions and accruals. The ultimate results of an audit could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made and could result in increases to our overall tax expense in subsequent periods. In light of the ongoing fiscal challenges many countries are facing, various levels of government are increasingly focused on tax reform and other legislative action to increase tax revenue. In addition, the Organization for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations are reshaping international tax rules in numerous countries. These actual and potential changes in the relevant tax laws applicable to corporate multinationals along with potential changes in accounting and other laws, regulations, administrative practices, principles, and interpretations could increase the risk of double taxation, cause increased tax audit activity, and could impact our effective tax rate.

*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

Table of Contents

money supply or the deterioration in the customer's or its bank's financial condition, or the inability to access other financing.

*Global Health Outbreaks.* The occurrence of a pandemic disease may adversely impact our operations, and some of our key customers. Such diseases could also potentially disrupt the timeliness and reliability of the distribution network we rely on.

*Access to Personnel.* There is substantial competition for qualified and capable personnel in certain jurisdictions in which we operate, including China, which may make it difficult for us to recruit and retain qualified employees in sufficient numbers. Increased difficulty in recruiting or retaining sufficient and adequate personnel in our international operations may lead to increased manufacturing and employment compensation costs, which could adversely affect our results of operations.

***We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm, and other serious negative consequences if we sustain cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our customers or other third-parties.***

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 disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, employee misconduct, physical or electronic break-ins, cyber-attacks, or similar events or disruptions. We manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, our outsourcing services and cloud computing businesses routinely process, store, and transmit large amounts of data for our customers and vendors, including sensitive and personally identifiable information. As our operations become more automated and increasingly interdependent, our exposure to the risks posed by these types of events will increase. We have been, and will likely continue to be, subject to computer viruses or other malicious codes, cyber-attacks, or other computer-related attempts to breach the information technology ("IT") systems we use for these purposes. We may also be subject to IT system failures and network disruptions due to these factors. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third-parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third-parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service, and loss of existing or potential customers that may impede our sales, manufacturing, distribution, or other critical functions. We could lose existing or potential customers for outsourcing services or other IT solutions in connection with any actual or perceived security vulnerabilities in our products. In addition, breaches of our security measures and the unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or other third-parties, could expose us, our vendors and customers, or other third-parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business. In addition, we rely in certain limited capacities on third-party data management providers whose possible security problems and security vulnerabilities may have similar effects on us.

Table of Contents

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, and security of user data. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, and among us, our subsidiaries and other parties with which we have commercial relations. Our ability to execute transactions and to possess and use personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require us to notify vendors, customers or employees of a data security breach. We have incurred, and will continue to incur, significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations. These laws, protocols and standards continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. If we fail to comply with applicable federal, state or international privacy-related or data protection laws we may be subject to proceedings by governmental entities and incur penalties or significant legal liability.

***If we do not control our fixed costs, we will not be able to compete effectively in our industry.***

We continually seek to make our cost structure and business processes more efficient. We are focused on increasing workforce flexibility and scalability, and improving overall competitiveness by leveraging our global capabilities, as well as external talent and skills, worldwide. Our strategy involves, to a substantial degree, increasing revenue and product volume while at the same time controlling operating expenses. If we do not control our operating expenses, our ability to compete in the marketplace may be impaired. In the past, activities to reduce operating costs have included closures and transfers of facilities, significant personnel reductions and efforts to increase automation.

***If we experience shortages or delays in the receipt of, or cost increases in, 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 supply of components, subassemblies, certain equipment and raw materials used to manufacture our products 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 for our products 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 that we do not manufacture, including aluminum and glass substrates, read/write heads, ASICs, spindle motors, printed circuit boards, and suspension assemblies. Many of such component suppliers are geographically concentrated, in particular, in Thailand, which makes our supply chain more vulnerable to regional disruptions such as the severe flooding in Thailand in October 2011, which had a material impact on the production and availability of many components. If our vendors for these components are unable to meet our cost, quality, and supply requirements, we could experience a shortage in supply or an increase in production costs, which would adversely affect our results of operations.

Certain rare earth elements are critical in the manufacture of our products. We purchase components that contain rare earth elements from a number of countries, including the People's Republic of China. We cannot predict whether any nation will impose regulations, quotas or embargoes upon the rare earth elements incorporated into our products that would restrict the worldwide supply of such metals or increase their cost. We have experienced increased costs and production delays when we were unable to obtain the necessary equipment or sufficient quantities of some components, and/or have been forced to pay higher prices or make volume purchase commitments or advance deposits for some components, equipment or raw materials that were in short supply in the industry in general. If any major supplier were to restrict the supply available to us or increase the cost of the rare earth elements used in our products, we

Table of Contents

could experience a shortage in supply or an increase in production costs, which would adversely affect our results of operations.

Consolidation among component manufacturers has resulted and may continue to 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.

We often aim to lead the market in new technology deployments and leverage unique and customized technology from single source suppliers who are early adopters in the emerging market. Our options in supplier selection in these cases are limited and the supplier based technology may consequently be single sourced until wider adoption of the technology occurs and any necessary licenses become available. In such cases any technical issues in the supplier's technology may cause us to delay shipments of our new technology deployments and therefore harm our financial position.

***If revenues fall or customer demand decreases significantly, we may not meet all of our purchase commitments to certain suppliers.***

From time to time, we enter into long-term, non-cancelable purchase commitments or make large up-front investments with certain suppliers in order to secure certain components or technologies for the production of our products or to supplement our internal manufacturing capacity for certain components. If our actual revenues in the future are lower than our projections or if customer demand decreases significantly below our projections, we may not meet all of our purchase commitments with these suppliers. As a result, it is possible that our revenues will not be sufficient to recoup our up-front investments, in which case we will have to shift output from our internal manufacturing facilities to these suppliers or make penalty-type payments under these contracts.

***Conflict minerals regulations may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.***

In August 2012, the SEC adopted rules establishing additional disclosure and reporting requirements regarding the use of specified minerals, or conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. These rules will require us to determine, disclose and report whether or not such conflict minerals originate from the Democratic Republic of the Congo or an adjoining country. The most recent report was filed on May 27, 2016. These rules could affect our ability to source certain materials used in our products at competitive prices and

Table of Contents

could impact the availability of certain minerals used in the manufacture of our products, including gold, tantalum, tin and tungsten. As there may be only a limited number of suppliers of "conflict free" minerals, we cannot be sure that we will be able to obtain necessary conflict free minerals in sufficient quantities or at competitive prices. Our customers, including our OEM customers, may require that our products be free of conflict minerals, and our revenues and margins may be harmed if we are unable to procure conflict free minerals at a reasonable price, or at all, or are unable to pass through any increased costs associated with meeting these demands. Additionally, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures that we implement. We may also face challenges with government regulators and our customers and suppliers if we are unable to sufficiently verify that the metals used in our products are conflict free. We expect that there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs related to possible changes to products, processes, or sources of supply as a consequence of such verification and disclosure requirements.

***The loss of 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, results of operations 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.

***Due to the complexity of our products, some defects may only become detectable after deployment.***

Our products are highly complex and are designed to operate in and form part of larger complex networks and storage systems. Defects in our products, or in the networks and systems of which they form a part, directly or indirectly, have resulted in and may in the future result in:

increased costs and product delays until complex solution level interoperability issues are resolved;

costs associated with the remediation of any problems attributable to our products;

loss of or delays in revenues;

loss of customers;

failure to achieve market acceptance and loss of market share;

increased service and warranty costs; and

increased insurance costs.

Defects in our products could also result in legal actions by our customers for property damage, injury or death. Product liability claims could exceed the level of insurance coverage that we have obtained to cover defects in our products. Any significant uninsured claims could significantly harm our financial condition.

***Political events, war, terrorism, natural disasters, public health issues and other circumstances could materially adversely affect our results of operations and financial condition.***

War, terrorism, geopolitical uncertainties, natural disasters, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global



Table of Contents

economy, and thus could have a strong negative effect on our business, our suppliers, logistics providers, manufacturing vendors and customers. Our business operations are subject to interruption by natural disasters such as floods and earthquakes, fire, power shortages, terrorist attacks, other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our customers, or to receive components from our suppliers, and create delays and inefficiencies in our supply chain. In the event of a natural disaster, losses and significant recovery time could be required to resume operations and our financial condition and operating results could be materially adversely affected. Should major public health issues, including pandemics, arise, we could be negatively affected by stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in our operations and some of our key customers.

Macroeconomic developments like the withdrawal of United Kingdom from the European Union, the debt crisis in certain countries in the European Union and slowing economies in parts of Asia and South America could negatively affect our business, operating results or financial condition which, in turn, could adversely affect our stock price. A general weakening of, and related declining corporate confidence in, the global economy or the curtailment in government or corporate spending could cause current or potential customers to reduce their IT budgets or be unable to fund hardware systems, which could cause customers to delay, decrease or cancel purchases of our products or cause customers not to pay us or to delay paying us for previously purchased products and services.

***Failure to comply with applicable environmental laws and regulations could have a material adverse effect on our business, results of operations and financial condition.***

The sale and manufacturing of products in certain states and countries may subject us and our suppliers to state, federal and international laws and regulations governing protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, restrictions on the presence of certain substances in electronic products and the responsibility for environmentally safe disposal or recycling. We endeavor to ensure that we and our suppliers comply with all applicable environmental laws and regulations, however, compliance may increase our operating costs and otherwise impact future financial results. If additional or more stringent requirements are imposed on us in the future, we could incur additional operating costs and capital expenditures. If we fail to comply with applicable environmental laws, regulations, initiatives, or standards of conduct, our customers may refuse to purchase our products and we could be subject to fines, penalties and possible prohibition of sales of our products into one or more states or countries, liability to our customers and damage to our reputation, which could result in a material adverse effect on the financial condition or results of operations.

***Any cost reduction initiatives that we undertake may not deliver the results we expect, and these actions may adversely affect our business.***

On June 27, 2016 and July 11, 2016 we announced restructuring plans to be substantially completed by the end of fiscal year 2017. In addition, management will continue to evaluate our global footprint and cost structure, and additional restructuring plans are expected to be formalized. As a result of our restructuring, we may experience a loss of continuity, loss of accumulated knowledge, disruptions to our operations and/or inefficiency during transitional periods. Any cost-cutting measures could impact employee retention. In addition, we cannot be sure that the cost reduction and global footprint consolidation will be successful in reducing our overall expenses as we expect or that additional costs will not offset any such reductions or global footprint consolidation. If our operating costs are higher than we expect or if we do not maintain adequate control of our costs and expenses, our result of operations may suffer.

Table of Contents

***Our ability to use our net operating loss and tax credit carryforwards might be limited.***

The use of a portion of our U.S. net operating loss and tax credit carryforwards is subject to annual limitations pursuant to U.S. tax law. Section 382 of the U.S. Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss or tax credit carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in ownership. As a result, future changes in ownership could put further limitations on the availability of our net operating loss or tax credit carryforwards.

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

Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. Our investment policy has as its principal objectives the preservation of principal and maintenance of liquidity. We mitigate default risk by investing in high-quality investment grade securities, limiting the time to maturity and by monitoring the counter-parties and underlying obligors closely.

While as of the date of this filing, we are not aware of any material downgrades, losses, or other significant deterioration in the fair value of our cash equivalents or short-term investments, no assurance can be given that future deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or short-term investments or our ability to meet our financing objectives.

***We are at times subject to intellectual property legal proceedings and claims which could cause us to incur significant additional costs or prevent us from selling our products, and which could adversely affect our results of operations and financial condition.***

We are subject from time-to-time 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. Intellectual property litigation can be 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, which may cause actual results to differ materially from our expectations. Patent litigation has increased due to the current uncertainty of the law and the increasing competition and overlap of product functionality in the field. Some of the actions that we face from time-to-time seek injunctions against the sale of our products and/or substantial monetary damages, which if granted or awarded, could materially harm our business, financial condition and operating results.

We cannot be certain that our products do not and will not infringe issued patents or other intellectual property rights of others. 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. If our products were found to infringe the intellectual property rights of others, we could be required to pay substantial damages, cease the manufacture, use and sale of infringing products in one or more geographic locations, expend significant resources to develop non-infringing technology, discontinue the use of specific processes or obtain licenses to the technology infringed. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to reengineer our products successfully to avoid infringement. 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 "Item 8. Financial Statements and Supplementary Data-Note 14. Legal, Environmental and Other Contingencies" contained in this report for a description of pending intellectual property proceedings.



Table of Contents

***We may be unable to protect our intellectual property rights, which could adversely affect our business, financial condition and results of operations.***

We rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality procedures and licensing arrangements to protect our IP rights. In the past, we have been involved in significant and expensive disputes regarding our IP rights and those of others, including claims that we may be infringing patents, trademarks and other IP rights of third-parties. We expect that we will be involved in similar disputes in the future.

There can be no assurance that:

any of our existing patents will continue to be held valid, if challenged;

patents will be issued for any of our pending applications;

any claims allowed from existing or pending patents will have sufficient scope or strength to protect us;

our patents will be issued in the primary countries where our products are sold in order to protect our rights and potential commercial advantage;

we will be able to protect our trade secrets and other proprietary information through confidentiality agreements with our customers, suppliers and employees and through other security measures; and

others will not gain access to our trade secrets.

In addition, our competitors may be able to design their products around our patents and other proprietary rights. Enforcement of our rights often requires litigation. If we bring a patent infringement action and are not successful, our competitors would be able to use similar technology to compete with us. Moreover, the defendant in such an action may successfully countersue us for infringement of their patents or assert a counterclaim that our patents are invalid or unenforceable.

Furthermore, we have significant operations and sales in foreign countries where intellectual property laws and enforcement policies are often less developed, less stringent or more difficult to enforce than in the United States.

***We may not be able to identify suitable strategic alliances, acquisitions, joint ventures or investment opportunities, to successfully acquire and integrate companies that provide complementary products or technologies or to realize the anticipated benefits of such transactions.***

Our growth strategy involves pursuing strategic alliances with, making acquisitions of, forming joint ventures with or making investments in other companies that are complementary to our business. There is substantial competition for attractive strategic alliance, acquisition, joint venture and investment candidates. Accordingly, we may not be able to identify suitable strategic alliances, acquisition, joint venture, or investment candidates. Even if we can 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. Moreover, 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 instruments that govern our outstanding indebtedness, and any agreements governing any other debt we may incur.

If we are successful in forming strategic alliances or acquiring, forming joint ventures or making investments in other companies, any of these transactions may have an adverse effect on our results of operations, 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

Table of Contents

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. There can be no assurance that we will realize the anticipated benefits of any strategic alliance, acquisition, joint venture or investment that we make or, if we do, how long it will take to achieve such benefits.

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 condition and results of operations.

In addition, we could issue additional ordinary 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 ordinary shares and could cause the price of our ordinary shares to decline.

***Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

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 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 future dividends or make other restricted payments and investments.

In the event that we need to refinance all or a portion of our outstanding debt as it matures, we may not be able to obtain terms as favorable as the terms of our existing debt or refinance our existing debt at all. If prevailing interest rates or other factors existing at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to the refinanced debt would increase. Furthermore, if any rating agency changes our credit rating or outlook, our debt and equity securities could

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

be negatively affected, which could adversely affect our ability to refinance existing debt or raise additional capital.

In addition, 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 result from the execution of our long-term strategic plan; or

future sources of funding will be available to us in amounts sufficient to enable us to fund our liquidity needs.

If we cannot fund our liquidity needs, we will have to take actions such as reducing or delaying capital expenditures, product development efforts, strategic acquisitions, investments and alliances, and other general corporate requirements. We cannot assure you that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all, or that they would permit us to meet our scheduled debt service obligations. In addition if we incur additional debt, 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.

### ***The price of our ordinary 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 ordinary 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 ordinary shares could fluctuate significantly in response to several factors, including among others:

general uncertainty in stock market conditions occasioned by global economic conditions, negative financial news and the continued instability of several large financial institutions;

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;

Edgar Filing: Seagate Technology plc - Form 10-K

changes in financial estimates by investment research analysts;

changes in the credit ratings of our indebtedness by rating agencies; and

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

Table of Contents

*Any decision to reduce or discontinue the payment of cash dividends to our shareholders or the repurchase of our ordinary shares pursuant to our previously announced share repurchase program could cause the market price of our ordinary shares to decline significantly.*

Although we have announced targeted regular cash dividend amounts and a share repurchase program, we are under no obligation to pay cash dividends to our shareholders in the future at the announced targeted levels or at all or to repurchase our ordinary shares at any particular price or at all. The declaration and payment of any future dividends is at the discretion of our Board of Directors and our previously announced share repurchase program may be suspended or discontinued at any time. Our payment of quarterly cash dividends and the repurchase of our ordinary shares pursuant to our share repurchase program are subject to, among other things, our financial position and results of operations, available cash and cash flow, capital and regulatory requirements, market and economic conditions, our ordinary share price, and other factors. Any reduction or discontinuance by us of the payment of quarterly cash dividends or the repurchase of our ordinary shares pursuant to our share repurchase program could cause the market price of our ordinary shares to decline significantly. Moreover, in the event our payment of quarterly cash dividends or repurchases of our ordinary shares are reduced or discontinued, our failure to resume such activities at historical levels could result in a persistent lower market valuation of our ordinary shares.

*Significant fluctuations in the market price of our ordinary 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 technology companies. The price of our ordinary 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

Table of Contents**ITEM 2. PROPERTIES**

Our company headquarters are located in Ireland, while our U.S. executive offices are located in Cupertino, California. Our principal manufacturing facilities are located in China, Malaysia, Northern Ireland, Singapore, Thailand and the United States. Our principal product development facilities are located in California, Colorado, Minnesota, Singapore and South Korea. Our leased facilities are occupied under leases that expire at various times through 2082.

Our main material manufacturing, product development and marketing and administrative facilities at July 1, 2016 are as follows:

| <b>Location</b>         | <b>Building(s)<br/>Owned or Leased</b> | <b>Approximate<br/>Square<br/>Footage</b> | <b>Primary Use</b>                                     |
|-------------------------|--|---|--|
| <b>United States</b>    |  |   |  |
| California              |  |   | Product development and marketing and administrative   |
|                         | Owned/Leased                           | 842,000                                   |  |
| Colorado                | Owned/Leased                           | 664,000                                   | Product development                                    |
| Minnesota               |  |   | Manufacture of recording heads and product development |
|                         | Owned/Leased                           | 1,144,000                                 |  |
| <b>Europe</b>           |  |   |  |
| <i>Northern Ireland</i> |  |   |  |
| Springtown              | Owned                                  | 479,000                                   | Manufacture of recording heads                         |
| <b>Asia</b>             |  |   |  |
| <i>China</i>            |  |   |  |
| Suzhou                  | Owned <sup>(1)</sup>                   | 1,103,000                                 | Manufacture of drives                                  |
| Wuxi                    |  |   | Manufacture of drives and drive subassemblies          |
|                         | Leased                                 | 704,000                                   |  |
| <i>Malaysia</i>         |  |   |  |
| Johor                   | Owned <sup>(1)</sup>                   | 631,000                                   | Manufacture of substrates                              |
| Penang                  | Owned <sup>(1)</sup>                   | 402,000                                   | Manufacture of drive subassemblies                     |
| Seremban                |  |   | Manufacture of test equipment and systems              |
|                         | Owned/Leased <sup>(1)</sup>            | 299,000                                   |  |
| <i>Singapore</i>        |  |   |  |
| Woodlands               | Owned/Leased <sup>(1)</sup>            | 1,504,000                                 | Manufacture of media                                   |
| Science Park            | Owned/Leased                           | 410,000                                   | Product development                                    |
| AMK                     | Leased                                 | 225,000                                   | Marketing and administrative                           |
| <i>Thailand</i>         |  |   |  |
| Korat                   |  |   | Manufacture of drives and drive subassemblies          |
|                         | Owned/Leased                           | 1,767,000                                 |  |
| Teparuk                 | Owned/Leased                           | 362,000                                   | Manufacture of drive subassemblies                     |
| <i>Korea</i>            |  |   |  |
| Suwon                   | Owned                                  | 220,000                                   | Product development                                    |

(1) Land leases for these facilities expire at varying dates through 2067.

As of July 1, 2016, we owned or leased a total of approximately 12.2 million square feet of space worldwide. We occupied approximately 7.4 million square feet for the purpose of manufacturing, 2.4 million square feet for product development, 2.2 million square feet for marketing and administrative purposes. Included in the 12.2 million square feet of owned or leased space is a total of 0.2 million square feet that is currently unoccupied. We believe that our existing properties are in good operating condition and are suitable for the operations for which they are used. During fiscal year 2016, certain of our manufacturing facilities experienced underutilization, however, as of July 1, 2016, none of our manufacturing facilities were experiencing significant underutilization.

**ITEM 3. LEGAL PROCEEDINGS**

See "Item 8. Financial Statements and Supplementary Data Note 14. Legal, Environmental and Other Contingencies."

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our shares trade on the NASDAQ Global Select Market under the symbol "STX." The high and low sales prices of our shares, as reported by the NASDAQ Global Select Market, are set forth below for the periods indicated.

| Fiscal Quarter                | Price Range |          |
|-------------------------------|-------------|----------|
|                               | High        | Low      |
| Quarter ended October 3, 2014 | \$ 63.27    | \$ 54.38 |
| Quarter ended January 2, 2015 | \$ 69.40    | \$ 50.44 |
| Quarter ended April 3, 2015   | \$ 66.90    | \$ 51.05 |
| Quarter ended July 3, 2015    | \$ 60.09    | \$ 46.84 |
| Quarter ended October 2, 2015 | \$ 52.88    | \$ 41.59 |
| Quarter ended January 1, 2016 | \$ 49.50    | \$ 32.38 |
| Quarter ended April 1, 2016   | \$ 37.45    | \$ 26.25 |
| Quarter ended July 1, 2016    | \$ 35.79    | \$ 18.42 |

As of July 29, 2016 there were approximately 650 holders of record of our ordinary shares. We did not sell any of our equity securities during fiscal year 2016 that were not registered under the Securities Act of 1933, as amended.



Table of Contents

**Performance Graph**

The performance graph below shows the cumulative total shareholder return on our ordinary shares for the period from July 1, 2011 to July 1, 2016. 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 July 1, 2011, \$100 was invested in our ordinary 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.

|                                       | 7/1/2011 | 6/29/2012 | 6/28/2013 | 6/27/2014 | 7/3/2015 | 7/1/2016 |
|---------------------------------------|----------|-----------|-----------|-----------|----------|----------|
| <b>Seagate Technology plc</b>         | 100.00   | 157.75    | 298.61    | 392.94    | 344.01   | 185.84   |
| <b>S&amp;P 500</b>                    | 100.00   | 103.93    | 125.32    | 156.19    | 168.87   | 174.77   |
| <b>Dow Jones US Computer Hardware</b> | 100.00   | 131.29    | 102.88    | 155.52    | 190.99   | 152.43   |

\*  
\$100 invested on 7/1/11 in stock and in indices, including reinvestment of dividends.

Copyright©2,016 Bloomberg Finance L.P. All rights reserved.

Table of Contents**Dividends**

Our ability to pay dividends in the future will be subject to, among other things, general business conditions within the disk 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 ordinary shareholders, including restrictions imposed by covenants on our debt instruments.

The following were dividends paid in the last two fiscal years:

| <b>Record Date</b> | <b>Paid Date</b>  | <b>Dividend per Share</b> |
|--------------------|-------------------|---------------------------|
| August 8, 2014     | August 22, 2014   | \$ 0.43                   |
| November 11, 2014  | November 25, 2014 | \$ 0.54                   |
| February 10, 2015  | February 24, 2015 | \$ 0.54                   |
| May 1, 2015        | May 15, 2015      | \$ 0.54                   |
| August 11, 2015    | August 25, 2015   | \$ 0.54                   |
| November 6, 2015   | November 20, 2015 | \$ 0.63                   |
| February 9, 2016   | February 23, 2016 | \$ 0.63                   |
| May 10, 2016       | May 24, 2016      | \$ 0.63                   |
| September 21, 2016 | October 5, 2016   | \$ 0.63                   |

From the closing of our initial public offering in December 2002 through 2016, we have paid dividends, pursuant to our dividend policy then in effect, totaling approximately \$3.8 billion in the aggregate.

**Repurchases of Our Equity Securities**

On July 24, 2013, the Board of Directors authorized the Company to repurchase \$2.5 billion of its outstanding ordinary shares. On April 22, 2015 the Board of Directors authorized the company to repurchase an additional \$2.5 billion of its outstanding ordinary shares. As of July 1, 2016, \$1.8 billion remained available for repurchase under the existing repurchase authorization limits. All repurchases are effected as redemptions in accordance with the Company's Articles of Association. There is no expiration date on these authorizations.

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

| <b>Period</b>   | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Approximate Dollar Value of Shares Purchased Under the Plans or Programs</b> | <b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|---|---|-------------------------------------|---|---|---|
| <b>(In millions, except average price paid per share)</b> |   |                                     |   |   |   |
| 1st Quarter through 3rd Quarter of Fiscal Year 2016       | 24                                      | \$ 47.49                            | 24  | \$ 1,145  | \$ 1,758  |
| April 2, 2016 through April 29, 2016                      |   | 27.49                               |   |   | 1,758   |
| April 30, 2016 through May 27, 2016                       |   | 19.41                               |   |   | 1,758   |
| May 28, 2016 through July 1, 2016                         |   | 23.12                               |   | 1   | 1,757   |
| Through 4th Quarter of Fiscal Year 2016                   | 24                                      | \$ 47.45                            | 24  | \$ 1,146  | \$ 1,757  |

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

The following selected consolidated financial data set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto included in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K, which are incorporated herein by reference, to fully understand factors that may affect the comparability of the information presented below.

The Consolidated Statements of Operations data for the fiscal years ended July 1, 2016, July 3, 2015 and June 27, 2014, and the Consolidated Balance Sheets data as of July 1, 2016 and July 3, 2015, are derived from our audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K. The Consolidated Statements of Operations data for the fiscal years ended June 28, 2013 and June 29, 2012, and the Consolidated Balance Sheets data at June 27, 2014, June 28, 2013 and June 29, 2012, are derived from our audited Consolidated Financial Statements that are not included in this Annual Report on Form 10-K.

| (Dollars in millions, except per share data)     | Fiscal Years Ended |                 |                  |                  |                  |
|--|--------------------|-----------------|------------------|------------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 | June 28,<br>2013 | June 29,<br>2012 |
| Revenue  | \$ 11,160          | \$ 13,739       | \$ 13,724        | \$ 14,351        | \$ 14,939        |
| Gross margin                                     | 2,615              | 3,809           | 3,846            | 3,940            | 4,684            |
| Income from operations                           | 445                | 2,058           | 1,776            | 2,091            | 3,108            |
| Net income                                       | 248                | 1,742           | 1,570            | 1,838            | 2,862            |
| Total assets                                     | 8,252              | 9,845           | 9,492            | 9,243            | 10,106           |
| Total debt                                       | 4,130              | 4,155           | 3,920            | 2,777            | 2,863            |
| Equity   | \$ 1,593           | \$ 3,018        | \$ 2,832         | \$ 3,506         | \$ 3,497         |
| Net income per share:                            |                    |                 |                  |                  |                  |
| Basic  | \$ 0.83            | \$ 5.38         | \$ 4.66          | \$ 4.97          | \$ 6.72          |
| Diluted  | 0.82               | 5.26            | 4.52             | 4.81             | 6.49             |
| Number of shares used in per share computations: |                    |                 |                  |                  |                  |
| Basic  | 299                | 324             | 337              | 370              | 426              |
| Diluted  | 302                | 331             | 347              | 382              | 441              |
| Cash dividends declared per share                | \$ 2.43            | \$ 2.05         | \$ 1.67          | \$ 1.40          | \$ 0.86          |

**Supplementary Financial Data (Unaudited)***Quarterly Data*

The Company operated and reported financial results based on a 13-week quarters in fiscal year 2016, which ended on the Friday closest to September 30, December 31, March 31, and June 30. The Company operated and reported financial results based on a 14-week quarter in its first quarter of fiscal year 2015

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

ending on the Friday closest to September 30, 2015 and 13-week quarters for the remaining quarters of fiscal year 2015.

| (In millions, except per share data) | Fiscal Year 2016 Quarters Ended |                  |                    |                    |
|--------------------------------------|---------------------------------|------------------|--------------------|--------------------|
|                                      | July 1,<br>2016                 | April 1,<br>2016 | January 1,<br>2016 | October 2,<br>2015 |
| Revenue                              | \$ 2,654                        | \$ 2,595         | \$ 2,986           | \$ 2,925           |
| Gross margin                         | 662                             | 524              | 741                | 689                |
| Income from operations               | 103                             | 27               | 229                | 86                 |
| Net income (loss)                    | 70                              | (21)             | 165                | 34                 |
| Net income (loss) per share:         |                                 |                  |                    |                    |
| Basic                                | \$ 0.23                         | \$ (0.07)        | \$ 0.55            | \$ 0.11            |
| Diluted                              | 0.23                            | (0.07)           | 0.55               | 0.11               |

| (In millions, except per share data) | Fiscal Year 2015 Quarters Ended |                  |                    |                    |
|--------------------------------------|---------------------------------|------------------|--------------------|--------------------|
|                                      | July 3,<br>2015                 | April 3,<br>2015 | January 2,<br>2015 | October 3,<br>2014 |
| Revenue                              | \$ 2,927                        | \$ 3,330         | \$ 3,696           | \$ 3,785           |
| Gross margin                         | 776                             | 955              | 1,027              | 1,051              |
| Income from operations               | 206                             | 343              | 1,053              | 456                |
| Net income                           | 138                             | 291              | 933                | 381                |
| Net income per share:                |                                 |                  |                    |                    |
| Basic                                | \$ 0.44                         | \$ 0.90          | \$ 2.84            | \$ 1.17            |
| Diluted                              | 0.43                            | 0.88             | 2.78               | 1.13               |

Table of Contents

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

*The following is a discussion of the Company's financial condition, changes in financial condition and results of operations for the fiscal years ended, July 1, 2016, July 3, 2015 and June 27, 2014.*

*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 Annual Report on Form 10-K. Except as noted, references to any fiscal year mean the twelve-month period ending on the Friday closest to June 30 of that year. Accordingly, fiscal year 2016 comprised 52 weeks and ended on July 1, 2016. Fiscal year 2015 comprised 53 weeks and ended on July 3, 2015. Fiscal year 2014 comprised 52 weeks and ended on June 27, 2014. Fiscal year 2017 will be 52 weeks and will end on June 30, 2017.*

*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 September 30, 2016 and the fiscal year ending June 30, 2017 and beyond. These statements identify prospective information and may include words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "projects" and similar expressions. These forward-looking statements are based on information available to the Company as of the date of this Annual Report on Form 10-K and are based on management's current views and assumptions. These forward-looking statements are conditioned upon and also involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or events to differ materially from those anticipated by these forward-looking statements. Such risks, uncertainties and other factors may be beyond our control and may pose a risk to our operating and financial condition. Such risks and uncertainties include, but are not limited to: uncertainty in global economic conditions, the impact of the variable demand and adverse pricing environment for disk drives, particularly in view of current business and economic conditions; our ability to successfully qualify, manufacture and sell our disk drive products in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new disk drive products with lower cost structures; the impact of competitive product announcements; our ability to achieve projected cost savings in connection with restructuring plans; possible excess industry supply with respect to particular disk drive products; disruptions to our supply chain or production capabilities; unexpected advances in competing technologies; the development and introduction of products based on new technologies and expansion into new data storage markets; currency fluctuations that may impact the Company's margins and international sales; cyber-attacks or other data breaches that disrupt its operations or results in the dissemination of proprietary or confidential information; and fluctuations in interest rates. Information concerning risks, uncertainties and other factors that could cause results to differ materially from those projected in such forward-looking statements is also set forth in "Item 1A. Risk Factors" 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. The following is a discussion of the financial condition and results of operations for the fiscal years ended July 1, 2016, July 3, 2015 and June 27, 2014.*

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

*Our Company.* Discussion of our business.

*Business Overview.* Discussion of industry trends and their impact on our business.

*Fiscal Year 2016 Summary.* Overview of financial and other highlights affecting us for fiscal year 2016.

Table of Contents

*Results of Operations.* Analysis of our financial results comparing fiscal year 2016 to 2015 and comparing fiscal years 2015 to 2014.

*Liquidity and Capital Resources.* An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition including the credit quality of our investment portfolio and potential sources of liquidity.

*Contractual Obligations and Off-Balance Sheet Arrangements.* Overview of contractual obligations and contingent liabilities and commitments outstanding as of July 1, 2016 and an explanation of off-balance sheet arrangements.

*Critical Accounting Estimates.* Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results.

**Our Company**

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

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

Our products are designed for mission critical and nearline applications in enterprise servers and storage systems; client compute applications, where our products are designed primarily for desktop and mobile computing; and client non-compute applications, where our products are designed for a wide variety of end user devices such as digital video recorders ("DVRs"), personal data backup systems, portable external storage systems, digital media systems and surveillance systems.

Our Cloud Systems and Solutions builds on the Seagate legacy to extend innovation from the device into the information infrastructure, onsite and in the cloud. Our approach to data management supports HPC, open source and software-defined solutions. Our portfolio includes HPC storage solutions, modular original equipment manufacturers ("OEM") storage systems and scale-out storage systems.

**Business Overview**

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

*Demand for Electronic Data Storage*

The continued advancement of the cloud, the proliferation of a variety of mobile devices globally, development of the Internet of Things ("IoT"), increasingly pervasive use of video surveillance, evolution of consumer electronic devices, and enterprise use of big data analytics are driving the growth of digital content. Factors contributing to this growth include:

Creation, sharing, and consumption of media-rich digital content, such as high-resolution photos, high definition video, and digital music through smart phones, tablets, digital cameras, personal video cameras, DVRs, gaming consoles or other digital devices;

Table of Contents

Creation, aggregation and distribution of digital content through services and other offerings such as Facebook®, Instagram®, iTunes®, Netflix®, Google® and YouTube®;

New surveillance systems which feature higher resolution digital cameras and thus require larger data storage capacities;

Creation and collection of data through the evolution of the IoT ecosystem, big data analytics and new technology trends such as self-driving cars and drones;

Build out of large numbers of cloud data centers by cloud service providers and private companies transitioning on-site data centers into the cloud;

Protection of increased digital content through redundant storage on backup devices and externally provided storage services.

As a result of these factors, the nature and volume of content being created requires greater storage, which is more efficiently and economically facilitated by higher capacity storage devices in order to store, manage, distribute, analyze and backup such content. We expect this to support the growth in demand for electronic data storage solutions in developed and emerging economies well into the future.

The amount of data created as well as where and how data is stored continues to evolve with the proliferation of mobile devices, the growth of cloud computing, and the evolving IoT. In addition, the economics of storage infrastructure are also evolving with the utilization of public and private hyper-scale storage and open-source solutions reducing the total cost of ownership of storage while increasing the speed and efficiency with which customers can leverage massive computing and storage devices. Accordingly, we expect these trends will continue to create significant demand for electronic data storage solutions going forward.

*Demand Trends for Disk Drives*

We believe that continued growth in digital content requires increasingly higher storage capacity in order to store, aggregate, host, distribute, analyze, manage, backup and use such content. We also believe that as architectures evolve to serve the growing commercial and consumer user base throughout the world, the manner which hard drives are delivered to market and utilized by our customers will evolve as well.

We believe that in the foreseeable future the traditional enterprise and client compute markets that require high capacity storage solutions, and the data intensive client non-compute markets will continue to be best served by hard disk drives due to the industry's ability to deliver the most cost effective, reliable and energy efficient mass storage devices. Furthermore, the increased use of client non-compute devices that both consume media-rich digital content streamed from the cloud and create rich digital content that is stored in the cloud, increases the demand for high capacity hard disk drives in enterprise Nearline applications.

We also believe that as hard disk drive capacities continue to increase, unit demand does not reflect the increase in Exabytes demand. In recent years, this trend has resulted in demand for fewer units, but with higher average capacity per drive.

*Industry Supply Balance*

From time to time the HDD industry has experienced periods of imbalance between supply and demand. To the extent that the disk drive industry builds or maintains capacity based on expectations of demand that do not materialize, price erosion may become more pronounced. Conversely, during periods where demand exceeds supply, price erosion is generally muted.

Table of Contents

*Price Erosion.*

Historically, our industry has been characterized by price declines for disk drive products with comparable capacity, performance and feature sets ("like-for-like products"). Price declines for like-for-like products ("price erosion") have been more pronounced during periods of:

economic contraction in which competitors may use discounted pricing to attempt to maintain or gain market share;

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

industry supply exceeding demand.

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

We believe the HDD industry experienced benign price erosion in fiscal year 2014, whereas price erosion increased in fiscal years 2015 and 2016.

*Product Life Cycles and Changing Technology.* Success in our industry has been dependent to a large extent on the ability to balance the introduction and transition of new products with time-to-volume, performance, capacity and quality metrics at a competitive price, level of service and support that our customers expect. Generally, the drive manufacturer that introduces a new product first benefits from improved product mix, favorable profit margins and less pricing pressure until comparable products are introduced. Changing technology also necessitates on-going investments in research and development, which may be difficult to recover due to rapid product life cycles and economic declines. Further, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields continue to be of significant competitive importance.

*Seasonality*

The disk 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. We believe fiscal year 2015 reflected seasonality consistent with historical patterns, whereas in fiscal year 2014 our industry experienced more muted seasonal patterns as supply and demand were relatively in balance. In fiscal year 2016, beyond traditional seasonality, variability of sales was a reflection of more cyclical demand from CSPs based on the timing of large systems installations and the shift of the underlying technology.

**Fiscal Year 2016 Summary**

During the fiscal year 2016, we shipped 169 million units totaling 233 exabytes, generating revenue of \$11.2 billion and gross margins of 23% of revenue. Our operating cash flow was \$1.7 billion. We repurchased approximately 24 million of our ordinary shares during the year for approximately \$1.1 billion, paid dividends during the year of \$727 million, and completed our acquisition of Dot Hill Systems Corp. ("Dot Hill"), a supplier of software and hardware storage systems for \$674 million in cash.



Table of Contents**Results of Operations**

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

| (Dollars in millions)                     | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Revenue                                   | \$ 11,160          | \$ 13,739       | \$ 13,724        |
| Cost of revenue                           | 8,545              | 9,930           | 9,878            |
| Gross margin                              | 2,615              | 3,809           | 3,846            |
| Product development                       | 1,237              | 1,353           | 1,226            |
| Marketing and administrative              | 635                | 857             | 722              |
| Amortization of intangibles               | 123                | 129             | 98               |
| Restructuring and other, net              | 175                | 32              | 24               |
| Gain on arbitration award, net            |                    | (620)           |                  |
| Income from operations                    | 445                | 2,058           | 1,776            |
| Other income (expense), net               | (171)              | (88)            | (220)            |
| Income before income taxes                | 274                | 1,970           | 1,556            |
| Provision for (benefit from) income taxes | 26                 | 228             | (14)             |
| Net income                                | \$ 248             | \$ 1,742        | \$ 1,570         |

|   | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Revenue                                   | 100%               | 100%            | 100%             |
| Cost of revenue                           | 77                 | 72              | 72               |
| Gross margin                              | 23                 | 28              | 28               |
| Product development                       | 11                 | 10              | 9                |
| Marketing and administrative              | 6                  | 7               | 5                |
| Amortization of intangibles               | 1                  | 1               | 1                |
| Restructuring and other, net              | 2                  |                 |                  |
| Gain on arbitration award, net            |                    | (5)             |                  |
| Income from operations                    | 4                  | 15              | 13               |
| Other income (expense), net               | (2)                | (1)             | (2)              |
| Income before income taxes                | 2                  | 14              | 11               |
| Provision for (benefit from) income taxes |                    | 2               |                  |
| Net income                                | 2%                 | 12%             | 11%              |

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

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

| (In millions, except percentages, exabytes and ASPs) | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| <b>Unit Shipments:</b>                               |                    |                 |                  |
| Enterprise   | 32                 | 36              | 31               |
| Client Compute                                       | 93                 | 132             | 144              |
| Client Non-Compute                                   | 44                 | 44              | 45               |
| <b>Total Units Shipped</b>                           | <b>169</b>         | <b>212</b>      | <b>220</b>       |
| ASPs (per unit)                                      | \$ 61              | \$ 61           | \$ 61            |
| Exabytes Shipped                                     | 233                | 228             | 202              |
| <b>Revenues by Channel (%)</b>                       |                    |                 |                  |
| OEMs   | 70%                | 71%             | 68%              |
| Distributors   | 16%                | 17%             | 20%              |
| Retailers  | 14%                | 12%             | 12%              |
| <b>Revenues by Geography (%)</b>                     |                    |                 |                  |
| Americas   | 29%                | 28%             | 27%              |
| EMEA   | 17%                | 17%             | 19%              |
| Asia Pacific   | 54%                | 55%             | 54%              |

*Fiscal Year 2016 Compared to Fiscal Year 2015*

#### *Revenue*

| (Dollars in millions) | Fiscal Years Ended |                 |            |       |
|-----------------------|--------------------|-----------------|------------|-------|
|                       | July 1,<br>2016    | July 3,<br>2015 | Change     | %     |
| Revenue               | \$ 11,160          | \$ 13,739       | \$ (2,579) | (19)% |

Revenue in fiscal year 2016 decreased approximately 19% or \$2.6 billion, from fiscal year 2015, as a result of a decrease in shipments by 43 million units and price erosion, which were due to lower demand in the client compute market and reduced demand for mission critical HDD enterprise products, partially offset by improved product mix.

#### *Cost of Revenue and Gross Margin*

| (Dollars in millions)   | Fiscal Years Ended |                 |            |       |
|-------------------------|--------------------|-----------------|------------|-------|
|                         | July 1,<br>2016    | July 3,<br>2015 | Change     | %     |
| Cost of revenue         | \$ 8,545           | \$ 9,930        | \$ (1,385) | (14)% |
| Gross margin            | \$ 2,615           | \$ 3,809        | \$ (1,194) | (31)% |
| Gross margin percentage | 23%                | 28%             |            |       |

For fiscal year 2016, gross margin as a percentage of revenue decreased by 500 basis points compared to the prior fiscal year due to price erosion and reduced demand in legacy hard drives resulting in underutilization of certain factories, partially offset by improved product mix in the second half of fiscal year 2016.

Table of Contents*Operating Expenses*

| (Dollars in millions)          | Fiscal Years Ended |                 |          |             |
|--------------------------------|--------------------|-----------------|----------|-------------|
|                                | July 1,<br>2016    | July 3,<br>2015 | Change   | %<br>Change |
| Product development            | \$ 1,237           | \$ 1,353        | \$ (116) | (9)%        |
| Marketing and administrative   | 635                | 857             | (222)    | (26)%       |
| Amortization of intangibles    | 123                | 129             | (6)      | (5)%        |
| Restructuring and other, net   | 175                | 32              | 143      | 447%        |
| Gain on arbitration award, net |                    | (620)           | 620      | (100)%      |
| Operating expenses             | \$ 2,170           | \$ 1,751        | \$ 419   |             |

*Product Development Expense.* Product development expenses for fiscal year 2016 decreased from fiscal year 2015 due to a decrease in salaries and other employee benefits of \$63 million as a result of the restructuring of our workforce beginning in the second half of fiscal year 2015, a \$29 million decrease in variable compensation, and other cost reduction efforts, partially offset by the consolidation of Dot Hill in fiscal year 2016 and LSI's Flash Business in fiscal year 2015.

*Marketing and Administrative Expense.* Marketing and administrative expenses for fiscal year 2016 decreased from fiscal year 2015 primarily due to a decrease in salaries and other employee benefits of \$82 million as a result of a restructuring of our workforce beginning in the second half of fiscal year 2015, a \$45 million decrease in variable compensation and stock-based compensation, a \$33 million reduction in advertising due to the completion of certain promotional and branding activities in fiscal year 2016, and increased operational efficiencies in our business.

*Amortization of Intangibles.* Amortization of intangibles for fiscal year 2016 decreased by \$6 million, as compared to fiscal year 2015, as a result of certain intangible assets reaching the end of their useful lives, partially offset by the amortization of intangibles acquired from the Dot Hill acquisition in fiscal 2016.

*Restructuring and Other, net.* Restructuring and other, net for fiscal year 2016 was comprised of restructuring charges recorded during the September 2015 quarter, March 2016 quarter and June 2016 quarter, to reduce our workforce by approximately 4,600 employees and align our manufacturing footprint with current macroeconomic conditions.

Restructuring and other, net for fiscal year 2015 was due to charges to reduce our workforce as a result of our ongoing focus on cost efficiencies in all areas of our business.

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

*Other income (expense), net*

| (Dollars in millions)       | Fiscal Years Ended |                 |         |             |
|-----------------------------|--------------------|-----------------|---------|-------------|
|                             | July 1,<br>2016    | July 3,<br>2015 | Change  | %<br>Change |
| Other income (expense), net | \$ (171)           | \$ (88)         | \$ (83) | 94%         |

Other income (expense), net for fiscal year 2016 increased by \$83 million, as compared to fiscal year 2015 primarily due to the absence of partial receipt of \$143 million for interest accrued on the final arbitration award amount in the Company's case against Western Digital in fiscal year 2015 compared to \$33 million in fiscal year 2016, and a \$33 million change in foreign currency remeasurement related to net gains and losses from changes in foreign exchange rates, which were more pronounced in the prior year, partially offset by \$74 million of losses from the early redemptions and repurchases of debt in fiscal year 2015 compared to a \$3 million gain from the early redemptions and repurchases of debt in fiscal year 2016.

Table of Contents*Income Taxes*

| (Dollars in millions)      | Fiscal Years Ended |                 |          |             |
|----------------------------|--------------------|-----------------|----------|-------------|
|                            | July 1,<br>2016    | July 3,<br>2015 | Change   | %<br>Change |
| Provision for income taxes | \$ 26              | \$ 228          | \$ (202) | (89)%       |

We recorded an income tax provision of \$26 million for fiscal year 2016 compared to an income tax provision of \$228 million for fiscal year 2015. Our fiscal year 2016 income tax provision included approximately \$22 million of income tax benefits primarily associated with the release of tax reserves due to the expiration of certain statutes of limitation. Our fiscal year 2015 income tax provision included approximately \$193 million of net income tax expense due to the final audit assessment received from the Jiangsu Province State Tax Bureau of the People's Republic of China (China assessment) for calendar years 2007 through 2013.

Our Irish tax resident parent holding company owns various U.S. and non-U.S. subsidiaries that operate in multiple non-Irish income tax jurisdictions. Our worldwide operating income is either subject to varying rates of income tax or is exempt from income tax due to tax holiday programs we operate under in Malaysia, Singapore and Thailand. These tax holidays are scheduled to expire in whole or in part at various dates through 2024.

Our income tax provision recorded for fiscal year 2016 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes, primarily due to the net effect of (i) tax benefits related to non-U.S. earnings generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, (ii) tax benefits associated with the reversal of previously recorded taxes, and (iii) a decrease in valuation allowance for certain deferred tax assets. The acquisition of Dot Hill System Corporation did not have a material impact on our effective tax rate. Our income tax provision recorded for fiscal year 2015 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes, primarily due to the net effect of (i) tax benefits related to non-U.S. earnings generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, (ii) tax expense associated with the China assessment recorded during the December 2014 quarter, and (iii) an increase in valuation allowance for certain deferred tax assets. The acquisition of LSI's Flash Business did not have a material impact on our effective tax rate.

On December 18, 2015, the Protecting Americans from Tax Hikes ("PATH") Act of 2015 was enacted. Among, other provisions, the PATH Act retroactively reinstated and permanently extended the federal Research and Development ("R&D") tax credit from December 31, 2014. The permanent extension of the R&D credit had no immediate impact on our income tax provision due to valuation allowances on our U.S. deferred tax assets. None of the other PATH Act changes had a material impact on our income tax provision.

Based on our non-U.S. ownership structure and subject to (i) potential future increases in our valuation allowance for deferred tax assets; and (ii) a future change in our intention to indefinitely reinvest earnings from our subsidiaries outside of Ireland, we anticipate that our effective tax rate in future periods will generally be less than the Irish statutory rate.

At July 1, 2016, our deferred tax asset valuation allowance was approximately \$984 million.

At July 1, 2016, we had net deferred tax assets of \$606 million. The realization of these deferred tax assets is primarily dependent on our ability to generate sufficient U.S. and certain non-U.S. 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 periods when we re-evaluate the underlying basis for our estimates of future U.S. and certain non-U.S. taxable income.

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

As of July 1, 2016, approximately \$677 million of our U.S. net operating losses and \$99 million of our tax credit carryforwards are subject to annual limitations from \$1 million to \$45 million pursuant to U.S. tax law.

As of July 1, 2016 and July 3, 2015, we had approximately \$70 million and \$83 million, respectively, of unrecognized tax benefits excluding interest and penalties. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate are \$70 million and \$83 million as of July 1, 2016 and July 3, 2015, respectively, subject to certain future valuation allowance offsets.

It is our policy to include interest and penalties related to unrecognized tax benefits in the provision for income taxes on our Consolidated Statements of Operations. During fiscal year 2016, we recognized a net income tax benefit for interest and penalties of \$8 million as compared to a net income tax expense for interest and penalties of \$26 million during fiscal year 2015 and \$8 million during fiscal year 2014. As of July 1, 2016, we had \$12 million of accrued interest and penalties related to unrecognized tax benefits compared to \$20 million in fiscal year 2015.

During the fiscal year ended July 1, 2016, our unrecognized tax benefits excluding interest and penalties decreased by approximately \$13 million primarily due to (i) reductions associated with the expiration of certain statutes of limitation of \$27 million, (ii) increases in current year unrecognized tax benefits of \$11 million, (iii) net increases in prior years' unrecognized tax benefits of \$4 million, (iv) net reductions from other activity, including non-U.S. exchange gains, of \$1 million.

During the 12 months beginning July 2, 2016, we expect that our unrecognized tax benefits could be reduced by approximately \$16 million as a result of the expiration of certain statutes of limitation.

We are subject to taxation in many jurisdictions globally and are required to file U.S. federal, U.S. state, and non-U.S. income tax returns. On April 4, 2016, the IRS approved the audit settlement reached in December 2015 regarding all disputed issues associated with our U.S. federal income tax returns for fiscal years 2008, 2009 and 2010. This audit settlement did not have a material impact on our financial statements.

We are no longer subject to tax examination of U.S. federal income tax returns for years prior to fiscal year 2013. With respect to U.S. state and non-U.S. income tax returns, we are generally no longer subject to tax examination for years ending prior to fiscal year 2005.

### *Fiscal Year 2015 Compared to Fiscal Year 2014*

#### *Revenue*

| (Dollars in millions) | July 3,<br>2015 | Fiscal Years Ended |        | %<br>Change |
|-----------------------|-----------------|--------------------|--------|-------------|
|                       |                 | June 27,<br>2014   | Change |             |
| Revenue               | \$ 13,739       | \$ 13,724          | \$ 15  | 0.1%        |

Revenue in fiscal year 2015 remained flat from fiscal year 2014, as a result of revenue contributed from our acquisitions of Xyratex and LSI's Flash Business and a favorable product mix, partially offset by a 4% decrease in units shipped and moderate price erosion.

#### *Cost of Revenue and Gross Margin*

| (Dollars in millions)   | July 3,<br>2015 | Fiscal Years Ended |         | %<br>Change |
|-------------------------|-----------------|--------------------|---------|-------------|
|                         |                 | June 27,<br>2014   | Change  |             |
| Cost of revenue         | \$ 9,930        | \$ 9,878           | \$ 52   | 1%          |
| Gross margin            | \$ 3,809        | \$ 3,846           | \$ (37) | (1)%        |
| Gross margin percentage | 28%             | 28%                |         |             |

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

For fiscal year 2015, gross margin as a percentage of revenue remained flat from the prior fiscal year as a result of improved product mix and cost savings due to increased operational efficiencies, offset by moderate price erosion.

#### *Operating Expenses*

| (Dollars in millions)          | Fiscal Years Ended |                  |                 |             |
|--------------------------------|--------------------|------------------|-----------------|-------------|
|                                | July 3,<br>2015    | June 27,<br>2014 | Change          | %<br>Change |
| Product development            | \$ 1,353           | \$ 1,226         | \$ 127          | 10%         |
| Marketing and administrative   | 857                | 722              | 135             | 19%         |
| Amortization of intangibles    | 129                | 98               | 31              | 32%         |
| Restructuring and other, net   | 32                 | 24               | 8               | 33%         |
| Gain on arbitration award, net | (620)              |                  | (620)           | (100)%      |
| <b>Operating expenses</b>      | <b>\$ 1,751</b>    | <b>\$ 2,070</b>  | <b>\$ (319)</b> |             |

*Product Development Expense.* Product development expenses for fiscal year 2015 increased from fiscal year 2014 mostly due to an increase in headcount related costs of \$111 million attributed to the consolidation of Xyratex and LSI's Flash Business as well as a 53-week fiscal year in 2015 compared to 52 weeks in 2014.

*Marketing and Administrative Expense.* Marketing and administrative expenses for fiscal year 2015 increased from fiscal year 2014 primarily due to an increase in headcount related costs of \$50 million attributed to the consolidation of Xyratex and LSI's Flash Business, non-recurring legal cost reimbursement received in fiscal year 2014 of \$24 million, as well as a 53-week fiscal year in 2015 compared to 52 weeks in 2014.

*Amortization of Intangibles.* Amortization of intangibles for fiscal year 2015 increased by \$31 million, as compared to fiscal year 2014, as a result of the acquisitions of LSI's Flash Business and Xyratex.

*Restructuring and Other, net.* Restructuring and other, net for fiscal year 2015 increased by \$8 million, as compared to fiscal year 2014 primarily due to a restructuring charge recorded during the March 2015 quarter to reduce workforce as a result of our ongoing focus on cost efficiencies in all areas of our business.

*Gain on arbitration award, net.* Gain on arbitration award, net for fiscal year 2015 increased from fiscal year 2014 due to final award received in the amount of \$630 million, less litigation and other related costs of \$10 million, in the Company's case against Western Digital for the misappropriation of the Company's trade secrets.

#### *Other income (expense), net*

| (Dollars in millions)       | Fiscal Years Ended |                  |        |             |
|-----------------------------|--------------------|------------------|--------|-------------|
|                             | July 3,<br>2015    | June 27,<br>2014 | Change | %<br>Change |
| Other income (expense), net | \$ (88)            | \$ (220)         | \$ 132 | (60)%       |

Other income (expense), net for fiscal year 2015 decreased by \$132 million, as compared to fiscal year 2014 primarily due to the partial payment of \$143 million for interest accrued on the final arbitration award amount in our case against Western Digital and a decrease in losses from early redemption and repurchase of debt of \$15 million, partially offset by a \$12 million increase in interest expense.

Table of Contents*Income Taxes*

| (Dollars in millions)                     | Fiscal Years Ended |                  |        |             |
|---|--------------------|------------------|--------|-------------|
|   | July 3,<br>2015    | June 27,<br>2014 | Change | %<br>Change |
| Provision for (benefit from) income taxes | \$ 228             | \$ (14)          | \$ 242 | 1,729%      |

We recorded an income tax provision of \$228 million for fiscal year 2015 compared to an income tax benefit of \$14 million for fiscal year 2014. Our fiscal year 2015 income tax provision included approximately \$193 million of net income tax expense due to the final audit assessment received from the Jiangsu Province State Tax Bureau of the People's Republic of China (China assessment) for calendar years 2007 through 2013. Our fiscal year 2014 benefit from income taxes included \$58 million of income tax benefits related to the reversal of a portion of the valuation allowances recorded in prior periods and a net decrease in tax reserves related to audit settlements offset by tax reserves on non-U.S. tax positions taken in prior fiscal years.

Our income tax provision recorded for fiscal year 2015 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes, primarily due to the net effect of (i) tax benefits related to non-U.S. earnings generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, (ii) tax expense associated with the China assessment recorded during the December 2014 quarter, and (iii) an increase in valuation allowance for certain deferred tax assets. The acquisition of LSI's Flash Business did not have a material impact on our effective tax rate. Our income tax benefit recorded for fiscal year 2014 differed from the provision for income taxes that would be derived by applying the Irish statutory rate of 25% to income before income taxes, primarily due to the net effect of (i) tax benefits related to non-U.S. earnings generated in jurisdictions that are subject to tax holidays or tax incentive programs and are considered indefinitely reinvested outside of Ireland, and (ii) a decrease in valuation allowance for certain deferred tax assets. The acquisition of Xyratex did not have a material impact on our effective tax rate in fiscal year 2014. Fiscal year 2014 included a valuation allowance release associated with post-acquisition restructuring.

**Liquidity and Capital Resources**

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

*Cash and Cash Equivalents and Short-term Investments*

| (Dollars in millions)     | As of           |                 |                   |
|---------------------------|-----------------|-----------------|-------------------|
|                           | July 1,<br>2016 | July 3,<br>2015 | Change            |
| Cash and cash equivalents | \$ 1,125        | \$ 2,479        | \$ (1,354)        |
| Short-term investments    | 6               | 6               |                   |
| <b>Total</b>              | <b>\$ 1,131</b> | <b>\$ 2,485</b> | <b>\$ (1,354)</b> |

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

Our cash and cash equivalents and short-term investments decreased from July 3, 2015 as a result of net cash outflows for the acquisition of Dot Hill of \$674 million, repurchase of our ordinary shares of \$1.1 billion, dividends paid to our shareholders of \$727 million, and capital expenditures of \$587 million. These cash outflows were partially offset by our net cash provided by operating activities. The following table summarizes results from the statement of cash flows for the periods indicated:

| (Dollars in millions)                                | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Net cash flow provided by (used in):                 |                    |                 |                  |
| Operating activities                                 | \$ 1,680           | \$ 2,647        | \$ 2,558         |
| Investing activities                                 | (1,211)            | (1,287)         | (322)            |
| Financing activities                                 | (1,820)            | (1,495)         | (1,311)          |
| Effect of foreign currency exchange rates            | (3)                | (20)            | 1                |
| Net (decrease) increase in cash and cash equivalents | \$ (1,354)         | \$ (155)        | \$ 926           |

#### *Cash Provided by Operating Activities*

Cash provided by operating activities for fiscal year 2016 was approximately \$1.7 billion and includes the effects of net income adjusted for non-cash items including depreciation and amortization, stock-based compensation, and:

a decrease in revenue accelerating a reduction in the cash conversion cycle, leading to a decrease in working capital.

Cash provided by operating activities for fiscal year 2015 was approximately \$2.6 billion and includes the effects of net income adjusted for non-cash items including depreciation, amortization, stock-based compensation. Net income includes:

a partial payment of \$773 million for the arbitration award and related accrued interest received from Western Digital; and

a \$225 million payment related to the final audit assessment received from the Jiangsu Province State Tax Bureau of the People's Republic of China for tax and interest associated with changes to our tax filings for the calendar years 2007 through 2013.

Cash provided by operating activities for fiscal year 2014 was approximately \$2.6 billion and includes the effects of net income adjusted for non-cash items including depreciation, amortization, stock-based compensation, and:

a decrease of \$217 million in vendor non-trade receivables primarily related to a change in the contractual relationship with some of our contract manufacturers which reduced the volume of components we sold to them;

a decrease of \$190 million in accounts payable due to a change in the contractual relationship with some of our contract manufacturers which resulted in a reduction in direct materials purchased and subsequently sold to our contract manufacturers; and

a decrease of \$104 million in restricted cash and investments primarily due to the restricted cash and investments held in a rabbi trust being replaced with a standby letter of credit.

#### *Cash Used in Investing Activities*



## Edgar Filing: Seagate Technology plc - Form 10-K

In fiscal year 2016, we used \$1.2 billion for net cash investing activities, which was primarily due to payments for the purchase of property, equipment and leasehold improvements of approximately \$587 million and the acquisition of Dot Hill, net of cash acquired for \$634 million.

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

In fiscal year 2015, we used \$1.3 billion for net cash investing activities, which was primarily due to payments for the purchase of property, equipment and leasehold improvements of approximately \$747 million and the acquisition of LSI's Flash Business for \$450 million.

In fiscal year 2014, we used \$0.3 billion for net cash investing activities, which was primarily due to payments for property, equipment and leasehold improvements of approximately \$559 million and the acquisition of Xyratex for \$285 million, partially offset by \$508 million of proceeds from sales of short-term investments.

#### *Cash Used in Financing Activities*

Net cash used in financing activities of \$1.8 billion for fiscal year 2016 was primarily attributable to the following activities:

\$1.1 billion paid to repurchase 24 million of our ordinary shares; and

\$0.7 billion in dividends paid to our shareholders.

Net cash used in financing activities of \$1.5 billion for fiscal year 2015 was primarily attributable to the following activities:

\$1.1 billion paid to repurchase 19 million of our ordinary shares;

\$1.0 billion for the repurchase and redemption of long-term debt;

\$0.7 billion in dividends paid to our shareholders; partially offset by

proceeds of \$1.2 billion from aggregate cash generated from the issuance of our 5.75% Senior Notes due 2034 and 4.875% Senior Notes due 2027.

Net cash used in financing activities of \$1.3 billion for fiscal year 2014 was attributable to the following activities:

\$1.9 billion paid to repurchase 41 million of our ordinary shares;

\$0.7 billion for the repurchase and redemption of long-term debt;

\$0.6 billion in dividends paid to our shareholders; partially offset by

proceeds of \$1.8 billion from aggregate cash generated from the issuance of our 3.75% Senior Notes due in 2018 and 4.75% Senior Notes due in 2025.

#### *Liquidity Sources*

Our primary sources of liquidity as of July 1, 2016, consisted of: (1) approximately \$1.1 billion in cash and cash equivalents, and short-term investments, (2) cash we expect to generate from operations and (3) a \$700 million senior revolving credit facility.

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

## Edgar Filing: Seagate Technology plc - Form 10-K

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

As of July 1, 2016, cash and cash equivalents held by non-Irish subsidiaries was \$1.1 billion. This amount is potentially subject to taxation in Ireland upon repatriation by means of a dividend into our Irish parent. However, it is our intent to indefinitely reinvest earnings of non-Irish subsidiaries outside of

Table of Contents

Ireland and our current plans do not demonstrate a need to repatriate such earnings by means of a taxable Irish dividend. Should funds be needed in the Irish parent company and should we be unable to fund parent company activities through means other than a taxable Irish dividend, we would be required to accrue and pay Irish taxes on such dividend.

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.

*Cash Requirements and Commitments*

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

On August 2, 2016, our Board of Directors approved a quarterly cash dividend of \$0.63 per share, which will be payable on October 5, 2016 to shareholders of record as of the close of business on September 21, 2016.

As of July 1, 2016, we were in compliance with all of the covenants under our debt agreements. Based on our current outlook, we expect to be in compliance with the covenants of our debt agreements over the next 12 months.

The carrying value of our long-term debt as of July 1, 2016 and July 3, 2015 was \$4.1 billion and \$4.2 billion, respectively. The table below presents the principal amounts of our outstanding long-term debt:

| (Dollars in millions)                | July 1,<br>2016 | As of<br>July 3,<br>2015 | Change         |
|--------------------------------------|-----------------|--------------------------|----------------|
| 3.75% Senior Notes due November 2018 | \$ 800          | \$ 800                   | \$             |
| 7.00% Senior Notes due November 2021 | 158             | 158                      |                |
| 4.75% Senior Notes due June 2023     | 990             | 1,000                    | (10)           |
| 4.75% Senior Notes due January 2025  | 995             | 1,000                    | (5)            |
| 4.875% Senior Notes Due June 2027    | 700             | 700                      |                |
| 5.75% Senior Notes Due December 2034 | 490             | 500                      | (10)           |
| <b>Total</b>                         | <b>\$ 4,133</b> | <b>\$ 4,158</b>          | <b>\$ (25)</b> |

Table of Contents

From time to time we may repurchase any of our outstanding ordinary shares through private, open market, tender offers, broker assisted purchases or other means. During fiscal year 2016, we repurchased approximately 24 million of our ordinary shares. See "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Repurchases of Our Equity Securities." As of July 1, 2016, \$1.8 billion remained available for repurchase under our existing repurchase authorization limit. All repurchases are effected as redemptions in accordance with the Company's Articles of Association.

For fiscal year 2017, we expect capital expenditures to be below our long-term targeted range of 6% to 8% of revenue. We require substantial amounts of cash to fund scheduled payments of principal and interest on our indebtedness, future capital expenditures and any increased working capital requirements. We will continue to evaluate and manage the retirement and replacement of existing debt and associated obligations, including evaluating the issuance of new debt securities, exchanging existing debt securities for other debt securities and retiring debt pursuant to privately negotiated transactions, open market purchases, tender offers or other means or otherwise. In addition, we may selectively pursue strategic alliances, acquisitions and investments, which may require additional capital.

**Contractual Obligations and Commitments**

Our contractual cash obligations and commitments as of July 1, 2016, have been summarized in the table below:

| (Dollars in millions)                     | Total           | 2017            | Fiscal Year(s)  |               | Thereafter      |
|---|-----------------|-----------------|-----------------|---------------|-----------------|
|   |                 |                 | 2018-2019       | 2020-2021     |                 |
| <b>Contractual Cash Obligations:</b>      |                 |                 |                 |               |                 |
| Long-term debt                            | \$ 4,133        | \$              | \$ 800          | \$            | \$ 3,333        |
| Interest payments on debt                 | 1,761           | 198             | 381             | 334           | 848             |
| Purchase obligations <sup>(2)</sup>       | 713             | 713             |                 |               |                 |
| Operating leases <sup>(1)</sup>           | 168             | 27              | 38              | 21            | 82              |
| Capital expenditures                      | 110             | 110             |                 |               |                 |
| Other funding requirements <sup>(3)</sup> | 44              | 12              | 24              | 8             |                 |
| Subtotal                                  | 6,929           | 1,060           | 1,243           | 363           | 4,263           |
| <b>Commitments:</b>                       |                 |                 |                 |               |                 |
| Letters of credit or bank guarantees      | 108             | 108             |                 |               |                 |
| <b>Total</b>                              | <b>\$ 7,037</b> | <b>\$ 1,168</b> | <b>\$ 1,243</b> | <b>\$ 363</b> | <b>\$ 4,263</b> |

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

As of July 1, 2016, we had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$13 million, none of which is expected to be settled within one year. Outside of one year, we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

**Off-Balance Sheet Arrangements**

Edgar Filing: Seagate Technology plc - Form 10-K

As of July 1, 2016, we did not have any material off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Table of Contents

**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 accounting for goodwill and other long-lived assets. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other accounting policies and accounting estimates relating to uncollectible customer accounts, valuation of inventory, valuation of share-based payments and 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 OEM sales, rebates are typically based on an OEM customer's volume of purchases or other agreed upon rebate programs. 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. 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. Currently, our distributors' inventories are within the historical range.

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.

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. In fiscal year 2016, sales programs were approximately 13% of gross revenue. For fiscal years 2015 and 2014, total sales programs ranged from 8% to 10% of gross revenues. Adjustments to revenues due to under or over accruals for sales programs related to revenues reported in prior quarterly periods were approximately 0.1% of gross revenue in fiscal year 2016 and averaged 0.3% of quarterly gross revenue for fiscal year 2015 through 2014. Any future shifts in the industry supply-demand balance as well as other factors may result in a more competitive pricing environment and may cause sales programs as a percentage of gross revenue to increase from the current or historical levels. If such rebates and incentives trend upwards, revenues and margins may be reduced.

*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 1 to 5 years. Our warranty provision considers estimated product failure rates and trends (including the timing of product returns during the warranty periods), and estimated repair or replacement costs related to product quality issues, if any. We also exercise judgment in estimating our ability to sell certain repaired products. Should actual experience in any future period differ significantly from our estimates, our future results of operations could be materially affected. Our judgment is subject to a greater degree of subjectivity with respect to

Table of Contents

newly introduced 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 an adverse or favorable 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 claims differs from those estimates we used in determining 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 products. To the extent such sales fall below our forecast, warranty cost will be adversely impacted.

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 impact the current period gross margins and income. In fiscal years 2016, 2015 and 2014 net changes in estimates of prior warranty accruals as a percentage of revenue were immaterial. Our total warranty cost was 1.0%, 1.1% and 1.3% of revenue during fiscal years 2016, 2015 and 2014, respectively, while warranty cost related to new shipments (exclusive of the impact of re-estimates of pre-existing liabilities) were 1.1%, 1.1% and 1.3% respectively, for the same periods. Changes in anticipated failure rates of specific products and significant changes in repair or replacement costs have historically been the major reasons for significant changes in prior estimates. Any future changes in failure rates of certain products, as well as changes in repair costs or the cost of replacement parts, may result in increased or decreased warranty accruals.

*Accounting for Income Taxes.* We account for income taxes pursuant to Accounting Standards Codification ("ASC") Topic 740 ("ASC 740"), Income Taxes. In applying, ASC 740, 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 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 calculation of 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 jurisdictions. If estimates of these tax liabilities are greater or less than actual results, an additional tax benefit or provision will result. The deferred tax assets we record each period depend primarily on our ability to generate future taxable income in the United States and certain non-U.S. jurisdictions. Each period, we evaluate the need for a valuation allowance for our deferred tax assets and, if necessary, we 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.

*Assessing Goodwill and Other Long-lived Assets for Impairment.* We account for goodwill in accordance with ASC Topic 350, Intangibles Goodwill and Other. As permitted by ASC 350, we perform a qualitative assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in the overall industry that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the qualitative assessment, if it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company is not required to perform the two-step goodwill impairment test. If it is determined in the qualitative assessment that the fair value of a reporting unit is more likely than not below its carrying amount, including goodwill, then we perform a quantitative two-step impairment test. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted. The second step, measuring the impairment loss, compares the implied fair value of



Table of Contents

the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over its implied fair value is recognized as an impairment loss.

In accordance with ASC 360-05-4, *Impairment or Disposal of Long-lived Assets*, we test other long-lived assets, including property, equipment and leasehold improvements and other intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that the carrying values of those assets may not be recoverable. We assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group and compare it to its carrying value. The excess of the carrying value over the fair value is allocated pro rata to derive the adjusted carrying value of each asset in the asset group. The adjusted carrying value of each asset in the asset group is not reduced below its fair value.

**Recent Accounting Pronouncements**

See "Item 8. Financial Statements and Supplementary Data Note 1. Basis of Presentation and Summary of Significant Accounting Policies" for information regarding the effect of new accounting pronouncements on our financial statements.

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

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

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

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

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

Table of Contents**Fiscal Years Ended**

| (Dollars in millions, except percentages) | 2017   | 2018 | 2019   | 2020 | 2021  | Thereafter | Total    | Fair Value at July 1, 2016 |
|---|--------|------|--------|------|-------|------------|----------|----------------------------|
| <b>Assets</b>                             |        |      |        |      |       |            |          |                            |
| Cash equivalents:                         |        |      |        |      |       |            |          |                            |
| Fixed rate                                | \$ 762 | \$   | \$     | \$   | \$    | \$         | \$ 762   | \$ 762                     |
| Average interest rate                     | 0.35%  |      |        |      |       |            | 0.35%    |                            |
| Short-term investments:                   |        |      |        |      |       |            |          |                            |
| Fixed rate                                | \$ 5   | \$   | \$     | \$   | \$ 1  | \$         | \$ 6     | \$ 6                       |
| Average interest rate                     | 10.69% |      |        |      | 3.08% |            | 9.36%    |                            |
| Total fixed income                        | \$ 767 | \$   | \$     | \$   | \$ 1  | \$         | \$ 768   | \$ 768                     |
| Average interest rate                     | 0.42%  |      |        |      | 3.08% |            | 0.45%    | 0.42%                      |
| <b>Debt</b>                               |        |      |        |      |       |            |          |                            |
| Fixed rate                                | \$     | \$   | \$ 800 | \$   | \$    | \$ 3,333   | \$ 4,133 | \$ 3,491                   |
| Average interest rate                     | 3.75%  |      |        |      | 5.03% |            | 4.78%    |                            |

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

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

We evaluate hedging effectiveness prospectively and retrospectively and record any ineffective portion of the hedging instruments in Cost of revenue on the Consolidated Statements of Operations. We did not have any material net gains (losses) recognized in Cost of revenue for cash flow hedges due to hedge ineffectiveness or discontinued cash flow hedges during the fiscal years 2016 and 2015.

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

| (Dollars in millions, except average contract rate) | Notional Amount | Average Contract Rate | Estimated Fair Value <sup>(1)</sup> |
|---|-----------------|-----------------------|-------------------------------------|
| Foreign currency forward exchange contracts:        |                 |                       |                                     |
| British Pound Sterling                              | \$ 57           | 1.42                  | \$ (3)                              |
| Total   | \$ 57           |                       | \$ (3)                              |

(1)

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

**Other Market Risks.** We have exposure to counterparty credit downgrades in the form of credit risk related to our foreign currency forward exchange contracts and our fixed income portfolio. We monitor and limit our credit exposure for our foreign currency forward exchange contracts by performing ongoing credit evaluations. We also manage the notional amount of contracts entered into with any one counterparty, and we maintain limits on maximum tenor of contracts based on the credit rating of the financial institution. Additionally, the investment

portfolio is diversified and structured to minimize credit

Table of Contents

risk. As of July 1, 2016, we had no material credit exposure related to our foreign currency forward exchange contracts. Changes in our corporate issuer credit ratings have minimal impact on our financial results, but downgrades may negatively impact our future transaction costs and our ability to execute transactions with various counterparties.

We are subject to equity market risks due to changes in the fair value of the notional investments selected by our employees as part of our Seagate Deferred Compensation Plan (the "SDCP"). In fiscal year 2014, the Company entered into a Total Return Swap ("TRS") in order to manage the equity market risks associated with the SDCP liabilities. The Company pays a floating rate, based on LIBOR plus an interest rate spread, on the notional amount of the TRS. The TRS is designed to substantially offset changes in the SDCP liability due to changes in the value of the investment options made by employees.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SEAGATE TECHNOLOGY PLC**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except share and per share data)

|  | July 1,<br>2016 | July 3,<br>2015 |
|--|-----------------|-----------------|
| <b>ASSETS</b>  |                 |                 |
| Current assets:  |                 |                 |
| Cash and cash equivalents  | \$ 1,125        | \$ 2,479        |
| Short-term investments   | 6               | 6               |
| Accounts receivable, net   | 1,318           | 1,735           |
| Inventories  | 868             | 993             |
| Deferred income taxes  |                 | 122             |
| Other current assets   | 216             | 233             |
| <b>Total current assets</b>  | <b>3,533</b>    | <b>5,568</b>    |
| Property, equipment and leasehold improvements, net  | 2,160           | 2,278           |
| Goodwill   | 1,237           | 874             |
| Other intangible assets, net   | 448             | 370             |
| Deferred income taxes  | 616             | 496             |
| Other assets, net  | 258             | 259             |
| <b>Total Assets</b>  | <b>\$ 8,252</b> | <b>\$ 9,845</b> |
| <b>LIABILITIES AND EQUITY</b>  |                 |                 |
| Current liabilities:   |                 |                 |
| Accounts payable   | \$ 1,517        | \$ 1,540        |
| Accrued employee compensation  | 184             | 256             |
| Accrued warranty   | 104             | 135             |
| Accrued expenses   | 444             | 412             |
| <b>Total current liabilities</b>   | <b>2,249</b>    | <b>2,343</b>    |
| Long-term accrued warranty   | 102             | 113             |
| Long-term accrued income taxes   | 14              | 33              |
| Other non-current liabilities  | 164             | 183             |
| Long-term debt, less current portion   | 4,130           | 4,155           |
| <b>Total Liabilities</b>   | <b>6,659</b>    | <b>6,827</b>    |
| Commitments and contingencies (See Notes 14 and 15)  |                 |                 |
| Equity:  |                 |                 |
| Seagate Technology plc shareholders' equity:   |                 |                 |
| Preferred shares, \$0.00001 par value per share 100,000,000 authorized; no shares issued or outstanding  |                 |                 |
| Ordinary shares, \$0.00001 par value per share 1,250,000,000 authorized; 298,572,217 issued and outstanding at July 1, 2016 and 315,445,536 issued and outstanding at July 3, 2015 |                 |                 |
| Additional paid-in capital   | 5,929           | 5,734           |
| Accumulated other comprehensive loss   | (25)            | (30)            |
| Accumulated deficit  | (4,311)         | (2,686)         |

Edgar Filing: Seagate Technology plc - Form 10-K

|   |          |          |
|---|----------|----------|
| Total Seagate Technology plc Shareholders' Equity | 1,593    | 3,018    |
| Noncontrolling interest                           |          |          |
| Total Equity                                      | 1,593    | 3,018    |
| Total Liabilities and Equity                      | \$ 8,252 | \$ 9,845 |

*See notes to consolidated financial statements.*

Table of Contents

**SEAGATE TECHNOLOGY PLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share data)

|  | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Revenue  | \$ 11,160          | \$ 13,739       | \$ 13,724        |
| Cost of revenue  | 8,545              | 9,930           | 9,878            |
| Product development  | 1,237              | 1,353           | 1,226            |
| Marketing and administrative   | 635                | 857             | 722              |
| Amortization of intangibles  | 123                | 129             | 98               |
| Restructuring and other, net   | 175                | 32              | 24               |
| Gain on arbitration award, net   |                    | (620)           |                  |
| Total operating expenses   | 10,715             | 11,681          | 11,948           |
| Income from operations   | 445                | 2,058           | 1,776            |
| Interest income  | 3                  | 6               | 8                |
| Interest expense   | (193)              | (207)           | (195)            |
| Other, net   | 19                 | 113             | (33)             |
| Other income (expense), net  | (171)              | (88)            | (220)            |
| Income before income taxes   | 274                | 1,970           | 1,556            |
| Provision for (benefit from) income taxes  | 26                 | 228             | (14)             |
| Net income   | 248                | 1,742           | 1,570            |
| Less: Net income attributable to noncontrolling interest                           |                    |                 |                  |
| Net income attributable to Seagate Technology plc                                  | \$ 248             | \$ 1,742        | \$ 1,570         |
| Net income per share attributable to Seagate Technology plc ordinary shareholders: |                    |                 |                  |
| Basic  | \$ 0.83            | \$ 5.38         | \$ 4.66          |
| Diluted  | 0.82               | 5.26            | 4.52             |
| Number of shares used in per share calculations:                                   |                    |                 |                  |
| Basic  | 299                | 324             | 337              |
| Diluted  | 302                | 331             | 347              |
| Cash dividends declared per Seagate Technology plc ordinary share                  | \$ 2.43            | \$ 2.05         | \$ 1.67          |

*See notes to consolidated financial statements.*

Table of Contents**SEAGATE TECHNOLOGY PLC****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In millions)

|  | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Net income   | \$ 248             | \$ 1,742        | \$ 1,570         |
| Other comprehensive income (loss), net of tax:                     |                    |                 |                  |
| Cash flow hedges   |                    |                 |                  |
| Change in net unrealized (loss) gain on cash flow hedges           | (4)                | (11)            | (1)              |
| Less: reclassification for amounts included in net income          | 2                  | 13              |                  |
| Net change   | (2)                | 2               | (1)              |
| Marketable securities  |                    |                 |                  |
| Change in net unrealized gain (loss) on marketable securities      |                    |                 | 1                |
| Less: reclassification for amounts included in net income          |                    |                 | 2                |
| Net change   |                    |                 | 3                |
| Post-retirement plans  |                    |                 |                  |
| Change in unrealized gain (loss) on post-retirement plans          | 8                  | (5)             | 1                |
| Less: reclassification for amounts included in net income          |                    |                 |                  |
| Net change   | 8                  | (5)             | 1                |
| Foreign currency translation adjustments                           |                    |                 |                  |
| Foreign currency translation adjustments                           | (1)                | (25)            | 8                |
| Total other comprehensive income (loss), net of tax                | 5                  | (28)            | 11               |
| Comprehensive income   | 253                | 1,714           | 1,581            |
| Less: Comprehensive income attributable to noncontrolling interest |                    |                 |                  |
| Comprehensive income attributable to Seagate Technology plc        | \$ 253             | \$ 1,714        | \$ 1,581         |

*See notes to consolidated financial statements.*



Table of Contents

**SEAGATE TECHNOLOGY PLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

|   | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| <b>OPERATING ACTIVITIES</b>   |                    |                 |                  |
| Net income  | \$ 248             | \$ 1,742        | \$ 1,570         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                 |                  |
| Depreciation and amortization   | 815                | 841             | 879              |
| Share-based compensation  | 120                | 137             | 118              |
| (Gain) loss on redemption and repurchase of debt                                  | (3)                | 74              | 81               |
| Gain on sale of investments   |                    |                 | (32)             |
| Loss (gain) on sale of property and equipment                                     |                    | 2               | (4)              |
| Impairment of long-lived assets   | 26                 |                 |                  |
| Deferred income taxes   | (2)                | 2               | (67)             |
| Other non-cash operating activities, net  | 12                 | (9)             | 14               |
| Changes in operating assets and liabilities:                                      |                    |                 |                  |
| Restricted cash and investments   |                    | (3)             | 104              |
| Accounts receivable, net  | 464                | (2)             | 4                |
| Inventories   | 145                | 29              | (20)             |
| Accounts payable  | (24)               | (58)            | (190)            |
| Accrued employee compensation   | (78)               | (40)            | (55)             |
| Accrued expenses, income taxes and warranty                                       | (42)               | (112)           | (80)             |
| Vendor non-trade receivables  |                    | 47              | 217              |
| Other assets and liabilities  | (1)                | (3)             | 19               |
| <b>Net cash provided by operating activities</b>                                  | <b>1,680</b>       | <b>2,647</b>    | <b>2,558</b>     |
| <b>INVESTING ACTIVITIES</b>   |                    |                 |                  |
| Acquisition of property, equipment and leasehold improvements                     | (587)              | (747)           | (559)            |
| Proceeds from the sale of property and equipment                                  |                    |                 | 3                |
| Proceeds from the sale of strategic investments                                   | 1                  |                 | 72               |
| Purchases of short-term investments   |                    | (5)             | (88)             |
| Sales of short-term investments   |                    | 4               | 508              |
| Maturities of short-term investments  |                    | 19              | 61               |
| Cash used in acquisition of businesses, net of cash acquired                      | (634)              | (453)           | (285)            |
| Other investing activities, net   | 9                  | (105)           | (34)             |
| <b>Net cash used in investing activities</b>                                      | <b>(1,211)</b>     | <b>(1,287)</b>  | <b>(322)</b>     |
| <b>FINANCING ACTIVITIES</b>   |                    |                 |                  |
| Net proceeds from issuance of long-term debt                                      |                    | 1,196           | 1,781            |
| Redemption and repurchase of debt   | (22)               | (1,026)         | (725)            |
| Taxes paid related to net share settlement of equity awards                       | (56)               |                 |                  |
| Repurchases of ordinary shares  | (1,090)            | (1,087)         | (1,912)          |
| Dividends to shareholders   | (727)              | (664)           | (557)            |
| Proceeds from issuance of ordinary shares under employee stock plans              | 79                 | 98              | 107              |
| Other financing activities, net   | (4)                | (12)            | (5)              |
| <b>Net cash used in financing activities</b>                                      | <b>(1,820)</b>     | <b>(1,495)</b>  | <b>(1,311)</b>   |

## Edgar Filing: Seagate Technology plc - Form 10-K

|   |              |              |              |
|---|--------------|--------------|--------------|
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (3)          | (20)         | 1            |
| (Decrease) increase in cash and cash equivalents                              | (1,354)      | (155)        | 926          |
| Cash and cash equivalents at the beginning of the year                        | 2,479        | 2,634        | 1,708        |
| <br>Cash and cash equivalents at the end of the year                          | <br>\$ 1,125 | <br>\$ 2,479 | <br>\$ 2,634 |

### Supplemental Disclosure of Cash Flow Information

|  |        |        |        |
|--|--------|--------|--------|
| Cash paid for interest                     | \$ 200 | \$ 216 | \$ 198 |
| Cash paid for income taxes, net of refunds | \$ 40  | \$ 285 | \$ 50  |

*See notes to consolidated financial statements.*

Table of Contents

**SEAGATE TECHNOLOGY PLC**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For Fiscal Years Ended July 1, 2016, July 3, 2015 and June 27, 2014**  
**(In millions)**

|   | Seagate Technology plc Ordinary Shareholders |                                    |                              |                                  |                                |                        |                 | Noncontrolling<br>Interest |
|---|--|------------------------------------|------------------------------|----------------------------------|--------------------------------|------------------------|-----------------|----------------------------|
|   | Total<br>Equity                              | Number<br>of<br>Ordinary<br>Shares | Par<br>Value<br>of<br>Shares | Additional<br>Paid-in<br>Capital | Comprehensive<br>Other<br>Loss | Accumulated<br>Deficit | Total           |                            |
| Balance at, June 28, 2013   | \$ 3,506                                     | 359                                | \$                           | \$ 5,286                         | \$ (13)                        | \$ (1,778)             | \$ 3,495        | \$ 11                      |
| Net income  | 1,570  |                                    |                              |                                  |                                | 1,570                  | 1,570           |                            |
| Other comprehensive income  | 11   |                                    |                              |                                  | 10                             |                        | 10              | 1                          |
| Issuance of ordinary shares under employee stock plans                | 107  | 9                                  |                              | 107                              |                                |                        | 107             |                            |
| Repurchases of ordinary shares  | (1,912)                                      | (41)                               |                              |                                  |                                | (1,912)                | (1,912)         |                            |
| Dividends to shareholders   | (557)  |                                    |                              |                                  |                                | (557)                  | (557)           |                            |
| Share-based compensation  | 118  |                                    |                              | 118                              |                                |                        | 118             |                            |
| Purchase of additional subsidiary shares from noncontrolling interest | (11)   |                                    |                              |                                  | 1                              |                        | 1               | (12)                       |
| <b>Balance at, June 27, 2014</b>                                      | <b>2,832</b>                                 | <b>327</b>                         |                              | <b>5,511</b>                     | <b>(2)</b>                     | <b>(2,677)</b>         | <b>2,832</b>    |                            |
| Net income  | 1,742  |                                    |                              |                                  |                                | 1,742                  | 1,742           |                            |
| Other comprehensive loss  | (28)   |                                    |                              |                                  | (28)                           |                        | (28)            |                            |
| Issuance of ordinary shares under employee stock plans                | 98   | 7                                  |                              | 98                               |                                |                        | 98              |                            |
| Repurchases of ordinary shares  | (1,087)                                      | (19)                               |                              |                                  |                                | (1,087)                | (1,087)         |                            |
| Dividends to shareholders   | (664)  |                                    |                              |                                  |                                | (664)                  | (664)           |                            |
| Share-based compensation  | 137  |                                    |                              | 137                              |                                |                        | 137             |                            |
| Other   | (12)   |                                    |                              | (12)                             |                                |                        | (12)            |                            |
| <b>Balance at, July 3, 2015</b>                                       | <b>3,018</b>                                 | <b>315</b>                         |                              | <b>5,734</b>                     | <b>(30)</b>                    | <b>(2,686)</b>         | <b>3,018</b>    |                            |
| Net income  | 248  |                                    |                              |                                  |                                | 248                    | 248             |                            |
| Other comprehensive income  | 5  |                                    |                              |                                  | 5                              |                        | 5               |                            |
| Issuance of ordinary shares under employee stock plans                | 79   | 8                                  |                              | 79                               |                                |                        | 79              |                            |
| Repurchases of ordinary shares  | (1,090)                                      | (23)                               |                              |                                  |                                | (1,090)                | (1,090)         |                            |
| Tax withholding related to vesting of restricted stock units          | (56)   | (1)                                |                              |                                  |                                | (56)                   | (56)            |                            |
| Dividends to shareholders   | (727)  |                                    |                              |                                  |                                | (727)                  | (727)           |                            |
| Share-based compensation  | 120  |                                    |                              | 120                              |                                |                        | 120             |                            |
| Other   | (4)  |                                    |                              | (4)                              |                                |                        | (4)             |                            |
| <b>Balance at, July 1, 2016</b>                                       | <b>\$ 1,593</b>                              | <b>299</b>                         | <b>\$</b>                    | <b>\$ 5,929</b>                  | <b>\$ (25)</b>                 | <b>\$ (4,311)</b>      | <b>\$ 1,593</b> | <b>\$</b>                  |

*See notes to consolidated financial statements.*

Table of Contents

**SEAGATE TECHNOLOGY PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Summary of Significant Accounting Policies**

*Organization*

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

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

The Company's products are designed for mission critical and nearline applications in enterprise servers and storage systems; client compute applications, where our products are designed primarily for desktop and mobile computing; and client non-compute applications, where our products are designed for a wide variety of end user devices such as digital video recorders ("DVRs"), personal data backup systems, portable external storage systems, digital media systems and surveillance systems.

The Company's Cloud Systems and Solutions builds on the Seagate legacy to extend innovation from the device into the information infrastructure, onsite and in the cloud. Our approach to data management supports HPC, open source and software-defined solutions. Our portfolio includes HPC storage solutions, modular original equipment manufacturers ("OEM") storage systems and scale-out storage systems.

*Basis of Presentation and Consolidation*

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

The preparation of financial statements in accordance with U.S. generally accepted accounting principles also requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements.

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to June 30. Accordingly, fiscal year 2016 comprised 52 weeks and ended on July 1, 2016. Fiscal years 2015 and 2014 were comprised of 53 and 52 weeks and ended on July 3, 2015, and June 27, 2014, respectively. All references to years in these Notes to Consolidated Financial Statements represent fiscal years unless otherwise noted. Fiscal year 2017 will be 52 weeks and will end on June 30, 2017.

*Summary of Significant Accounting Policies*

*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.

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

Cash equivalents are carried at cost, which approximates fair value. The Company's short-term investments are primarily comprised of money market funds, certificates of deposits, and other interest-bearing bank deposits. The Company has classified its marketable securities as available-for-sale and they 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 Company evaluates the available-for sale securities in an unrealized loss position for other-than-temporary impairment. Realized gains and losses are included in Other, net. The cost of securities sold is based on the specific identification method.

*Restricted Cash and Investments.* Restricted cash and investments represent cash and cash equivalents and investments that are restricted as to withdrawal or use for other than current operations.

*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, global macroeconomic conditions and an analysis of specific exposures. The provision for doubtful accounts is recorded as a charge to Marketing and administrative expense.

*Inventory.* Inventories are valued at the lower of 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.* Property, equipment and leasehold improvements are stated at cost. Equipment and buildings are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the lease. The costs of additions and substantial improvements to property, equipment and leasehold improvements, which extend the economic life of the underlying assets, are capitalized. The cost of maintenance and repairs to property, equipment and leasehold improvements are expensed as incurred.

*Assessment of Goodwill and Other Long-lived Assets for Impairment.* The Company accounts for goodwill in accordance with Accounting Standards Codification ("ASC") Topic 350 ("ASC 350"), *Intangibles Goodwill and Other*. During fiscal year 2012, the Company adopted Accounting Standard Update ("ASU") No. 2011-08, *Intangibles Goodwill and Other (ASC Topic 350) Testing Goodwill for Impairment*. The Company performs a qualitative assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in the overall industry that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If it is determined in the qualitative assessment that the fair value of a reporting unit is more likely than not below its carrying amount, including goodwill, then the Company performs a quantitative two-step impairment test. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over its implied fair value is recognized as an impairment loss.

The Company tests other long-lived assets, including property, equipment and leasehold improvements and other intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that the carrying value of those assets may not be recoverable. The Company performs a recoverability test to assess the recoverability of an asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

fair value of the asset group and the excess of the carrying value over the fair value is allocated pro rata to derive the adjusted carrying value of assets in the asset group. The adjusted carrying value of each asset in the asset group is not reduced below its fair value.

The Company tests other intangible assets not subject to amortization whenever events occur or circumstances change, such as declining financial performance, deterioration in the environment in which the entity operates or deteriorating macroeconomic conditions that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

*Derivative Financial Instruments.* The Company applies the requirements of ASC Topic 815 ("ASC 815"), *Derivatives and Hedging*. ASC 815 requires that all derivatives be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships.

*Establishment of Warranty Accruals.* The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of 1 to 5 years. The Company's warranty provision considers estimated product failure rates and trends (including the timing of product returns during the warranty periods), and estimated repair or replacement costs related to product quality issues, if any. The Company also exercises judgment in estimating its ability to sell certain repaired products. Should actual experience in any future period differ significantly from its estimates, the Company's future results of operations could be materially affected.

*Revenue Recognition, Sales Returns and Allowances, and Sales Incentive Programs.* The Company's revenue recognition policy complies with ASC Topic 605 (ASC 605), *Revenue Recognition*. 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. Revenue from sales of products to certain direct retail customers and to customers in certain indirect retail channels is recognized on a sell-through basis.

The Company records estimated product returns at the time of shipment. The Company also estimates reductions to revenue for sales incentive programs, such as price protection, and volume incentives, and records such reductions when revenue is recorded. The Company establishes certain distributor and OEM sales programs aimed at increasing customer demand. For OEM sales, rebates are typically based on an OEM customer's volume of purchases from Seagate or other agreed upon rebate programs. 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. The Company provides for these obligations at the time that revenue is recorded based on estimated requirements. Marketing development programs are recorded as a reduction to revenue.

*Shipping and Handling.* The Company includes costs related to shipping and handling in Cost of revenue for all periods presented.

*Restructuring Costs.* The Company records restructuring activities including costs for one-time termination benefits in accordance with ASC Topic 420 ("ASC 420"), *Exit or Disposal Cost Obligations*. The timing of recognition for severance costs accounted for under ASC 420 depends on whether employees are required to render service until they are terminated in order to receive the termination benefits. If employees are required to render service until they are terminated in order to receive the termination benefits, a liability is recognized ratably over the future service period. Otherwise, a liability is recognized

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

when management has committed to a restructuring plan and has communicated those actions to employees. Employee termination benefits covered by existing benefit arrangements are recorded in accordance with ASC Topic 712, *Non-retirement Postemployment Benefits*. These costs are recognized when management has committed to a restructuring plan and the severance costs are probable and estimable.

*Advertising Expense.* The cost of advertising is expensed as incurred. Advertising costs were approximately \$31 million, \$64 million and \$52 million in fiscal years 2016, 2015 and 2014, respectively.

*Stock-Based Compensation.* The Company accounts for stock-based compensation under the provisions of ASC Topic 718 (ASC 718), *Compensation-Stock Compensation*. The Company has elected to apply the with-and-without method to assess the realization of related excess tax benefits.

*Accounting for Income Taxes.* The Company accounts for income taxes pursuant to ASC Topic 740 ("ASC 740"), *Income Taxes*. In applying ASC 740, 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 calculation of specific tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for income tax and financial statement purposes, as well as tax liabilities associated with uncertain tax positions. 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 jurisdictions. If estimates of these tax liabilities are greater or less than actual results, an additional tax benefit or provision will result. The deferred tax assets the Company records each period depend primarily on the Company's ability to generate future taxable income in the United States and certain non-U.S. 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, and the amount of, a valuation allowance may also change.

*Comprehensive Income.* The Company presents comprehensive income in a separate statement. Comprehensive income is comprised of net income and other gains and losses affecting equity that are excluded from net income.

*Foreign Currency Remeasurement and Translation.* The U.S. dollar is the functional currency for the majority of the Company's foreign operations. Monetary assets and liabilities denominated in foreign currencies are remeasured into the functional currency of the subsidiary at the balance sheet date. The gains and losses from the remeasurement of foreign currency denominated balances into the functional currency of the subsidiary are included in Other, net on the Company's Consolidated Statements of Operations. The Company had \$1 million in remeasurement losses in fiscal year 2016 with \$33 million and \$8 million in remeasurement gains in fiscal years 2015 and 2014, respectively.

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in Accumulated Other comprehensive income (loss), which is a component of shareholders' equity. The Company's subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities at exchange rates in effect at the end of each period, and inventories, property, and nonmonetary assets and liabilities at historical rates. Gains and losses from these remeasurements were not significant and have been included in the Company's results of operations.

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Concentrations*

*Concentration of Credit Risk.* The Company's customer base for disk drive products is concentrated with a small number of OEMs and distributors. The Company does not generally require collateral or other security to support accounts receivable. To reduce credit risk, the Company performs ongoing credit evaluations on its customers' financial condition. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Hewlett-Packard Company and Dell Inc. each accounted for more than 10% of the Company's accounts receivable as of July 1, 2016.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments and foreign currency forward exchange contracts. The Company further mitigates concentrations of credit risk in its investments through diversification, by limiting its investments in the debt securities of a single issuer, and investing in highly rated securities.

In entering into foreign currency forward exchange contracts, the Company assumes the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The counterparties to these contracts are major multinational commercial banks, and the Company has not incurred and does not expect any losses as a result of counterparty defaults.

*Supplier Concentration.* Certain of the raw materials, components and equipment used by the Company in the manufacture of its products are available from a sole supplier or 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 materials, components or equipment at acceptable prices, 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 may make 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.

*Recent Accounting Pronouncements*

In May 2014, August 2015, April 2016 and May 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers*, ASU 2015-14 (ASC Topic 606) *Revenue from Contracts with Customers, Deferral of the Effective Date*, ASU 2016-10 (ASC Topic 606) *Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing*, and ASU 2016-12 (ASC Topic 606) *Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients*, respectively. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is in the process of assessing the impact, if any, on its consolidated financial statements and plans to adopt the modified retrospective transition approach.

In April 2015 and August 2015, the FASB issued ASU 2015-03 (ASC Subtopic 835-30), *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* and ASU 2015-15 (ASC



Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

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

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

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

In November 2015, the FASB issued ASU 2015-17 (ASC Topic 740), *Income Taxes Balance Sheet Classification of Deferred Taxes*. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted by all entities as of the beginning of an interim or annual reporting period. The Company early adopted this ASU for the December 2015 quarter on a prospective basis. See "Note 7. Income Taxes" for disclosure of the financial statement impact of this adoption.

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

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), *Leases*. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

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

**2. Balance Sheet Information***Investments*

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

| (Dollars in millions)                 | Amortized<br>Cost | Unrealized<br>Gain/(Loss) | Fair<br>Value |
|---------------------------------------|-------------------|---------------------------|---------------|
| Available-for-sale securities:        |                   |                           |               |
| Money market funds                    | \$ 318            | \$                        | \$ 318        |
| Corporate bonds                       | 6                 |                           | 6             |
| Certificates of deposit               | 444               |                           | 444           |
| <b>Total</b>                          | <b>\$ 768</b>     | <b>\$</b>                 | <b>\$ 768</b> |
| <br>                                  |                   |                           |               |
| Included in Cash and cash equivalents |                   |                           | \$ 755        |
| Included in Short-term investments    |                   |                           | 6             |
| Included in Other current assets      |                   |                           | 7             |
| <b>Total</b>                          |                   |                           | <b>\$ 768</b> |

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

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

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| (Dollars in millions)   | Amortized<br>Cost | Fair<br>Value |
|-------------------------|-------------------|---------------|
| Due in less than 1 year | \$ 767            | \$ 767        |
| Due in 1 to 5 years     | 1                 | 1             |
| Due in 5 to 10 years    |                   |               |
| Thereafter              |                   |               |
| <b>Total</b>            | <b>\$ 768</b>     | <b>\$ 768</b> |

Equity securities which do not have a contractual maturity date are not included in the above table.

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

| (Dollars in millions)          | Amortized<br>Cost | Unrealized<br>Gain/(Loss) | Fair<br>Value   |
|--------------------------------|-------------------|---------------------------|-----------------|
| Available-for-sale securities: |                   |                           |                 |
| Money market funds             | \$ 1,203          | \$                        | \$ 1,203        |
| Corporate bonds                | 6                 |                           | 6               |
| Certificates of deposit        | 867               |                           | 867             |
| <b>Total</b>                   | <b>\$ 2,076</b>   | <b>\$</b>                 | <b>\$ 2,076</b> |

|                                       |                 |
|---------------------------------------|-----------------|
| Included in Cash and cash equivalents | \$ 2,063        |
| Included in Short-term investments    | 6               |
| Included in Other current assets      | 7               |
| <b>Total</b>                          | <b>\$ 2,076</b> |

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

As of July 3, 2015, the Company had no available-for-sale securities that had been in a continuous unrealized loss position for a period greater than 12 months. The Company determined no available-for-sale securities were other-than-temporarily impaired as of July 3, 2015.

*Accounts Receivable, net*

The following table provides details of the accounts receivable, net balance sheet item:

| (Dollars in millions) | July 1,<br>2016 | July 3,<br>2015 |
|-----------------------|-----------------|-----------------|
| Accounts receivable   | \$ 1,327        | \$ 1,744        |

Edgar Filing: Seagate Technology plc - Form 10-K

Allowance for doubtful accounts (9) (9)

\$ 1,318 \$ 1,735

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activity in the allowance for doubtful accounts is as follows:

| (Dollars in millions)           | Balance at<br>Beginning of<br>Period | Charges<br>(Credit) to<br>Operations | Deductions <sup>(a)</sup> | Balance at<br>End of<br>Period |
|---------------------------------|--------------------------------------|--------------------------------------|---------------------------|--------------------------------|
| Fiscal year ended June 27, 2014 | \$ 8                                 | 4                                    |                           | \$ 12                          |
| Fiscal year ended July 3, 2015  | \$ 12                                |                                      | (3)                       | \$ 9                           |
| Fiscal year ended July 1, 2016  | \$ 9                                 | 1                                    | (1)                       | \$ 9                           |

- (a) Uncollectible accounts written off, net of recoveries.

*Inventories*

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

| (Dollars in millions)        | July 1,<br>2016 | July 3,<br>2015 |
|------------------------------|-----------------|-----------------|
| Raw materials and components | \$ 307          | \$ 352          |
| Work-in-process              | 297             | 239             |
| Finished goods               | 264             | 402             |
|                              | \$ 868          | \$ 993          |

*Other Current Assets*

The following table provides details of the other current assets balance sheet item:

| (Dollars in millions)        | July 1,<br>2016 | July 3,<br>2015 |
|------------------------------|-----------------|-----------------|
| Vendor non-trade receivables | \$ 66           | \$ 66           |
| Other                        | 150             | 167             |
|                              | \$ 216          | \$ 233          |

Other current assets include non-trade receivables from certain manufacturing vendors resulting from the sale of components to these vendors who manufacture completed sub-assemblies or finished goods for 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 PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Property, Equipment and Leasehold Improvements, net*

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

| (Dollars in millions)                           | Useful Life<br>in Years | July 1,<br>2016 | July 3,<br>2015 |
|---|-------------------------|-----------------|-----------------|
| Land and land improvements                      |                         | \$ 69           | \$ 48           |
| Equipment                                       | 3 5                     | 7,681           | 7,440           |
| Buildings and leasehold improvements            | Up to 48                | 1,900           | 1,595           |
| Construction in progress                        |                         | 234             | 547             |
|   |                         | 9,884           | 9,630           |
| Less: accumulated depreciation and amortization |                         | (7,724)         | (7,352)         |
|   |                         | \$ 2,160        | \$ 2,278        |

Depreciation expense, which includes amortization of leasehold improvements, was \$641 million, \$689 million and \$748 million for fiscal years 2016, 2015 and 2014, 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 2016, 2015 and 2014, the Company capitalized interest of \$13 million, \$15 million and \$7 million, respectively.

During fiscal year ended 2016, the Company determined it would discontinue the use of certain manufacturing property and equipment in the short-term, and that certain other manufacturing property and equipment was permanently impaired, and as a result recognized a charge of \$53 million from the write-off and accelerated depreciation of of these fixed assets. This amount was recorded in Cost of revenue in the Consolidated Statement of Operations. The Company did not record any material impairment charges in fiscal years 2015 and 2014.

*Accumulated Other Comprehensive Income (Loss) ("AOCI")*

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

| (Dollars in millions)                                      | Unrealized<br>Gains<br>(Losses)<br>on Cash Flow<br>Hedges | Unrealized<br>Gains<br>(Losses)<br>on<br>Marketable<br>Securities <sup>(a)</sup> | Unrealized<br>Gains (Losses)<br>on<br>Post-Retirement<br>Plans | Foreign<br>Currency<br>Translation<br>Adjustments | Total  |
|--|---|--|--|---|--------|
| <b>Balance at June 27, 2014</b>                            | \$ (1)  | \$   | \$ (10)  | \$ 9  | \$ (2) |
| Other comprehensive income (loss) before reclassifications | (11)  |  | (5)  | (25)  | (41)   |
| Amounts reclassified from AOCI                             | 13  |  |  |   | 13     |
| Other comprehensive income (loss)                          | 2   |  | (5)  | (25)  | (28)   |
| <b>Balance at July 3, 2015</b>                             | 1   |  | (15)   | (16)  | (30)   |
| Other comprehensive income (loss) before reclassifications | (4)   |  | 8  | (1)   | 3      |
| Amounts reclassified from AOCI                             | 2   |  |  |   | 2      |
| Other comprehensive income (loss)                          | (2)   |  | 8  | (1)   | 5      |

Edgar Filing: Seagate Technology plc - Form 10-K

|                                |    |     |    |     |    |      |    |      |
|--------------------------------|----|-----|----|-----|----|------|----|------|
| <b>Balance at July 1, 2016</b> | \$ | (1) | \$ | (7) | \$ | (17) | \$ | (25) |
|--------------------------------|----|-----|----|-----|----|------|----|------|

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

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**3. Acquisitions***Dot Hill Systems Corp.*

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

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

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

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

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

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



## Edgar Filing: Seagate Technology plc - Form 10-K

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

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

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*LSI's Flash Business*

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

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

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

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

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

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

The Company incurred approximately \$1 million of expenses related to the acquisition of LSI's Flash Business in fiscal year 2015, which are included within Marketing and administrative expense on the Consolidated Statement of Operations.

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



Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Xyratex Ltd*

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

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

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

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

| (Dollars in millions)                             | Fair Value | Weighted-Average<br>Amortization<br>Period |
|---|------------|--|
| Existing technology                               | \$ 23      | 5.5 years                                  |
| Customer relationships                            | 18         | 3.9 years                                  |
| <br>Total amortizable intangible assets acquired  | <br>41     | <br>4.8 years                              |
| In-process research and development               | 39         |  |
| <br>Total acquired identifiable intangible assets | <br>\$ 80  |  |

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

The Company incurred a total of \$10 million of expenses related to the acquisition of Xyratex in fiscal year 2014, which are included within Marketing and administrative expense on the Consolidated Statement of Operations.

## Edgar Filing: Seagate Technology plc - Form 10-K

The amounts of revenue and earnings of Xyratex included in the Company's Consolidated Statement of Operations from the acquisition date through the end of fiscal year ended June 27, 2014 were not significant.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**4. Goodwill and Other Intangible Assets***Goodwill*

The changes in the carrying amount of goodwill are as follows:

| (Dollars in millions)               | Amount   |
|-------------------------------------|----------|
| As of June 27, 2014                 | \$ 537   |
| Goodwill acquired                   | 339      |
| Foreign currency translation effect | (2)      |
| As of July 3, 2015                  | \$ 874   |
| Goodwill acquired                   | 364      |
| Goodwill disposed                   | (1)      |
| Foreign currency translation effect |          |
| As of July 1, 2016                  | \$ 1,237 |

*Other Intangible Assets*

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

In fiscal years 2016, 2015 and 2014, amortization expense for other intangible assets was \$174 million, \$152 million and \$131 million, respectively.

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

| (Dollars in millions)                     | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Amount | Weighted Average<br>Remaining Useful<br>Life |
|---|--------------------------|-----------------------------|------------------------|--|
| Existing technology                       | \$ 297                   | \$ (79)                     | \$ 218                 | 4.1 years                                    |
| Customer relationships                    | 510                      | (328)                       | 182                    | 3.2 years                                    |
| Trade name                                | 29                       | (14)                        | 15                     | 2.6 years                                    |
| Other intangible assets                   | 29                       | (10)                        | 19                     | 3.2 years                                    |
| Total amortizable other intangible assets | \$ 865                   | \$ (431)                    | \$ 434                 | 3.6 years                                    |

The carrying value of IPR&D not subject to amortization was \$14 million on July 1, 2016.



Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

The carrying value of IPR&D not subject to amortization was \$0 million on July 3, 2015.

As of July 1, 2016, expected amortization expense for other intangible assets for each of the next five years and thereafter is as follows:

| (Dollars in millions) | Amount        |
|-----------------------|---------------|
| 2017                  | \$ 166        |
| 2018                  | 106           |
| 2019                  | 68            |
| 2020                  | 50            |
| 2021                  | 23            |
| Thereafter            | 21            |
|                       | <b>\$ 434</b> |

## 5. Restructuring and Exit Costs

During fiscal years 2016, 2015 and 2014, the Company recorded restructuring charges of \$175 million, \$32 million and \$24 million, respectively, comprised primarily of charges related to employee termination costs and facility exit costs associated with restructuring of our workforce during each fiscal year. The Company's significant restructuring plans are described below. All restructuring charges are reported in Restructuring and other, net on the Consolidated Statements of Operations.

*June 2016 Plan* On June 27, 2016, the Company committed to a restructuring plan (the "June 2016 Plan") as part of the Company's efforts to reduce its cost structure to align with the current macroeconomic conditions. The June 2016 Plan included reducing worldwide headcount by approximately 1,600 employees. The June 2016 Plan is expected to be largely completed by the end of the September 2016 quarter. During fiscal year 2016, the Company recorded total restructuring charges of approximately \$69 million related to the June 2016 Plan, comprised of employee termination costs. The Company made cash payments of \$24 million in fiscal year 2016, comprised of employee termination costs related to the June 2016 Plan.

*February 2016 Plan* On February 15, 2016, the Company committed to a restructuring plan (the "February 2016 Plan") intended to align our manufacturing footprint with current macroeconomic conditions. The February 2016 Plan included reducing worldwide headcount by approximately 2,000 employees. The February 2016 Plan was largely completed by the fiscal quarter ended April 1, 2016. During fiscal year 2016, the Company recorded total restructuring charges and made cash payments of



Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately \$15 million related to the February 2016 Plan, comprised primarily of employee termination costs.

*September 2015 Plan* On September 4, 2015, the Company committed to a restructuring plan (the "September 2015 Plan") intended to realign its cost structure with the current macroeconomic business environment. The September 2015 Plan included reducing worldwide headcount by approximately 1,000 employees. The September 2015 Plan was largely completed by the fiscal quarter ended January 1, 2016. During fiscal year 2016, the Company recorded total restructuring charges of approximately \$65 million related to the September 2015 Plan, comprised of approximately \$57 million for employee termination costs and \$8 million facility exit costs, respectively. The Company made cash payments of \$59 million, comprised primarily of employee termination costs related to the September 2015 Plan.

*Fiscal 2015 Plan* During fiscal year 2015, the Company recorded employee termination costs of \$25 million and made cash payments of \$16 million associated with a reduction in the workforce. The 2015 Plan was largely completed by fiscal year 2015. The Company did not record any material restructuring charges related to the 2015 Plan during fiscal year 2016.

*Other Restructuring and Exit Costs* During fiscal year 2016, the Company recorded restructuring charges of approximately \$26 million, comprised of approximately \$12 million for employee termination costs and \$14 million facility exit costs. The Company made cash payments of \$33 million, comprised of approximately \$19 million for employee termination costs and \$14 million facility exit costs related to other restructuring plans.

The following table summarizes the Company's restructuring activities under all of the Company's active restructuring plans for fiscal years 2016, 2015 and 2014:

| (Dollars in millions)               | Post-<br>Employment<br>Benefits | Operating<br>Leases | Other<br>Exit<br>Costs | Total |
|-------------------------------------|---------------------------------|---------------------|------------------------|-------|
| <b>All Restructuring Activities</b> |                                 |                     |                        |       |
| Accrual balances at June 28, 2013   | \$ 2                            | \$ 15               | \$                     | \$ 17 |
| Restructuring charges               | 18                              | 3                   | 2                      | 23    |
| Cash payments                       | (20)                            | (5)                 | (2)                    | (27)  |
| Adjustments                         | 2                               | (1)                 |                        | 1     |
| Accrual balances at June 27, 2014   | 2                               | 12                  |                        | 14    |
| Restructuring charges               | 23                              | 3                   | 4                      | 30    |
| Cash payments                       | (17)                            | (6)                 | (4)                    | (27)  |
| Adjustments                         | 3                               | (1)                 |                        | 2     |
| Accrual balances at July 3, 2015    | 11                              | 8                   |                        | 19    |
| Restructuring charges               | 151                             | 14                  | 10                     | 175   |
| Cash payments                       | (113)                           | (8)                 | (10)                   | (131) |
| Adjustments                         | 1                               | (1)                 |                        |       |
| Accrual balances at July 1, 2016    | \$ 50                           | \$ 13               | \$                     | \$ 63 |

Of the accrued restructuring balance of \$63 million at July 1, 2016, \$61 million is included in Accrued expenses and \$2 million is included in Other non-current liabilities in the Company's Consolidated Balance Sheet. Of the accrued restructuring balance of approximately \$19 million at July 3, 2015, \$15 million is included in Accrued expenses and \$4 million is included in Other non-current liabilities in the Company's Consolidated Balance Sheet.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**6. Debt***Short-Term Borrowings*

The credit agreement entered into by the Company and its subsidiary Seagate HDD Cayman on January 18, 2011 and subsequently amended (the "Revolving Credit Facility") provides the Company with a \$700 million senior secured revolving credit facility. The term of the Revolving Credit Facility is through January 15, 2020, provided that if the Company does not have Investment Grade Ratings (as defined in the Revolving Credit Facility) on August 15, 2018, then the maturity date will be August 16, 2018 unless certain extension conditions have been satisfied. The loans made under the Revolving Credit Facility will bear interest at a rate of LIBOR plus a variable margin that will be determined based on the corporate credit rating of the Company. The Company and certain of its material subsidiaries fully and unconditionally guarantee the Revolving Credit Facility. The Revolving Credit Facility is available for cash borrowings, subject to compliance with certain covenants and other customary conditions to borrowing, and for the issuance of letters of credit up to a sub-limit of \$75 million. The Revolving Credit Facility, as amended, includes three financial covenants: (1) minimum cash, cash equivalents and marketable securities; (2) a fixed charge coverage ratio; and (3) a net leverage ratio. On April 27, 2016, the Revolving Credit Agreement was amended in order to increase the allowable net leverage ratio to allow for higher net leverage levels. The Company were in compliance with the modified covenants as of July 1, 2016 and expect to be in compliance for the next 12 months. As of July 1, 2016, no borrowings had been drawn or letters of credit utilized under the Revolving Credit Facility.

*Long-Term Debt*

*\$600 million Aggregate Principal Amount of 6.8% Senior Notes due October 2016 (the "2016 Notes").* On September 20, 2006, the Company's subsidiary, Seagate Technology HDD Holdings, completed the sale of \$600 million aggregate principal amount of the 2016 Notes, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The interest on the 2016 Notes is payable semi-annually on April 1 and October 1 of each year. The issuer under the 2016 Notes is Seagate HDD Cayman, and the obligations under the 2016 Notes are unconditionally guaranteed by certain of the Company's significant subsidiaries. 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. During the December 2014 quarter, the 2016 Notes were fully extinguished through repurchase and redemption for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the repurchase and redemption of approximately \$34 million, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$800 million Aggregate Principal Amount of 3.75% Senior Notes due November 2018 (the "2018 Notes").* On November 5, 2013, Seagate HDD Cayman, issued \$800 million in aggregate principal amount of 3.75% Senior Notes, which mature on November 15, 2018, in a private placement. The interest on the Notes is payable semi-annually on May 15 and November 15 of each year. The Notes are redeemable at the option of Seagate HDD Cayman 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" premium 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 schedule payments of principal and interest on the Notes being redeemed,

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

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. Accrued and unpaid interest, if any will be paid to, but excluding, the redemption date. The Notes are fully and unconditionally guaranteed by the Company on a senior unsecured basis.

*\$600 million Aggregate Principal Amount of 6.875% Senior Notes due May 2020 (the "2020 Notes").* On May 13, 2010, the Company's subsidiary, Seagate HDD Cayman, completed the sale of \$600 million aggregate principal amount of the 2020 Notes, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The obligations under the 2020 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The interest on the 2020 Notes is payable semi-annually on May 1 and November 1 of each year. The 2020 Notes were redeemable any time prior to May 1, 2015 at the option of the Company, in whole or in part, at a redemption price of 100% of the principal amount plus an "applicable premium" and accrued and unpaid interest, if any, to the redemption date. The "applicable premium" was equal to the greater of (1) 1% of the principal amount of the 2020 Notes, or (2) the excess, if any, of (a) the present value of the redemption price on May 1, 2015 plus interest payments due through May 1, 2015, discounted at the applicable Treasury rate as of the redemption date plus 50 basis points; over (b) the principal amount of such note. The 2020 Notes are redeemable at any time on or after May 1, 2015 at various prices expressed as a percentage of principal amount, as set forth in the indentures, plus accrued and unpaid interest, if any, to the redemption date. The issuer under the 2020 Notes is Seagate HDD Cayman, and the obligations under the 2020 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. During fiscal year 2014, the Company repurchased \$66 million aggregate principal amount of its 2020 Notes for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the repurchase of approximately \$7 million, which is included in Other, net in the Company's Consolidated Statement of Operations. During fiscal year 2015, the 2020 Notes were fully extinguished through repurchase and redemption for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the repurchase of approximately \$26 million, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$600 million Aggregate Principal Amount of 7.00% Senior Notes due November 2021 (the "2021 Notes").* On May 18, 2011, the Company's subsidiary, Seagate HDD Cayman, completed the sale of \$600 million aggregate principal amount of the 2021 Notes, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The obligations under the 2021 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The interest on the 2021 Notes is payable semi-annually on January 1 and July 1 of each year. The 2021 Notes are redeemable any time prior to May 1, 2016 at the option of the Company, in whole or in part, at a redemption price of 100% of the principal amount plus an "applicable premium" and accrued and unpaid interest, if any, to the redemption date. The "applicable premium" will be equal to the greater of (1) 1% of the principal amount of the 2021 Notes, or (2) the excess, if any, of (a) the present value of the redemption price on May 1, 2016 plus interest payments due through May 1, 2016, discounted at the applicable Treasury rate as of the redemption date plus 50 basis points; over (b) the principal amount of such note. The 2021 Notes are redeemable at any time on or after May 1, 2016 at various prices expressed as a percentage of principal amount, as set forth in the indentures, plus accrued and unpaid interest, if any, to the redemption date. In addition, any time before May 1, 2014, the Company may redeem up to 35% of the principal amount with the net cash proceeds from permitted sales of the Company's stock at a redemption price of 107% of the principal amount plus accrued interest to the redemption date. The issuer under the 2021 Notes is Seagate HDD Cayman and the obligations under the 2021 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. During fiscal year 2014, the Company repurchased \$349 million

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

aggregate principal amount of its 2021 Notes for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the repurchase of approximately \$54 million, which is included in Other, net in the Company's Consolidated Statement of Operations. During fiscal year 2015, the Company repurchased \$93 million aggregate principal amount of its 2021 Notes for cash at a premium to their principal amount, plus accrued and unpaid interest. The Company recorded a loss on the repurchase of approximately \$13 million, which is included in Other, net in the Company's Consolidated Statement of Operations. During fiscal year 2016, the Company repurchased \$1 million aggregate principal amount of its 2021 Notes for cash at a premium to their principal amount, plus accrued and unpaid interest. The loss recorded on the repurchase was immaterial, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$1 billion Aggregate Principal Amount of 4.75% Senior Notes due June 2023 (the "2023 Notes").* On May 22, 2013, Seagate HDD Cayman, issued \$1 billion in aggregate principal amount of 4.75% Senior Notes, which mature on June 1, 2023, in a private placement. The obligations under the 2023 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The interest on the 2023 Notes is payable semi-annually on June 1 and December 1 of each year. The 2023 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 2023 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. Accrued and unpaid interest, if any, will be paid to, but excluding, the redemption date. During fiscal year 2016, the Company repurchased \$10 million aggregate principal amount of its 2023 Notes for cash at a discount to their principal amount, plus accrued and unpaid interest. The loss recorded on the repurchase was immaterial, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$1 billion Aggregate principal amount of 4.75% Senior Notes due January 2025 (the "2025 Notes").* On May 28, 2014, Seagate HDD Cayman issued, in a private placement, \$1 billion in aggregate principal amount of 4.75% Senior Notes due 2025, which mature on January 1, 2025. The interest on the Notes will be payable in cash semiannually on January 1 and July 1 of each year, commencing on January 1, 2015. At any time, upon not less than 30 nor more than 60 days' notice, Seagate HDD may redeem some or all of the Notes at a "make-whole" redemption price. The "make-whole" redemption price will be equal to the greater of (1) 100% of the principal amount of the Notes redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed, discounted to the redemption date on a semi-annual basis at a rate equal to the sum of the Treasury Rate plus 50 basis points. Accrued and unpaid interest, if any, will be paid to, but excluding, the redemption date. The Notes are fully and unconditionally guaranteed by the Company on a senior unsecured basis. During fiscal year 2016, the Company repurchased \$5 million aggregate principal amount of its 2025 Notes for cash at a discount to their principal amount, plus accrued and unpaid interest. The gain recorded on the repurchase was immaterial, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$500 million Aggregate Principal Amount of 5.75% Senior Notes due December, 2034 (the "2034 Notes").* On December 2, 2014, Seagate HDD Cayman issued, in a private placement, \$500 million in aggregate principal amount of 5.75% Senior Notes, which mature on December 1, 2034. The interest on the Notes is payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2015. At any time before June 1, 2034, Seagate HDD Cayman may redeem some or all of the Notes at a "make-whole" redemption price. The "make-whole" redemption price will be equal to (1) 100% of the principal amount of the Notes redeemed, plus (2) the excess, if any of (x) the sum of the present values of the remaining

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

scheduled payments of principal and interest on the Notes being redeemed, discounted to the redemption date on a semi-annual basis at a rate equal to the sum of the Treasury Rate plus 50 basis points, minus accrued and unpaid interest, if any, on the Notes being redeemed to, but excluding, the redemption date over (y) the principal amount of the Notes being redeemed, plus (3) accrued and unpaid interest, if any, on the Notes being redeemed to, but excluding, the redemption date. At any time on or after June 1, 2034, the Company may redeem some or all of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. The issuer under the 2034 Notes is Seagate HDD Cayman, and the obligations under the 2034 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. During fiscal year 2016, the Company repurchased \$10 million aggregate principal amount of its 2034 Notes for cash at a discount to their principal amount, plus accrued and unpaid interest. The Company recorded a gain on the repurchase of approximately \$3 million, which is included in Other, net in the Company's Consolidated Statement of Operations.

*\$700 million Aggregate Principal Amount of 4.875% Senior Notes due June, 2027 (the "2027 Notes").* On May 14, 2015, Seagate HDD Cayman issued, in a private placement, \$700 million in aggregate principal amount of 4.875% Senior Notes, which mature on June 1, 2027. The interest on the Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2015. At any time before March 1, 2027, Seagate HDD Cayman may redeem some or all of the Notes at a "make-whole" redemption price. The "make-whole" redemption price will be equal to (1) 100% of the principal amount of the Notes redeemed, plus (2) the excess, if any of (x) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed, discounted to the redemption date on a semi-annual basis at a rate equal to the sum of the Treasury Rate plus 40 basis points, minus accrued and unpaid interest, if any, on the Notes being redeemed to, but excluding, the redemption date over (y) the principal amount of the Notes being redeemed, plus (3) accrued and unpaid interest, if any, on the Notes being redeemed to, but excluding, the redemption date. At any time on or after March 1, 2027, the Company may redeem some or all of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. The issuer under the 2027 Notes is Seagate HDD Cayman, and the obligations under the 2027 Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company.

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

| <b>Fiscal Year</b> | <b>Amount</b> |
|--------------------|---------------|
| 2017               | \$            |
| 2018               |               |
| 2019               | 800           |
| 2020               |               |
| 2021               |               |
| Thereafter         | 3,333         |
|                    | \$ 4,133      |

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. Income Taxes**

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

| (Dollars in millions)                            | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Current income tax expense (benefit):            |                    |                 |                  |
| U.S. Federal                                     | \$ 1               | \$              | \$ (12)          |
| U.S. State                                       | 2                  | 4               | 3                |
| Non-U.S.   | 25                 | 222             | 62               |
| <b>Total Current</b>                             | <b>28</b>          | <b>226</b>      | <b>53</b>        |
| Deferred income tax expense (benefit):           |                    |                 |                  |
| U.S. Federal                                     |                    | (6)             | (43)             |
| U.S. State                                       |                    | (2)             | 2                |
| Non-U.S.   | (2)                | 10              | (26)             |
| <b>Total Deferred</b>                            | <b>(2)</b>         | <b>2</b>        | <b>(67)</b>      |
| <b>Provision for (benefit from) income taxes</b> | <b>\$ 26</b>       | <b>\$ 228</b>   | <b>\$ (14)</b>   |

Income before income taxes consisted of the following:

| (Dollars in millions) | Fiscal Years Ended |                 |                  |
|-----------------------|--------------------|-----------------|------------------|
|                       | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| U.S.                  | \$                 | \$ 101          | \$ 149           |
| Non-U.S.              | 274                | 1,869           | 1,407            |
|                       | <b>\$ 274</b>      | <b>\$ 1,970</b> | <b>\$ 1,556</b>  |

On December 18, 2015, the Protecting Americans from Tax Hikes ("PATH") Act of 2015 was enacted. Among, other provisions, the PATH Act retroactively reinstated and permanently extended the federal Research and Development ("R&D") tax credit from December 31, 2014. The permanent extension of the R&D credit had no immediate impact on the Company's income tax provision due to valuation allowances on its U.S. deferred tax assets. None of the other PATH Act changes had a material impact on the Company's income tax provision.

The Company recorded \$0.6 million, \$2.0 million and \$0.3 million of excess tax benefits associated with stock option deductions in fiscal years 2016, 2015 and 2014, respectively.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| (Dollars in millions)                              | Fiscal Years Ended |                 |
|--|--------------------|-----------------|
|  | July 1,<br>2016    | July 3,<br>2015 |
| <b>Deferred tax assets</b>                         |                    |                 |
| Accrued warranty                                   | \$ 74              | \$ 88           |
| Inventory carrying value adjustments               | 32                 | 43              |
| Receivable allowance                               | 11                 | 16              |
| Accrued compensation and benefits                  | 85                 | 106             |
| Depreciation                                       | 173                | 171             |
| Restructuring accruals                             | 14                 | 4               |
| Other accruals and deferred items                  | 50                 | 31              |
| Net operating losses and tax credit carry-forwards | 1,252              | 1,099           |
| Other assets                                       | 2                  | 5               |
| <b>Total deferred tax assets</b>                   | <b>1,693</b>       | <b>1,563</b>    |
| Valuation allowance                                | (984)              | (929)           |
| <b>Net deferred tax assets</b>                     | <b>709</b>         | <b>634</b>      |
| <b>Deferred tax liabilities</b>                    |                    |                 |
| Unremitted earnings of certain non-U.S. entities   | (11)               | (6)             |
| Acquisition-related items                          | (92)               | (15)            |
| Other liabilities                                  |                    | (1)             |
| <b>Total deferred tax liabilities</b>              | <b>(103)</b>       | <b>(22)</b>     |
| <b>Total net deferred tax assets</b>               | <b>\$ 606</b>      | <b>\$ 612</b>   |
| <b>As Reported on the Balance Sheet</b>            |                    |                 |
| Current assets - deferred income taxes             | \$                 | \$ 122          |
| Non-current assets - deferred income taxes         | 616                | 496             |
| Other non-current liabilities                      | (10)               | (6)             |
| <b>Total net deferred income taxes</b>             | <b>\$ 606</b>      | <b>\$ 612</b>   |

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

The deferred tax asset valuation allowance increased by \$55 million and \$41 million in fiscal years 2016 and 2015, respectively, and decreased by \$101 million in fiscal year 2014.

## Edgar Filing: Seagate Technology plc - Form 10-K

At July 1, 2016, the Company recorded \$606 million of net deferred tax assets. The realization of these deferred tax assets is primarily dependent on the Company's ability to generate sufficient U.S. and certain non-U.S. taxable income in future periods. Although realization is not assured, the Company's management believes 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 periods when the Company reevaluates the underlying basis for its estimates of future U.S. and certain non-U.S. taxable income.



Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At July 1, 2016, the Company had U.S. federal, state and non-U.S. tax net operating loss carryforwards of approximately \$3.4 billion, \$2.1 billion and \$121 million, respectively which will expire at various dates beginning in fiscal year 2018, if not utilized. U.S. state net operating loss carryforwards of approximately \$104 million are scheduled to expire in fiscal year 2017. At July 1, 2016, the Company had U.S. federal and state tax credit carryforwards of \$437 million and \$96 million, respectively, which will expire at various dates beginning in fiscal year 2018, if not utilized.

As of July 1, 2016, approximately \$677 million of the Company's U.S. net operating losses and \$99 million of its tax credit carryforwards are subject to annual limitations from \$1 million to \$45 million pursuant to U.S. tax law.

For purposes of the reconciliation between the provision for (benefit from) income taxes at the statutory rate and the effective tax rate, the Irish statutory rate of 25% was applied as follows:

| (Dollars in millions)                               | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Provision at statutory rate                         | \$ 69              | \$ 493          | \$ 389           |
| Net U.S. federal and state income taxes             | 3                  | 7               | 3                |
| Permanent differences                               | 10                 | 2               | 3                |
| Valuation allowance                                 | (1)                | 15              | (100)            |
| Non-U.S. losses with no tax benefits                | 1                  | 2               | 8                |
| Non-U.S. earnings taxed at less than statutory rate | (37)               | (463)           | (313)            |
| Audit assessment                                    |                    | 173             |                  |
| Reversal of previously recorded taxes               | (19)               | (5)             | (19)             |
| Other individually immaterial items                 |                    | 4               | 15               |
| Provision for (benefit from) income taxes           | \$ 26              | \$ 228          | \$ (14)          |

A substantial portion of the Company's operations in Malaysia, Singapore, and Thailand operate under various tax holiday programs, which expire in whole or in part at various dates through 2024. Certain of the tax holidays may be extended if specific conditions are met. The net impact of these tax holiday programs was to increase the Company's net income by approximately \$67 million in fiscal year 2016 (\$0.22 per share, diluted), to increase the Company's net income by approximately \$349 million in fiscal year 2015 (\$1.05 per share, diluted), and to increase the Company's net income by approximately \$289 million in fiscal year 2014 (\$0.83 per share, diluted).

The Company consists of an Irish tax resident parent holding company with various U.S. and non-U.S. subsidiaries that operate in multiple non-Irish taxing jurisdictions. The amount of temporary differences (including undistributed earnings) related to outside basis differences in the stock of non-Irish resident subsidiaries considered indefinitely reinvested outside of Ireland for which Irish income taxes have not been provided as of July 1, 2016, was approximately \$1.6 billion. If such amount were remitted to Ireland as a dividend, it is likely that tax at 25% or approximately \$400 million would result.

As of July 1, 2016 and July 3, 2015, the Company had approximately \$70 million and \$83 million, respectively, of unrecognized tax benefits excluding interest and penalties. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate are \$70 million and \$83 million as of July 1, 2016 and July 3, 2015, respectively, subject to certain future valuation allowance offsets.

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

The following table summarizes the activity related to the Company's gross unrecognized tax benefits:

| (Dollars in millions)   | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Balance of unrecognized tax benefits at the beginning of the year | \$ 83              | \$ 115          | \$ 157           |
| Gross increase for tax positions of prior years                   | 12                 | 12              | 10               |
| Gross decrease for tax positions of prior years                   | (8)                | (4)             | (64)             |
| Gross increase for tax positions of current year                  | 11                 | 9               | 13               |
| Gross decrease for tax positions of current year                  |                    |                 |                  |
| Settlements   |                    | (45)            |                  |
| Lapse of statutes of limitation                                   | (27)               | (3)             | (3)              |
| Non-U.S. exchange (gain)/loss                                     | (1)                | (1)             | 2                |
| Balance of unrecognized tax benefits at the end of the year       | \$ 70              | \$ 83           | \$ 115           |

It is the Company's policy to include interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Consolidated Statements of Operations. During fiscal year 2016, the Company recognized net income tax benefit for interest and penalties of \$8 million as compared to net income tax expense of \$26 million during fiscal year 2015, and income tax expense of \$8 million during fiscal year 2014. As of July 1, 2016, the Company had \$12 million of accrued interest and penalties related to unrecognized tax benefits compared to \$20 million in fiscal year 2015.

During the 12 months beginning July 2, 2016, the Company expects that its unrecognized tax benefits could be reduced by approximately \$16 million as a result of the expiration of certain statutes of limitation.

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

The Company is no longer subject to examination of its U.S. federal income tax returns for years prior to fiscal year 2013. With respect to U.S. state and non-U.S. income tax returns, the Company is generally no longer subject to tax examination for years ending prior to fiscal year 2005.

**8. Derivative Financial Instruments**

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

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

unrealized loss on cash flow hedges was \$2 million as of July 1, 2016 and the amount of net unrealized gain on cash flow hedges was \$1 million as of July 3, 2015.

The Company dedesignates its cash flow hedges when the forecasted hedged transactions are realized or it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in Accumulated other comprehensive loss are reclassified immediately into earnings and any subsequent changes in the fair value of such derivative instruments are immediately reflected in earnings. The Company did not recognize any material net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during fiscal years 2016, 2015 and 2014. As of July 1, 2016, the Company's existing foreign currency forward exchange contracts mature within 12 months. The deferred amount currently recorded in Accumulated other comprehensive loss expected to be recognized into earnings over the next 12 months is immaterial.

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

|                              | <b>As of July 1, 2016</b>             |   |
|------------------------------|---------------------------------------|---|
| <b>(Dollars in millions)</b> | <b>Contracts Designated as Hedges</b> | <b>Contracts Not Designated as Hedges</b> |
| British Pound Sterling       | \$ 47                                 | \$ 10                                     |

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

The Company is subject to equity market risks due to changes in the fair value of the notional investments selected by its employees as part of its Non-qualified Deferred Compensation Plan the Seagate Deferred Compensation Plan (the "SDCP"). In the quarter ended December 27, 2013, the Company entered into a Total Return Swap ("TRS") in order to manage the equity market risks associated with the SDCP liabilities. The Company pays a floating rate, based on LIBOR plus an interest rate spread, on the notional amount of the TRS. The TRS is designed to substantially offset changes in the SDCP liability due to changes in the value of the investment options made by employees. As of July 1, 2016, the notional investments underlying the TRS amounted to \$94 million. The contract term of the TRS is through January 2016 and is settled on a monthly basis, therefore limiting counterparty performance risk. The Company renewed the contract term through January 2017 under materially the same terms. The Company did not designate the TRS as a hedge. Rather, the Company records all changes in the fair value of the TRS to earnings to offset the market value changes of the SDCP liabilities.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| (Dollars in millions)                                     | As of July 1, 2016                                |               |   |               |
|---|---|---------------|---|---------------|
|   | Asset Derivatives<br>Balance<br>Sheet<br>Location | Fair<br>Value | Liability Derivatives<br>Balance<br>Sheet<br>Location | Fair<br>Value |
| <b>Derivatives designated as hedging instruments:</b>     |   |               |   |               |
| Foreign currency forward exchange contracts               | Other current assets                              | \$            | Accrued expenses                                      | \$ (2)        |
| <b>Derivatives not designated as hedging instruments:</b> |   |               |   |               |
| Foreign currency forward exchange contracts               | Other current assets                              |               | Accrued expenses                                      | (1)           |
| Total return swap   | Other current assets                              | 3             | Accrued expenses                                      |               |
| <b>Total derivatives</b>                                  |   | \$ 3          |   | \$ (3)        |

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

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables show the effect of the Company's derivative instruments on the Consolidated Statement of Comprehensive Income and the Consolidated Statements of Operations for the fiscal year ended July 1, 2016:

| (Dollars in millions)                                    | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain or (Loss) Recognized in Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) <sup>(a)</sup> |
|--|---|--|--|---|---|
|  |   |  |  |   |   |
| <b>Derivatives Designated as Cash Flow Hedges</b>        |   |  |  |   |   |
| Foreign currency forward exchange contracts              | \$ (4)  | Cost of revenue  | \$ (2)   | Cost of revenue   | \$  |
| <b>Derivatives Not Designated as Hedging Instruments</b> |   |  |  |   |   |
|  |   | Location of Gain or (Loss) Recognized in Income on Derivatives                               |  | Amount of Gain or (Loss) Recognized in Income on Derivatives  |   |
| Foreign currency forward exchange contracts              |   | Other, net   | \$   | (5)   |   |
| Total return swap  |   | Operating expenses   | \$   | (1)   |   |

(a) The amounts of gains or losses recognized in income related to the ineffective portion of the hedging relationships and to the amount excluded from the assessment of hedge effectiveness were immaterial for the fiscal year ended July 1, 2016.

The following tables show the effect of the Company's derivative instruments on the Consolidated Statement of Comprehensive Income and the Consolidated Statements of Operations for the fiscal year ended July 3, 2015:

| (Dollars in millions)                                    | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain or (Loss) Recognized in Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) <sup>(a)</sup> |
|--|---|--|--|---|---|
|  |   |  |  |   |   |
| <b>Derivatives Designated as Cash Flow Hedges</b>        |   |  |  |   |   |
| Foreign currency forward exchange contracts              | \$ (11)   | Cost of revenue  | \$ (13)  | Cost of revenue   | \$ 1  |
| <b>Derivatives Not Designated as Hedging Instruments</b> |   |  |  |   |   |
|  |   | Location of Gain or (Loss) Recognized in Income on Derivatives                               |  | Amount of Gain or (Loss) Recognized in Income on Derivatives  |   |

Edgar Filing: Seagate Technology plc - Form 10-K

|   |                    |    |     |
|---|--------------------|----|-----|
| Foreign currency forward exchange contracts | Other, net         | \$ | (4) |
| Total return swap                           | Operating expenses | \$ |     |

---

- (a) The amounts of gains or losses recognized in income related to the ineffective portion of the hedging relationships were immaterial for the fiscal year ended July 3, 2015. The amount of gains recognized in income related to the amount excluded from the assessment of hedge effectiveness was \$1 million for the fiscal year ended July 3, 2015.

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

**9. Fair Value**

*Measurement of Fair Value*

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

*Fair Value Hierarchy*

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

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

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

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

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

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Items Measured at Fair Value on a Recurring Basis*

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of July 1, 2016:

| (Dollars in millions)                                    | Fair Value Measurements at Reporting Date Using                     |   |   | Total Balance |
|--|---|---|---|---------------|
|  | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |               |
| <b>Assets:</b>   |   |   |   |               |
| Money market funds                                       | \$ 316  | \$  | \$  | \$ 316        |
| Certificates of deposit                                  |   | 439   |   | 439           |
| Corporate bonds  |   | 6   |   | 6             |
| <b>Total cash equivalents and short-term investments</b> | <b>316</b>  | <b>445</b>                                    |   | <b>761</b>    |
| <b>Restricted cash and investments:</b>                  |   |   |   |               |
| Money market funds                                       | 2   |   |   | 2             |
| Certificates of deposit                                  |   | 5   |   | 5             |
| Derivative assets  |   | 3   |   | 3             |
| <b>Total assets</b>                                      | <b>\$ 318</b>   | <b>\$ 453</b>                                 | <b>\$</b>                                 | <b>\$ 771</b> |
| <b>Liabilities:</b>                                      |   |   |   |               |
| Derivative liabilities                                   | \$  | \$ (3)  | \$  | \$ (3)        |
| <b>Total liabilities</b>                                 | <b>\$</b>   | <b>\$ (3)</b>                                 | <b>\$</b>                                 | <b>\$ (3)</b> |

| (Dollars in millions)     | Fair Value Measurements at Reporting Date Using                     |   |   | Total Balance |
|---------------------------|---|---|---|---------------|
|                           | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |               |
| <b>Assets:</b>            |   |   |   |               |
| Cash and cash equivalents | \$ 316  | \$ 439  | \$  | \$ 755        |
| Short-term investments    |   | 6   |   | 6             |
| Other current assets      | 2   | 8   |   | 10            |
| <b>Total assets</b>       | <b>\$ 318</b>   | <b>\$ 453</b>                                 | <b>\$</b>                                 | <b>\$ 771</b> |



Edgar Filing: Seagate Technology plc - Form 10-K

Liabilities:

|                   |    |    |     |    |    |     |
|-------------------|----|----|-----|----|----|-----|
| Accrued expenses  | \$ | \$ | (3) | \$ | \$ | (3) |
| Total liabilities | \$ | \$ | (3) | \$ | \$ | (3) |

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of July 3, 2015:

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

| (Dollars in millions)     | Fair Value Measurements at Reporting Date Using                     |   |   |           | Total Balance   |
|---------------------------|---|---|---|-----------|-----------------|
|                           | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |           |                 |
| <b>Assets:</b>            |   |   |   |           |                 |
| Cash and cash equivalents | \$ 1,201  | \$ 862  | \$  | \$        | 2,063           |
| Short-term investments    |   | 6   |   |           | 6               |
| Other current assets      | 2   | 8   |   |           | 10              |
| <b>Total assets</b>       | <b>\$ 1,203</b>   | <b>\$ 876</b>                                 | <b>\$</b>                                 | <b>\$</b> | <b>\$ 2,079</b> |
| <b>Liabilities:</b>       |   |   |   |           |                 |
| Accrued expenses          | \$  | \$ (4)  | \$  | \$        | (4)             |



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

measurement date. The Company corroborates the prices obtained from the pricing service against other independent sources and, as of July 1, 2016, has not found it necessary to make any adjustments to the prices obtained. The Company's derivative financial instruments are also classified within Level 2. The Company's derivative financial instruments consist of foreign currency forward exchange contracts and the TRS. The Company recognizes derivative financial instruments in its consolidated financial statements at fair value. The Company determines the fair value of these instruments by considering the estimated amount it would pay or receive to terminate these agreements at the reporting date.

As of July 1, 2016 and July 3, 2015, we had no Level 3 assets or liabilities.

*Items Measured at Fair Value on a Non-Recurring Basis*

The Company enters into certain strategic investments for the promotion of business and strategic objectives. Strategic investments in equity securities where the Company does not have the ability to exercise significant influence over the investees, included in Other assets, net in the Consolidated Balance Sheets, are recorded at cost and are periodically analyzed to determine whether or not there are indicators of impairment. The carrying value of the Company's strategic investments at July 1, 2016 and July 3, 2015 totaled \$113 million and \$120 million, respectively, and consisted primarily of privately held equity securities without a readily determinable fair value.

During the fiscal years 2016, 2015 and 2014, the Company determined that certain of its equity investments accounted for under the cost method were other-than-temporarily impaired, and recognized charges of \$13 million, \$7 million and \$2 million, respectively, in order to write down the carrying amount of the investments to its estimated fair value. These amounts were recorded in Other, net in the Consolidated Statements of Operations. Since there was no active market for the equity securities of the investee, the Company estimated fair value of the investee by analyzing the underlying cash flows and future prospects of the investee.

*Other Fair Value Disclosures*

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

| (Dollars in millions)  | July 1, 2016    |                      | July 3, 2015    |                      |
|--|-----------------|----------------------|-----------------|----------------------|
|  | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 3.75% Senior Notes due November 2018                             | \$ 800          | \$ 804               | \$ 800          | \$ 828               |
| 7.00% Senior Notes due November 2021                             | 158             | 164                  | 158             | 170                  |
| 4.75% Senior Notes due June 2023                                 | 990             | 857                  | 1,000           | 1,016                |
| 4.75% Senior Notes due January 2025                              | 995             | 795                  | 1,000           | 995                  |
| 4.875% Senior Notes due June 2027                                | 698             | 514                  | 698             | 675                  |
| 5.75% Senior Notes due December 2034                             | 489             | 357                  | 499             | 491                  |
|  | 4,130           | 3,491                | 4,155           | 4,175                |
| Less short-term borrowings and current portion of long-term debt |                 |                      |                 |                      |
| Long-term debt, less current portion                             | \$ 4,130        | \$ 3,491             | \$ 4,155        | \$ 4,175             |

Table of Contents

SEAGATE TECHNOLOGY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Shareholders' Equity**

*Share Capital*

The Company's authorized share capital is \$13,500 and consists of 1,250,000,000 ordinary shares, par value \$0.00001, of which 298,572,217 shares were outstanding as of July 1, 2016, and 100,000,000 preferred shares, par value \$0.00001, of which none were issued or outstanding as of July 1, 2016.

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

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

The Board of Directors may authorize the issuance of preferred shares with voting or conversion rights that could harm the voting power or other rights of the holders of the ordinary shares. The issuance of preferred shares, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of the Company and might harm the market price of its ordinary shares and the voting and other rights of the holders of ordinary shares.

*Repurchases of Equity Securities*

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

On April 22, 2015, the Board of Directors authorized the Company to repurchase an additional \$2.5 billion of its outstanding ordinary shares.

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

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

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

The following table sets forth information with respect to repurchases of the Company's ordinary shares during fiscal years 2016, 2015 and 2014:

| (In millions)                                  | Number of<br>Shares<br>Repurchased | Dollar Value<br>of Shares<br>Repurchased |
|--|------------------------------------|--|
| Cumulative repurchased through June 28, 2013   | 244                                | \$ 5,486                                 |
| Repurchased in fiscal year 2014                | 41                                 | 1,912                                    |
| Cumulative repurchased through June 27, 2014   | 285                                | 7,398                                    |
| Repurchased in fiscal year 2015                | 19                                 | 1,087                                    |
| Cumulative repurchased through July 3, 2015    | 304                                | 8,485                                    |
| Repurchased in fiscal year 2016 <sup>(a)</sup> | 24                                 | 1,146                                    |
| Cumulative repurchased through July 1, 2016    | 328                                | \$ 9,631                                 |

(a) Including net share settlement of \$56 million for 1 million shares in connection with tax withholding related to vesting of restricted stock units.

**11. Compensation***Stock-Based Compensation Plans*

The Company's stock-based compensation 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 plc 2012 Equity Incentive Plan (the "EIP").* On October 26, 2011, the shareholders approved the EIP and authorized the issuance of up to a total of 27.0 million ordinary shares, par value \$0.0001 per share, plus any shares remaining available for grant under the Seagate Technology plc 2004 Share Compensation Plan (the "SCP") as of the effective date of the EIP (which was equal to 11.0 million ordinary shares as of the effective date of the EIP and which will increase by such additional number of shares as will be returned to the share reserve in respect of awards previously granted under the SCP) (together, the "Share Reserve"). On October 22, 2014, the shareholders authorized the issuance from the EIP of an additional 25 million ordinary shares, par value \$0.0001 per share. Any shares that are subject to options or share appreciation rights granted under the EIP will be counted against the Share Reserve as one share for every one share granted, and any shares that are subject to restricted share bonus awards, restricted share units, performance share bonus awards or performance share awards (collectively, "Full-Value Share Awards") will generally be counted against the Share Reserve as two and five-tenths shares for every one share granted. As of July 1, 2016, there were approximately 32.7 million ordinary shares available for issuance under the EIP.

*Dot Hill Systems 2009 Equity Incentive Plan (the "DHEIP").* Seagate Technology plc acquired the Dot Hill Systems 2009 Equity Incentive Plan effective October 6, 2015. The Company assumed the remaining authorized but unused share reserve of approximately 2 million shares, based on the conversion ratio, from the DHEIP on the acquisition date. Any shares that are subject to options or share appreciation rights granted under the DHEIP will be counted against the Share Reserve as one share for every one share granted, and any shares that are subject to restricted share bonus awards, restricted share units,



Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

performance share bonus awards or performance share awards (collectively, "Full-Value Share Awards") will generally be counted against the Share Reserve as one and five-tenths shares for every one share granted. As of July 1, 2016, there were approximately 1 million ordinary shares available for issuance under the DHEIP.

*Seagate Technology plc Employee Stock Purchase Plan (the "ESPP").* There are 50.0 million ordinary shares authorized to be issued under the ESPP. In no event shall the total number of shares issued under the ESPP exceed 75.0 million ordinary shares. The ESPP consists of a six-month offering period with a maximum issuance of 1.5 million ordinary shares per offering period. The ESPP permits eligible employees to purchase ordinary shares through payroll deductions generally at 85% of the fair market value of the ordinary shares. As of July 1, 2016 there were approximately 6.8 million ordinary shares available for issuance under the ESPP.

*Equity Awards*

Full-Value Share Awards (e.g. restricted share units) generally vest over a period of three to four years, with cliff vesting of a portion of each award occurring annually. Options generally vest as follows: 25% of the options will vest on the first anniversary of the vesting commencement date and the remaining 75% will vest ratably each month thereafter over the next 36 months. Options granted under the EIP and SCP have an exercise price equal to the closing price of the Company's ordinary shares on date of grant.

The Company granted performance awards to its senior executive officers under the SCP and the EIP where vesting is subject to both the continued employment of the participant by the Company and the achievement of certain performance goals established by the Compensation Committee of the Company's Board of Directors, including market based performance goals. A single award represents the right to receive a single ordinary share of the Company. During fiscal years 2016, 2015 and 2014, the Company granted 0.4 million, 0.3 million and 0.4 million performance awards, respectively, where performance is measured based on a three-year average return on invested capital ("ROIC") goal and a relative total shareholder return ("TSR") goal, which is based on the Company's ordinary shares measured against a benchmark TSR of a peer group over the same three-year period (the "TSR/ROIC" awards). These awards vest after the end of the performance period of three years from the grant date. A percentage of these units may vest only if at least the minimum ROIC goal is met regardless of whether the TSR goal is met. The number of stock units to vest will range from 0% to 200% of the targeted units. In evaluating the fair value of these units, the Company used a Monte Carlo simulation on the grant date, taking the market-based TSR goal into consideration. Compensation expense related to these units is only recorded in a period if it is probable that the ROIC goal will be met, and it is to be recorded at the expected level of achievement.

The Company also granted 0.2 million, 0.4 million and 0.3 million performance awards during fiscal years 2016, 2015 and 2014 respectively, to its senior executive officers which are subject to a performance goal related to the Company's adjusted earnings per share (the "AEPS" awards). These awards have a maximum seven-year vesting period, with 25% annual vesting starting on the first anniversary of the grant date. If the performance goal is not achieved, vesting is delayed to a following year in which the AEPS goal is achieved. Any unvested awards from prior years may vest cumulatively in a future year within the seven-year vesting period if the annual AEPS goal is achieved during a subsequent year. If the AEPS goal has not been met by the end of the seven year period, any unvested shares will be forfeited.

During fiscal year 2016 and 2015, the Company did not grant any performance-based options and performance based restricted share units to its CEO.



Table of Contents**SEAGATE TECHNOLOGY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Determining Fair Value of Seagate Technology Stock Plans*

*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.

*Fair Value* The fair value of the Company's nonvested awards and performance awards subject to an AEPS condition for fiscal years 2016, 2015, and 2014, is the price per share of the Company's common stock on the grant date. The weighted-average grant date fair value of awards granted are as follows:

|                             | Fiscal Years |          |          |
|-----------------------------|--------------|----------|----------|
|                             | 2016         | 2015     | 2014     |
| Nonvested awards:           |              |          |          |
| Weighted-average fair value | \$ 41.47     | \$ 58.93 | \$ 41.18 |
| Performance awards:         |              |          |          |
| Weighted-average fair value | \$ 42.09     | \$ 59.51 | \$ 48.69 |

102

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the Company's shares related to options granted to employees, shares issued from the ESPP and performance awards subject to TSR/ROIC conditions for fiscal years 2016, 2015 and 2014 were estimated using the following assumptions:

|  | Fiscal Years |       |         |      |         |      |
|--|--------------|-------|---------|------|---------|------|
|  | 2016         |       | 2015    |      | 2014    |      |
| <b>Options</b>   |              |       |         |      |         |      |
| Expected term (in years)   | 2.1          | 4.2   | 4.2     | 4.2  | 4.2     |      |
| Volatility   | 33           | 48%   | 33      | 35%  | 35      | 41%  |
| Weighted-average volatility  | 36%          |       | 34%     |      | 40%     |      |
| Expected dividend rate   | 4.6          | 11.0% | 2.9     | 4.0% | 3.1     | 3.8% |
| Weighted-average expected dividend rate                                | 5.6%         |       | 3.0%    |      | 3.7%    |      |
| Risk-free interest rate  | 0.6          | 1.5%  | 1.1     | 1.5% | 1.2     | 1.4% |
| Weighted-average fair value  | \$12.28      |       | \$12.98 |      | \$10.41 |      |
| <b>ESPP</b>  |              |       |         |      |         |      |
| Expected term (in years)   | 0.5          |       | 0.5     |      | 0.5     |      |
| Volatility   | 28           | 46%   | 28      | 29%  | 34      | 36%  |
| Weighted-average volatility  | 39%          |       | 28%     |      | 35%     |      |
| Expected dividend rate   | 4.6          | 8.3%  | 3.0     | 3.8% | 3.3     | 3.5% |
| Weighted-average expected dividend rate                                | 6.9%         |       | 3.4%    |      | 3.4%    |      |
| Risk-free interest rate  | 0.5%         |       | 0.1%    |      | 0.1%    |      |
| Weighted-average fair value  | \$9.08       |       | \$12.21 |      | \$10.46 |      |
| <b>Performance restricted share awards subject to market condition</b> |              |       |         |      |         |      |
| Expected term (in years)   | 3.00         |       | 3.00    |      | 3.00    |      |
| Weighted-average volatility  | 30%          |       | 40%     |      | 46%     |      |
| Expected dividend rate   | 4.3%         |       | 2.8%    |      | 3.8%    |      |
| Risk-free interest rate  | 1.1%         |       | 1.1%    |      | 0.9%    |      |
| Weighted-average fair value  | \$47.34      |       | \$58.31 |      | \$37.51 |      |

*Stock Compensation Expense*

The Company recorded \$120 million, \$137 million and \$118 million of share-based compensation during fiscal years 2016, 2015, and 2014, respectively. Management has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest. When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual forfeited awards.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Stock Option Activity*

The Company issues new ordinary shares upon exercise of stock options. The following is a summary of option activities:

| Options                                     | Number of<br>Shares<br>(In millions) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic<br>Value<br>(Dollars In millions) |
|---|--------------------------------------|---|--|--|
| Outstanding at July 3, 2015                 | 4.9                                  | \$ 27.94                                  | 3.6  | \$ 110   |
| Granted                                     | 2.6                                  | \$ 35.86                                  |  |  |
| Exercised                                   | (1.5)                                | \$ 8.32                                   |  |  |
| Forfeitures                                 | (0.4)                                | \$ 47.03                                  |  |  |
| Expirations                                 | (0.2)                                | 46.43                                     |  |  |
| Outstanding at July 1, 2016                 | 5.4                                  | \$ 34.91                                  | 4.6  | \$ 14  |
| Vested and expected to vest at July 1, 2016 | 5.3                                  | \$ 34.93                                  | 4.6  | \$ 14  |
| Exercisable at July 1, 2016                 | 2.5                                  | \$ 27.46                                  | 3.2  | \$ 12  |

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 ordinary shares for the options that were in-the-money at July 1, 2016. During fiscal years 2016, 2015, and 2014, the aggregate intrinsic value of options exercised under the Company's stock option plans was \$44 million, \$92 million and \$140 million, respectively, determined as of the date of option exercise. The aggregate fair value of options vested during fiscal year 2016 was approximately \$18 million.

At July 1, 2016, the total compensation cost related to options granted to employees but not yet recognized was approximately \$28 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 approximately 2.5 years and will be adjusted for subsequent changes in estimated forfeitures.

*Nonvested Awards Activity*

The following is a summary of nonvested award activities which do not contain a performance condition:

| Nonvested Awards          | Number of<br>Shares<br>(In millions) | Weighted-<br>Average<br>Grant-<br>Date<br>Fair Value |
|---------------------------|--------------------------------------|--|
| Nonvested at July 3, 2015 | 5.2                                  | \$ 39.73   |
| Granted                   | 2.4                                  | \$ 41.47   |
| Forfeitures               | (0.7)                                | \$ 45.04   |
| Vested                    | (2.1)                                | \$ 30.95   |

|                           |     |    |       |
|---------------------------|-----|----|-------|
| Nonvested at July 1, 2016 | 4.8 | \$ | 39.95 |
|---------------------------|-----|----|-------|

At July 1, 2016, the total compensation cost related to nonvested awards granted to employees but not yet recognized was approximately \$133 million, net of estimated forfeitures of approximately \$7 million.

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

This cost is being amortized on a straight-line basis over a weighted-average remaining term of 2.4 years and will be adjusted for subsequent changes in estimated forfeitures. The aggregate fair value of nonvested awards vested during fiscal year 2016 was approximately \$102 million.

*Performance Awards*

The following is a summary of nonvested award activities which contain a performance condition:

| Performance Awards                | Number of<br>Shares | Weighted-<br>Average<br>Grant-<br>Date<br>Fair Value |
|-----------------------------------|---------------------|--|
|                                   | (In millions)       |  |
| Performance units at July 3, 2015 | 2.1                 | \$ 61.12   |
| Granted                           | 0.6                 | \$ 45.68   |
| Forfeitures                       | (0.2)               | \$ 53.99   |
| Vested                            | (1.1)               | \$ 27.05   |
| Performance units at July 1, 2016 | 1.4                 | \$ 47.41   |

At July 1, 2016, the total compensation cost related to performance awards granted to employees but not yet recognized was approximately \$23 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of 3.5 years.

*ESPP*

During fiscal years 2016, 2015 and 2014, the aggregate intrinsic value of shares purchased under the Company's ESPP was approximately \$12 million, \$15 million and \$26 million respectively. At July 1, 2016, the total compensation cost related to options to purchase the Company's ordinary shares under the ESPP but not yet recognized was approximately \$1.7 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately one month. During fiscal year 2016, the Company issued 2.1 million ordinary shares with a weighted-average purchase price of \$31.54 per share.

*Tax-Deferred Savings Plan*

The Company has a tax-deferred savings plan, the Seagate 401(k) Plan (the "401(k) plan"), for the benefit of qualified employees. The 401(k) plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to make contributions to the 401(k) plan on a bi-weekly 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 \$4,500 per participating employee. During fiscal years 2016, 2015, and 2014, the Company made matching contributions of \$19 million, \$18 million and \$16 million, respectively.

*Deferred Compensation Plan*

On January 1, 2001, the Company adopted the SDCP 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. In the quarter ended December 27, 2013, the Company entered into a TRS in order to manage the equity market risks associated with the SDCP liabilities. See "Note 8. Derivative Financial Instruments" contained in this report for additional information about the TRS.

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**12. Earnings Per Share**

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

| (In millions, except per share data)  | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| <b>Numerator:</b>   |                    |                 |                  |
| Net income attributable to Seagate Technology plc   | \$ 248             | \$ 1,742        | \$ 1,570         |
| <b>Number of shares used in per share calculations:</b>   |                    |                 |                  |
| Total shares for purposes of calculating basic net income per share attributable to Seagate Technology plc  | 299                | 324             | 337              |
| Weighted-average effect of dilutive securities:   |                    |                 |                  |
| Employee equity award plans   | 3                  | 7               | 10               |
| Total shares for purpose of calculating diluted net income per share attributable to Seagate Technology plc | 302                | 331             | 347              |

**Net income per share attributable to Seagate Technology plc shareholders:**

|         |         |         |         |
|---------|---------|---------|---------|
| Basic   | \$ 0.83 | \$ 5.38 | \$ 4.66 |
| Diluted | \$ 0.82 | \$ 5.26 | \$ 4.52 |

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

| (In millions)               | Fiscal Years Ended |                 |                  |
|-----------------------------|--------------------|-----------------|------------------|
|                             | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Employee equity award plans | 3                  |                 |                  |

**13. Business Segment and Geographic Information**

The Company has concluded that its manufacture and distribution of electronic storage solutions constitutes one reporting segment. The Company's manufacturing operations are based on technology platforms that are used to produce various electronic storage solutions that serve multiple applications and markets. The Company's main technology platforms are primarily focused around areal density of media and read/write head technologies. In addition, the Company also invests in certain other technology platforms including motors, servo formatting read/write channels, solid state and other technologies. The Company has determined that its Chief Executive Officer is the Company's chief operating decision maker ("CODM") as he is responsible for reviewing and approving investments in the Company's technology platforms and manufacturing infrastructure.

In fiscal years 2016, 2015 and 2014, Dell Inc. accounted for approximately 12%, 14% and 13% of consolidated revenue, respectively. In fiscal years 2015 and 2014, Hewlett-Packard Company accounted for approximately 12% and 13% of consolidated revenue, respectively. In fiscal year 2016, HP Inc., formerly known as Hewlett-Packard Company, completed its separation with Hewlett Packard Enterprise Company, and each company accounted for less than 10% of our consolidated revenue. No other customer accounted for more than 10% of consolidated revenue in any year presented.

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

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

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

| (Dollars in millions)                            | Fiscal Years Ended |                 |                  |
|--|--------------------|-----------------|------------------|
|  | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Revenue from external customers <sup>(a)</sup> : |                    |                 |                  |
| Singapore  | \$ 5,354           | \$ 6,844        | \$ 6,828         |
| United States                                    | 3,376              | 3,929           | 3,679            |
| The Netherlands                                  | 1,813              | 2,291           | 2,652            |
| Other  | 617                | 675             | 565              |
| Consolidated                                     | \$ 11,160          | \$ 13,739       | \$ 13,724        |
| Long-lived assets:                               |                    |                 |                  |
| United States                                    | \$ 1,029           | \$ 725          | \$ 500           |
| Singapore  | 726                | 900             | 788              |
| Thailand   | 349                | 328             | 398              |
| Malaysia   | 201                | 248             | 146              |
| China  | 115                | 138             | 167              |
| Other  | 444                | 568             | 680              |
| Consolidated                                     | \$ 2,864           | \$ 2,907        | \$ 2,679         |

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

**14. Legal, Environmental and Other Contingencies**

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

*Intellectual Property Litigation*

*Convolve, Inc. ("Convolve") and Massachusetts Institute of Technology ("MIT") v. Seagate Technology LLC, et al.* On July 13, 2000, Convolve and MIT filed suit against Compaq Computer Corporation and Seagate Technology LLC in the U.S. District Court for the Southern District of New York, alleging infringement of U.S. Patent Nos. 4,916,635 (the "635 patent") and U.S. Patent No. 5,638,267 (the "267 patent"),

misappropriation of trade secrets, breach of contract, and other claims. In the complaint, the plaintiffs requested injunctive relief, \$800 million in compensatory damages and



Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

unspecified punitive damages, including for willful infringement. On January 16, 2002, Convolv filed an amended complaint, alleging defendants infringe US Patent No. 6,314,473 (the "'473 patent"). The district court ruled in 2010 that the '267 patent was out of the case.

On August 16, 2011, the district court granted in part and denied in part the Company's motion for summary judgment. On July 1, 2013, the U.S. Court of Appeals for the Federal Circuit: 1) affirmed the district court's summary judgment rulings that Seagate did not misappropriate any of the alleged trade secrets and that the asserted claims of the '635 patent are invalid; 2) reversed and vacated the district court's summary judgment of non-infringement with respect to the '473 patent; and 3) remanded the case for further proceedings on the '473 patent. On July 11, 2014, the district court granted the Company's summary judgment motion regarding Convolv's only remaining cause of action, which alleged infringement of the '473 patent. The district court entered judgment in favor of the Company on July 14, 2014. Convolv filed a notice of appeal on August 13, 2014. On February 10, 2016, the U.S. Court of Appeals for the Federal Circuit: 1) affirmed the district court's summary judgment of no direct infringement by Seagate because Seagate's ATA/SCSI disk drives do not meet the "user interface" limitation of the asserted claims of the '473 patent; 2) affirmed the district court's summary judgment of non-infringement by Compaq's products as to claims 1, 3, and 5 of the '473 patent because Compaq's F10 BIOS interface does not meet the "commands" limitation of those claims; 3) vacated the district court's summary judgment of non-infringement by Compaq's accused products as to claims 7-15 of the '473 patent; 4) reversed the district court's summary judgment of non-infringement based on intervening rights; and 5) remanded the case to the district court for further proceedings on the '473 patent. In view of the rulings made by the district court and the Court of Appeals and the uncertainty regarding the amount of damages, if any, that could be awarded Convolv in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

*Alexander Shukh v. Seagate Technology* On February 12, 2010, Alexander Shukh filed a complaint against the Company in the U.S. District Court for the District of Minnesota, alleging, among other things, employment discrimination based on his Belarusian national origin and wrongful failure to name him as an inventor on several patents and patent applications. Mr. Shukh's employment was terminated as part of a company-wide reduction in force in fiscal year 2009. He seeks damages in excess of \$75 million. On March 31, 2014, the district court granted Seagate's summary judgment motion and entered judgment in favor of Seagate. Mr. Shukh filed a notice of appeal on April 7, 2014. On October 2, 2015, the court of appeals vacated and remanded the district court's grant of summary judgment on Mr. Shukh's claim for correction of inventorship and affirmed the district court's grant of summary judgment as to all other claims. On October 29, 2015, Mr. Shukh filed a petition for rehearing en banc with the court of appeals; the petition was denied on December 17, 2015. On March 16, 2016, Shukh filed a petition for writ of certiorari to the U.S. Supreme Court; the petition was denied on June 27, 2016. In view of the uncertainty regarding the amount of damages, if any, that could be awarded in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

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

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

*Enova Technology Corporation v. Seagate Technology (US) Holdings, Inc., et al.* On June 5, 2013, Enova Technology Corporation ("Enova") filed a complaint against Seagate Technology (US) Holdings, Inc. and Seagate Technology LLC in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 7,136,995, "Cryptographic Device," and U.S. Patent No. 7,900,057, "Cryptographic Serial ATA Apparatus and Method." The complaint seeks unspecified compensatory damages, enhanced damages, injunctive relief, attorneys' fees, and other relief. On April 27, 2015, the district court ordered a stay of the case, in view of proceedings regarding the '995 and '057 Patents before the Patent Trial and Appeal Board ("PTAB") of the U.S. Patent and Trademark Office. The Company believes the claims are without merit and intends to vigorously defend this case. On September 2, 2015, PTAB issued its final written decision that claims 1-15 of the '995 Patent are held unpatentable. On December 18, 2015, PTAB issued its final written decisions that claims 1-32 and 40-53 of the '057 Patent are held unpatentable. On February 4, 2016, PTAB issued its final written decision that claims 33-39 of the '057 Patent are held unpatentable. Enova has appealed PTAB's decisions on the '995 Patent and the '057 Patent to the U.S. Court of Appeals for the Federal Circuit. A hearing before the court of appeals has not yet been scheduled. In view of the uncertainty regarding the amount of damages, if any, that could be awarded in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

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

*Lambeth Magnetic Structures LLC v. Seagate Technology (US) Holdings, Inc., et al.* On April 29, 2016, Lambeth Magnetic Structures LLC filed a complaint against Seagate Technology (US) Holdings, Inc. and Seagate Technology LLC in the U.S. District Court for the Western District of Pennsylvania, alleging infringement of U.S. Patent No. 7,128,988, "Magnetic Material Structures, Devices and Methods." The complaint seeks unspecified compensatory damages, enhanced damages, injunctive relief, attorneys' fees, and other relief. The Company believes the claims asserted in the complaint are without merit and intends to vigorously defend this case. In view of the uncertainty regarding the amount of damages, if any, that could be awarded in this matter, the Company does not believe that it is currently possible to determine a reasonable estimate of the possible range of loss related to this matter.

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

*Environmental Matters*

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

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

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

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

The Company may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products. For example, the European Union ("EU") enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which prohibits the use of certain substances, including lead, in certain products, including disk drives and server storage products, put on the market after July 1, 2006. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, Taiwan, China, Japan and others. The European Union REACH Directive (Registration, Evaluation, Authorization, and Restriction of Chemicals, EC 1907/2006) also restricts substances of very high concern ("SVHCs") in products. If the Company or its suppliers fails to comply with the substance restrictions, recycle requirements or other environmental requirements as they are enacted worldwide, it could have a materially adverse effect on the Company's business.

*Other Matters*

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

Table of Contents**SEAGATE TECHNOLOGY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Commitments**

*Leases.* The Company leases certain property, facilities and equipment under non-cancelable lease agreements. Land and facility leases expire at various dates through 2082 and contain various provisions for rental adjustments including, in certain cases, a provision based on increases in the Consumer Price Index. Also, certain leases provide for renewal of the lease at the Company's option at expiration of the lease. All of the leases require the Company to pay property taxes, insurance and normal maintenance costs.

Future minimum lease payments for operating leases (including accrued lease payments relating to restructuring plans) with initial or remaining terms of one year or more were as follows at July 1, 2016 (lease payments are shown net of sublease income):

| Fiscal Years Ending<br>(Dollars in millions) | Operating Leases |
|--|------------------|
| 2017   | \$ 27            |
| 2018   | 22               |
| 2019   | 16               |
| 2020   | 12               |
| 2021   | 9                |
| Thereafter                                   | 82               |
|  | \$ 168           |

Total rent expense for all land, facility and equipment operating leases, net of sublease income, was \$43 million, \$50 million and \$39 million for fiscal years 2016, 2015 and 2014, respectively. Total sublease rental income for fiscal years 2016, 2015 and 2014 was \$3 million, \$3 million and \$2 million, respectively. The Company subleases a portion of its facilities that it considers to be in excess of current requirements. As of July 1, 2016, total future lease income to be recognized for the Company's existing subleases is approximately \$12 million.

*Capital Expenditures.* The Company's non-cancelable commitments for construction of manufacturing and product development facilities and purchases of equipment approximated \$110 million at July 1, 2016.

**16. Guarantees***Indemnifications to Officers and Directors*

On May 4, 2009, Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands ("Seagate-Cayman"), then the parent company, entered into a new form of indemnification agreement (the "Revised Indemnification Agreement") with its officers and directors of Seagate-Cayman and its subsidiaries (each, an "Indemnitee"). The Revised Indemnification Agreement provides indemnification in addition to any of Indemnitee's indemnification rights under Seagate-Cayman's Articles of Association, applicable law or otherwise, and indemnifies an Indemnitee for certain expenses (including attorneys' fees), judgments, fines and settlement amounts actually and reasonably incurred by him or her in any action or proceeding, including any action by or in the right of Seagate-Cayman or any of its subsidiaries, arising out of his or her service as a director, officer, employee or agent of Seagate-Cayman or any of its subsidiaries or of any other entity to which he or she provides services at Seagate-Cayman's request. However, an Indemnitee shall not be indemnified under the Revised Indemnification Agreement for (i) any fraud or dishonesty in the performance of Indemnitee's duty to

Table of Contents

**SEAGATE TECHNOLOGY PLC**

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

Seagate-Cayman or the applicable subsidiary of Seagate-Cayman or (ii) Indemnitee's conscious, intentional or willful failure to act honestly, lawfully and in good faith with a view to the best interests of Seagate-Cayman or the applicable subsidiary of Seagate-Cayman. In addition, the Revised Indemnification Agreement provides that Seagate-Cayman will advance expenses incurred by an Indemnitee in connection with enforcement of the Revised Indemnification Agreement or with the investigation, settlement or appeal of any action or proceeding against him or her as to which he or she could be indemnified.

On July 3, 2010, pursuant to a corporate reorganization, the common shareholders of Seagate-Cayman became ordinary shareholders of Seagate Technology plc (the "Company") and Seagate-Cayman became a wholly owned subsidiary of the Company, as described more fully in the Current Report on Form 8-K filed by the Company on July 6, 2010 (the "Redomestication"). On July 27, 2010, in connection with the Redomestication, the Company, as sole shareholder of Seagate-Cayman, approved a form of deed of indemnity (the "Deed of Indemnity"), which provides for the indemnification by Seagate-Cayman of any director, officer, employee or agent of the Company, Seagate-Cayman or any subsidiary of the Company (each, a "Deed Indemnitee"), in addition to any of a Deed Indemnitee's indemnification rights under the Company's Articles of Association, applicable law or otherwise, with a similar scope to the Revised Indemnification Agreement. Seagate-Cayman entered into the Deed of Indemnity with certain Deed Indemnitees effective as of July 3, 2010 and continues to enter into the Deed of Indemnity with additional Deed Indemnitees from time to time.

The nature of these indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay on behalf of its officers and directors. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

*Intellectual Property Indemnification Obligations*

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

*Product Warranty*

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of 1 to 5 years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine

Table of Contents

## SEAGATE TECHNOLOGY PLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

its warranty obligation. Changes in the Company's product warranty liability during the fiscal years ended July 1, 2016, July 3, 2015 and June 27, 2014 were as follows:

| (In millions)   | Fiscal Years Ended |                 |                  |
|---|--------------------|-----------------|------------------|
|   | July 1,<br>2016    | July 3,<br>2015 | June 27,<br>2014 |
| Balance, beginning of period  | \$ 248             | \$ 273          | \$ 320           |
| Warranties issued   | 125                | 147             | 177              |
| Repairs and replacements  | (152)              | (187)           | (228)            |
| Changes in liability for pre-existing warranties, including expirations | (17)               | 7               | 1                |
| Warranty liability assumed from acquisitions                            | 2                  | 8               | 3                |
| Balance, end of period  | \$ 206             | \$ 248          | \$ 273           |

**17. Related Party Transactions**

*Samsung Electronics Co. Ltd. ("Samsung")* In connection with the Company's acquisition of the Samsung HDD business, Samsung became a shareholder of the Company and appointed one of its executives to the Company's Board of Directors. On October 22, 2013, Samsung filed an amendment to its Schedule 13D indicating that it holds less than 5% of the Company's outstanding shares. Dr. Seh-Woong Jeong was appointed to our Board of Directors by Samsung and joined our Board of Directors on April 26, 2012. He retired from our Board of Directors on October 22, 2014 and ceased to be a related party. The Company recorded revenue of \$216 million from sales to Samsung for fiscal year 2014. The Company made payments to Samsung in fiscal years 2014 of \$318 million, related to purchases of components and services.

*Microsoft Corporation ("Microsoft")* The Company's Chairman and Chief Executive Officer also served on the board of Microsoft until March 2014 upon his resignation and Microsoft ceased to be a related party. The Company recorded revenue of \$208 million from sales to Microsoft for fiscal years 2014. The Company made payments to Microsoft in fiscal years 2014 of \$1 million related to purchases of licensed software.

**18. Subsequent Events***July 2016 Restructuring Plan*

On July 11, 2016, the Company committed to an additional restructuring plan (the "July 2016 Plan") for continued consolidation of its global footprint across Asia, EMEA and the Americas. The July 2016 Plan included reducing worldwide headcount by approximately 6,500 employees. The July 2016 Plan, which the Company expects to be largely completed by the end of fiscal year 2017, is expected to result in total pretax charges of approximately \$164 million in fiscal year 2017. These charges are expected to consist of cash expenditures of approximately \$82 million of employee termination costs and \$51 million of other exit costs, as well as other non-cash charges of approximately \$31 million.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Seagate Technology public limited company

We have audited the accompanying consolidated balance sheets of Seagate Technology public limited company (plc) as of July 1, 2016 and July 3, 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended July 1, 2016. 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 (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seagate Technology plc at July 1, 2016 and July 3, 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 1, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Seagate Technology plc's internal control over financial reporting as of July 1, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 5, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 5, 2016

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Seagate Technology public limited company

We have audited Seagate Technology public limited company (plc)'s internal control over financial reporting as of July 1, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Seagate Technology plc's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Seagate Technology plc maintained, in all material respects, effective internal control over financial reporting as of July 1, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Seagate Technology plc as of July 1, 2016 and July 3, 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended July 1, 2016 and our report dated August 5, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 5, 2016



Table of Contents

**SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)**

For quarterly financial data see "Part II, Item 6. Selected Financial Data."

116

---

Table of Contents

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusions Regarding Disclosure Controls and Procedures**

Our chief executive officer and our chief financial officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) by our management, with the participation of our chief executive officer and our chief financial officer, that our disclosure controls and procedures were effective as of July 1, 2016.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Based on our evaluation under the 2013 framework in *Internal Control Integrated Framework*, our management has concluded that our internal control over financial reporting was effective as of July 1, 2016. The effectiveness of our internal control over financial reporting as of July 1, 2016 has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our financial statements included in this Form 10-K, as stated in their report that is included herein.

**Changes in Internal Control over Financial Reporting**

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

**Limitations on the Effectiveness of Controls**

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Our disclosure controls and procedures and our internal controls have been designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Seagate have been detected. An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 1, 2016. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Table of Contents

**ITEM 9B. OTHER INFORMATION**

Not applicable.

Table of Contents

***PART III***

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information regarding our directors and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, set forth in the sections entitled "Proposal 1 Election of Directors," "Corporate Governance" and "Section 16(A) Beneficial Ownership Reporting Compliance," in our Proxy Statement to be filed with the Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) to Form 10-K are hereby incorporated by reference in this section. In addition, the information set forth in Part I of this report under "Item 1. Business Executive Officers" is also incorporated by reference in this section.

We have adopted a Code of Ethics that applies to the Chief Executive officer, the Chief Financial Officer, and the principal accounting officer or controller or persons performing similar functions. This Code of Ethics is posted on our Website. The Internet address for our Website is [www.seagate.com](http://www.seagate.com), and the Code of Ethics may be found from our main Web page by clicking first on "Investors," next on "Corporate Governance" and then on "Code of Ethics."

We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our Website, at the Internet address and location specified above.

**ITEM 11. EXECUTIVE COMPENSATION**

The information regarding executive compensation required by this Item 11 set forth in the section entitled "Compensation of Named Executive Officers" in our Proxy Statement to be filed with the Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) to Form 10-K is hereby incorporated by reference in this section.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information regarding security ownership beneficial owners and management and related shareholders and equity compensation plans required by this Item 12 set forth in the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," respectively, in our Proxy Statement to be filed with the Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) to Form 10-K is hereby incorporated by reference in this section.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information regarding certain relationships, related transactions and director independence required by this Item 13 set forth in the section entitled "Certain Relationships and Related Transactions" in our Proxy Statement to be filed with the Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) to Form 10-K is hereby incorporated by reference in this section.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information regarding principal accountant fees and services required by this Item 14 set forth in the section entitled "Fees of the Independent Auditors" in our Proxy Statement to be filed with the Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) to Form 10-K is hereby incorporated by reference in this section.

Table of Contents

*PART IV*

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) The following documents are filed as part of this Report:

1. *Financial Statements.* The following Consolidated Financial Statements of Seagate Technology plc and Report of Independent Registered Public Accounting Firm are included in Item 8:

|   | <b>Page No.</b> |
|---|-----------------|
| <u>Consolidated Balance Sheets</u>                              | <u>63</u>       |
| <u>Consolidated Statements of Operations</u>                    | <u>64</u>       |
| <u>Consolidated Statements of Comprehensive Income</u>          | <u>65</u>       |
| <u>Consolidated Statements of Cash Flows</u>                    | <u>66</u>       |
| <u>Consolidated Statements of Shareholders' Equity</u>          | <u>67</u>       |
| <u>Notes to Consolidated Financial Statements</u>               | <u>68</u>       |
| <u>Reports of Independent Registered Public Accounting Firm</u> | <u>114</u>      |

2. *Financial Statement Schedules.* All schedules are omitted because they are not applicable or the required information is included in the Financial Statements or in the notes thereto.

- (b) *Exhibits.* The information required by this Item is set forth on the Exhibit Index (following the Signatures section of this report) and is included, or incorporated by reference, in this Annual Report on Form 10-K.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY  
/s/ STEPHEN J. LUCZO

---

(Stephen J. Luczo, Chief Executive Officer,  
Director and Chairman of the Board of Directors)

Date: August 5, 2016

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Stephen J. Luczo, David H. Morton, Jr., and Regan J. MacPherson, and each of them, as his true and lawful attorneys-in-fact and agents, with power to act with or without the others and with full power of substitution and resubstitution, to do any and all acts and things and to execute any and all instruments which said attorneys and agents and each of them may deem necessary or desirable to enable the registrant to comply with the U.S. Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the U.S. Securities and Exchange Commission thereunder in connection with the registrant's Annual Report on Form 10-K for the fiscal year ended July 1, 2016 (the "Annual Report"), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of the registrant and the name of the undersigned, individually and in his capacity as a director or officer of the registrant, to the Annual Report as filed with the U.S. Securities and Exchange Commission, to any and all amendments thereto, and to any and all instruments or documents filed as part thereof or in connection therewith; and each of the undersigned hereby ratifies and confirms all that said attorneys and agents and each of them shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title   | Date                  |
|---|---|-----------------------|
| <p>/s/ STEPHEN J. LUCZO</p> <hr/> <p>(Stephen J. Luczo)</p>         | <p>Chief Executive Officer, Director and Chairman of the Board of Directors (Principal Executive Officer)</p>     | <p>August 5, 2016</p> |
| <p>/s/ DAVID H. MORTON, JR.</p> <hr/> <p>(David H. Morton, Jr.)</p> | <p>Executive Vice President, Finance and Chief Financial Officer (Principle Financial and Accounting Officer)</p> | <p>August 5, 2016</p> |
| <p>/s/ FRANK J. BIONDI, JR.</p> <hr/> <p>(Frank J. Biondi, Jr.)</p> | <p>Director</p>   | <p>August 5, 2016</p> |
| <p>/s/ MICHAEL R. CANNON</p> <hr/> <p>(Michael R. Cannon)</p>       | <p>Director</p>   | <p>August 5, 2016</p> |

Edgar Filing: Seagate Technology plc - Form 10-K

Table of Contents

| Signature   | Title    | Date           |
|---|----------|----------------|
| <u>/s/ MEI-WEI CHENG</u><br>(Mei-Wei Cheng)                   | Director | August 5, 2016 |
| <u>/s/ WILLIAM T. COLEMAN III</u><br>(William T. Coleman III) | Director | August 5, 2016 |
| <u>/s/ JAY L. GELDMACHER</u><br>(Jay L. Geldmacher)           | Director | August 5, 2016 |
| <u>/s/ DAMBISA MOYO</u><br>(Dr. Dambisa Moyo)                 | Director | August 5, 2016 |
| <u>/s/ KRISTEN M. ONKEN</u><br>(Kristen M. Onken)             | Director | August 5, 2016 |
| <u>/s/ C.S. PARK</u><br>(Dr. C.S. Park)                       | Director | August 5, 2016 |
| <u>/s/ STEPHANIE TILENIUS</u><br>(Stephanie Tilenius)         | Director | August 5, 2016 |
| <u>/s/ EDWARD J. ZANDER</u><br>(Edward J. Zander)             | Director | August 5, 2016 |

Table of Contents**EXHIBIT INDEX**

| Exhibit No. | Exhibit Description   | Incorporated by Reference |           |         | Filing Date | Filed Herewith |
|-------------|---|---------------------------|-----------|---------|-------------|----------------|
|             |   | Form                      | File No.  | Exhibit |             |                |
| 2.1         | Scheme of Arrangement among Seagate Technology ("Seagate-Cayman"), Seagate Technology plc ("Seagate-Ireland") and the Scheme Shareholders (incorporated by reference to Annex A to Seagate Technology's Definitive Proxy Statement on Schedule 14A filed on March 5, 2010)  | DEF 14A                   | 001-31560 | Annex A | 3/5/2010    |                |
| 3.1         | Memorandum and Articles of Association of Seagate Technology plc, as amended and restated by Special Resolution dated October 30, 2013  | 8-K                       | 001-31560 | 3.10    | 11/1/2013   |                |
| 3.2         | Certificate of Incorporation of Seagate Technology plc  | 10-K                      | 001-31560 | 3.20    | 8/20/2010   |                |
| 4.1         | Specimen Ordinary Share Certificate   | 10-K                      | 001-31560 | 4.10    | 8/20/2010   |                |
| 4.2         | Indenture dated September 20, 2006 among Seagate Technology, Seagate Technology HDD Holdings and U.S. Bank National Association   | 8-K                       | 001-31560 | 4.10    | 9/21/2006   |                |
| 4.3         | Forms of Global Note for the Senior Notes due 2011 and Senior Notes due 2016 of Seagate Technology HDD Holdings issued pursuant to the Indenture  | 8-K                       | 001-31560 | 4.10    | 9/21/2006   |                |
| 4.4         | First Supplemental Indenture, dated as of March 1, 2010, among Seagate Technology HDD Holdings, Seagate HDD Cayman, Seagate Technology and U.S. Bank National Association, as trustee, amending and supplementing the Indenture, dated as of September 20, 2006, among Seagate Technology HDD Holdings, Seagate Technology and U.S. Bank National Association, as trustee   | 8-K                       | 001-31560 | 10.20   | 3/3/2010    |                |
| 4.5         | Indenture dated as of May 13, 2010, among Seagate HDD Cayman, as Issuer, Seagate Technology, as Guarantor, and Wells Fargo Bank, National Association, as Trustee   | 8-K                       | 001-31560 | 4.10    | 5/14/2010   |                |
| 4.6         | Registration Rights Agreement dated as of May 13, 2010, among Seagate HDD Cayman, Seagate Technology and Morgan Stanley & Co. Incorporated and Bank of America Securities LLC   | 8-K                       | 001-31560 | 4.30    | 5/14/2010   |                |
| 4.7         | Supplemental Indenture, dated as of July 3, 2010, among Seagate HDD Cayman, as issuer, Seagate Technology, as original guarantor, Seagate Technology plc, as successor guarantor, and Wells Fargo Bank, National Association, as trustee, amending and supplementing the Indenture, dated as of May 13, 2010, among Seagate HDD Cayman, as issuer, Seagate Technology, as guarantor, and Wells Fargo Bank, National Association, as trustee | 8-K                       | 001-31560 | 10.10   | 7/6/2010    |                |



## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

| Exhibit No. | Exhibit Description   | Incorporated by Reference |           |         | Filed Herewith |
|-------------|---|---------------------------|-----------|---------|----------------|
|             |   | Form                      | File No.  | Exhibit |                |
| 4.8         | Indenture dated as of May 18, 2011, among Seagate HDD Cayman, as Issuer, Seagate Technology plc, as Guarantor, and Wells Fargo Bank, National Association, as Trustee | 8-K                       | 001-31560 | 4.10    | 5/18/2011      |
| 4.9         | Form of 7.000% Senior Note due 2021   | 8-K                       | 001-31560 | 4.10    | 5/18/2011      |
| 4.10        | Registration Rights Agreement dated as of May 18, 2011, among Seagate HDD Cayman, Seagate Technology plc and Morgan Stanley & Co. Incorporated                        | 8-K                       | 001-31560 | 4.30    | 5/18/2011      |
| 4.11        | Indenture dated as of May 22, 2013, among Seagate HDD Cayman, as Issuer, Seagate Technology plc, as Guarantor, and U.S. Bank National Association, as Trustee         | 8-K                       | 001-31560 | 4.10    | 5/22/2013      |
| 4.12        | Form of 4.75% Senior Note due 2023  | 8-K                       | 001-31560 | 4.10    | 5/22/2013      |
| 4.13        | Registration Rights Agreement dated as of May 22, 2013, among Seagate HDD Cayman, Seagate Technology plc and Morgan Stanley & Co. LLC.                                | 8-K                       | 001-31560 | 4.30    | 5/22/2013      |
| 4.14        | Indenture dated as of November 5, 2013, among Seagate HDD Cayman, as Issuer, Seagate Technology plc, as Guarantor, and U.S. Bank National Association, as Trustee     | 8-K                       | 001-31560 | 4.10    | 11/5/2013      |
| 4.15        | Form of 3.75% Senior Note due 2018  | 8-K                       | 001-31560 | 4.10    | 11/5/2013      |
| 4.16        | Registration Rights Agreement dated as of November 5, 2013, among Seagate HDD Cayman, Seagate Technology plc and Morgan Stanley & Co. LLC.                            | 8-K                       | 001-31560 | 4.30    | 11/5/2013      |
| 4.17        | Indenture dated as of May 28, 2014, among Seagate HDD Cayman, as Issuer, Seagate Technology plc, as Guarantor, and U.S. Bank National Association, as Trustee         | 8-K                       | 001-31560 | 4.10    | 5/28/2014      |
| 4.18        | Form of 4.75% Senior Note due 2025  | 8-K                       | 001-31560 | 4.10    | 5/28/2014      |
| 4.19        | Registration Rights Agreement dated as of May 28, 2014, among Seagate HDD Cayman, Seagate Technology plc and Morgan Stanley & Co. LLC.                                | 8-K                       | 001-31560 | 4.30    | 5/28/2014      |
| 4.20        | Indenture dated as of December 2, 2014, among Seagate HDD Cayman, as issuer, the Company, as guarantor, and U.S. Bank National Association, as trustee.               | 8-K                       | 001-31560 | 4.10    | 12/2/2014      |
| 4.21        | Form of 5.75% Senior Note due 2034  | 8-K                       | 001-31560 | 4.10    | 12/2/2014      |
| 4.22        | Registration Rights Agreement dated as of December 2, 2014, among Seagate HDD Cayman, the Company and Morgan Stanley & Co. LLC.                                       | 8-K                       | 001-31560 | 4.30    | 12/2/2014      |
| 10.1+       | Amended Seagate Technology plc 2001 Share Option Plan   | 10-K                      | 001-31560 | 10.10   | 8/20/2010      |

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

| Exhibit No. | Exhibit Description   | Incorporated by Reference |           |         | Filing Date | Filed Herewith |
|-------------|---|---------------------------|-----------|---------|-------------|----------------|
|             |   | Form                      | File No.  | Exhibit |             |                |
| 10.2+       | Seagate Technology plc 2001 Share Option Plan Form of Notice of Stock Option Grant and Option Agreement (includes Compensation Recovery Policy)           | 10-K                      | 001-31560 | 10.30   | 8/20/2010   |                |
| 10.3+       | Amended Seagate Technology plc 2004 Share Compensation Plan   | 10-K                      | 001-31560 | 10.60   | 8/20/2010   |                |
| 10.4+       | Seagate Technology 2004 Stock Compensation Plan Form of Option Agreement (For Outside Directors)  | 10-Q                      | 001-31560 | 10.70   | 11/4/2009   |                |
| 10.5+       | Seagate Technology plc 2004 Share Compensation Plan Form of Notice of Stock Option Grant and Option Agreement(includes Compensation Recovery Policy)      | 10-K                      | 001-31560 | 10.13   | 8/20/2010   |                |
| 10.6+       | Seagate Technology plc 2004 Share Compensation Plan Form of Notice of Performance Share Bonus Grant and Agreement (includes Compensation Recovery Policy) | 10-K                      | 001-31560 | 10.16   | 8/20/2010   |                |
| 10.7+       | Seagate Technology plc 2004 Share Compensation Plan Form of Restricted Share Unit Agreement (includes Compensation Recovery Policy)                       | 10-Q                      | 001-31560 | 10.19   | 11/3/2010   |                |
| 10.8+       | Seagate Technology plc 2004 Share Compensation Plan Form of Executive Performance Unit Agreement  | 10-Q                      | 001-31560 | 10.56   | 10/27/2011  |                |
| 10.9+       | Amended and Restated Seagate Technology plc 2012 Equity Incentive Plan  | 8-K                       | 001-31560 | 10.10   | 10/24/2014  |                |
| 10.10+      | 2012 Equity Incentive Plan Restricted Share Unit Agreement (outside directors)  | 10-K                      | 001-31560 | 10.29   | 8/8/2013    |                |
| 10.11+      | Seagate Technology Public Limited Company 2012 Equity Incentive Plan Executive Performance Unit Agreement   | 10-K                      | 001-31560 | 10.37   | 8/8/2013    |                |
| 10.12+      | Seagate Technology Public Limited Company 2012 Equity Incentive Plan Restricted Share Unit Agreement  | 10-K                      | 001-31560 | 10.38   | 8/8/2013    |                |
| 10.13+      | Seagate Technology Public Limited Company 2012 Equity Incentive Plan Option Agreement   | 10-K                      | 001-31560 | 10.39   | 8/8/2013    |                |
| 10.14+      | Seagate Technology plc Amended and Restated Employee Stock Purchase Plan  | 10-K                      | 001-31560 | 10.37   | 8/8/2014    |                |
| 10.15+      | Dot Hill Systems Corp. 2009 Equity Incentive Plan, as amended, as assumed by Seagate Technology PLC by Deed Poll on October 21, 2015                      | 10-Q                      | 001-31560 | 10.10   | 1/29/2016   |                |
| 10.16+      | Dot Hill Systems Corp. 2009 Equity Incentive Plan, as amended   | 10-Q                      | 001-13317 | 10.10   | 5/10/2012   |                |
| 10.17+      | Restated Seagate Deferred Compensation Plan   | 10-Q                      | 001-31560 | 10.27   | 5/5/2010    |                |
| 10.18+      | First Amendment to Seagate Deferred Compensation Plan   | 10-Q                      | 001-31560 | 10.26   | 5/5/2010    |                |
| 10.19+      | Second Amendment to Seagate Deferred Compensation Plan  | 10-Q                      | 001-31560 | 10.21   | 5/3/2011    |                |



## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

| Exhibit No. | Exhibit Description   | Incorporated by Reference |           |         | Filing Date | Filed Herewith |
|-------------|---|---------------------------|-----------|---------|-------------|----------------|
|             |   | Form                      | File No.  | Exhibit |             |                |
| 10.20+      | Third Amendment to Seagate Deferred Compensation Plan   | 10-Q/A                    | 001-31560 | 10.56   | 1/31/2013   |                |
| 10.21+      | Fourth Amendment to the Seagate Deferred Compensation Plan  | 10-Q                      | 001-31560 | 10.40   | 1/30/2015   |                |
| 10.22+      | Seagate Deferred Compensation Sub-Plan  | 10-Q                      | 001-31560 | 10.28   | 5/5/2010    |                |
| 10.23+      | 2015 Seagate Deferred Compensation Plan   | 10-Q                      | 001-31560 | 10.30   | 1/30/2015   |                |
| 10.24+      | First Amendment to the 2015 Seagate Deferred Compensation Plan  | 10-Q                      | 001-31560 | 10.10   | 10/30/2015  |                |
| 10.25+      | Seagate Technology Amended and Restated Executive Officer Performance Bonus Plan  | 8-K                       | 001-31560 | 10.10   | 11/1/2013   |                |
| 10.26+      | Fifth Amended and Restated Seagate Technology Executive Severance and Change in Control Plan  | 10-K                      | 001-31560 | 10.10   | 8/8/2014    |                |
| 10.27+      | Summary description of Seagate Technology plc's Compensation Policy for Non-Management Members of the Board of Directors with an Effective date of October 30, 2013   | 10-K                      | 001-31560 | 10.46   | 8/7/2013    |                |
| 10.28+      | Offer Letter, dated as of January 29, 2009, by and between Seagate Technology and Stephen J. Luczo  | 10-Q                      | 001-31560 | 10.20   | 2/10/2009   |                |
| 10.29+      | Offer letter, dated as of July 30, 2014, by and between Seagate Technology and Philip Brace   | 8-K                       | 001-31560 | 10.10   | 7/22/2015   |                |
| 10.30+      | Memo Agreement with Albert A. "Rocky" Pimentel dated January 27, 2016   | 10-Q                      | 001-31560 | 10.20   | 1/29/2016   |                |
| 10.31(a)    | Form of Revised Indemnification Agreement between Seagate Technology and the director or officer named therein  | 10-Q                      | 001-31560 | 10.4(b) | 5/6/2009    |                |
| 10.31(b)    | Indemnity, Subrogation and Contribution Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Subsidiary parties thereto and The Bank of Nova Scotia, as Administrative Agents   | 8-K                       | 001-31560 | 10.10   | 7/29/2010   |                |
| 10.32       | Second Priority Mortgage of Shares in Seagate Technology, dated March 1, 2010, between Seagate Technology plc, as mortgagor, and Wells Fargo Bank, National Association, as mortgagee   | 8-K                       | 001-31560 | 10.23   | 3/3/2010    |                |
| 10.33       | Deed Poll of Assumption by Seagate Technology plc, dated July 2, 2010   | 8-K                       | 001-31560 | 10.47   | 7/6/2010    |                |
| 10.34       | Credit Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the lending institutions thereto, the Bank of Nova Scotia, as administrative agent, Merrill Lynch Pierce Fenner and Smith Incorporated and BNP Paribas as Syndication agents and Wells Fargo Bank, National Association, as Documentation Agent | 10-Q                      | 001-31560 | 10.47   | 2/3/2011    |                |
| 10.35       | First Amendment, dated August 31, 2011, to the Credit Agreement,  |                           |           |         |             | X              |



## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

| Exhibit No. | Exhibit Description   | Incorporated by Reference |           |         | Filing Date | Filed Herewith |
|-------------|---|---------------------------|-----------|---------|-------------|----------------|
|             |   | Form                      | File No.  | Exhibit |             |                |
| 10.36       | Second Amendment, dated April 30, 2013, to the Credit Agreement, dated as of January 18, 2011   | 10-Q                      | 001-31560 | 10.10   | 5/24/2013   |                |
| 10.37       | Third Amendment, dated January 15, 2015, to the Credit Agreement, dated as of January 18, 2011  | 8-K                       | 001-31560 | 10.10   | 1/16/2015   |                |
| 10.38       | Fourth Amendment, dated April 28, 2016, to the Credit Agreement, dated as of January 18, 2011   | 10-Q                      | 001-31560 | 10.10   | 4/29/2016   |                |
| 10.39       | U.S. Guarantee Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Guarantor parties thereto and The Bank of Nova Scotia, as Administrative Agent  | 10-Q                      | 001-31560 | 10.48   | 2/2/2011    |                |
| 10.40       | Supplement no. 1 dated February 7, 2012, to the U.S. Guarantee agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Guarantor parties thereto and The Bank of Nova Scotia, as Administrative Agent  | 10-K                      | 001-31560 | 10.45   | 8/8/2012    |                |
| 10.41       | Supplement no. 2 dated February 22, 2012, to the U.S. Guarantee agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Guarantor parties thereto and The Bank of Nova Scotia, as Administrative Agent | 10-K                      | 001-31560 | 10.48   | 8/8/2012    |                |
| 10.42       | Supplement no. 3 dated March 19, 2012, to the U.S. Guarantee agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Guarantor parties thereto and The Bank of Nova Scotia, as Administrative Agent    | 10-K                      | 001-31560 | 10.50   | 8/8/2012    |                |
| 10.43       | First Amendment, dated April 30, 2013, to the U.S. Guarantee Agreement, dated as of January 18, 2011  | 10-Q                      | 001-31560 | 10.20   | 5/2/2013    |                |
| 10.44       | U.S. Security Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Guarantor parties thereto and The Bank of Nova Scotia, as Administrative Agent   | 10-Q                      | 001-31560 | 10.49   | 2/3/2011    |                |
| 10.45       | U.S. Pledge Agreement Dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Subsidiary Pledgor parties thereto and The Bank of Nova Scotia, as Administrative Agent   | 10-Q                      | 001-31560 | 10.52   | 2/3/2011    |                |
| 10.46       | Indemnity, Subrogation and Contribution Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, the Subsidiary parties thereto and The Bank of Nova Scotia, as Administrative Agent                        | 10-Q                      | 001-31560 | 10.52   | 2/3/2011    |                |

## Edgar Filing: Seagate Technology plc - Form 10-K

### Table of Contents

| Exhibit No. | Exhibit Description  | Incorporated by Reference |           |         | Filing Date | Filed Herewith |
|-------------|--|---------------------------|-----------|---------|-------------|----------------|
|             |  | Form                      | File No.  | Exhibit |             |                |
| 10.47       | Supplement No. 1, dated February 7, 2012, to the Indemnity, Subrogation and Contribution Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, The Subsidiary Parties thereto and The Bank of Nova Scotia, as Administrative Agent  | 10-K                      | 001-31560 | 10.46   | 8/8/2012    |                |
| 10.48       | Supplement No. 2, dated February 22, 2012, to the Indemnity, Subrogation and Contribution Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, The Subsidiary Parties thereto and The Bank of Nova Scotia, as Administrative Agent | 10-K                      | 001-31560 | 10.49   | 8/8/2012    |                |
| 10.49       | Supplement No. 3, dated March 19 2012, to the Indemnity, Subrogation and Contribution Agreement, dated as of January 18, 2011, among Seagate Technology Public Limited Company, Seagate HDD Cayman, as Borrower, The Subsidiary Parties thereto and The Bank of Nova Scotia, as Administrative Agent     | 10-K                      | 001-31560 | 10.51   | 8/8/2012    |                |
| 21.1        | List of Subsidiaries   |                           |           |         |             | X              |
| 23.1        | Consent of Independent Registered Public Accounting Firm   |                           |           |         |             | X              |
| 24.1        | Power of Attorney (see signature page to this annual report)   |                           |           |         |             | X              |
| 31.1        | Certification of the Chief Executive Officer pursuant to rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                           |           |         |             | X              |
| 31.2        | Certification of the Chief Financial Officer pursuant to rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                           |           |         |             | X              |
| 32.1        | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |                           |           |         |             | X              |
| 101.INS     | XBRL Instance Document.  |                           |           |         |             | X              |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.   |                           |           |         |             | X              |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document.   |                           |           |         |             | X              |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document.   |                           |           |         |             | X              |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.  |                           |           |         |             | X              |

# Edgar Filing: Seagate Technology plc - Form 10-K

## Table of Contents

| Exhibit No. | Exhibit Description                                   | Incorporated by Reference |          |         | Filing Date | Filed Herewith |
|-------------|---|---------------------------|----------|---------|-------------|----------------|
|             |   | Form                      | File No. | Exhibit |             |                |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document. |                           |          |         |             | X              |

---

+ Management contract or compensatory plan or arrangement.

The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Seagate Technology plc under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.