CENTRAL VALLEY COMMUNITY BANCORP
Form 10QSB
August 12, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2002

o **TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000 31977

CENTRAL VALLEY COMMUNITY BANCORP

(Name of small business issuer in its charter)

California	**77-0539125**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 Pollasky Avenue, Clovis, California	**93612**
(Address of principal executive offices)	(Zip code)

Issuer s telephone number **(559) 298-1775**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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 ý No o

State the number of shares outstanding of each of the issuer s classes of common equity, as of August 9, 2002. 1,290,523 shares

Transitional Small business Disclosure Format (check one)

Yes o No ý

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CENTRAL VALLEY COMMUNITY BANCORP

CONSOLIDATED BALANCE SHEET

JUNE 30, 2002 AND DECEMBER 31,2001

(In Thousands Except Share Amounts)

	June 30, 2002 (Unaudited)	Dec. 31, 2001 (Audited)
ASSETS		
Cash and due from banks	$ 15,593	$ 13,863
Interest bearing deposits with other banks	100	100
Federal funds sold	10,467	4,160
Available for sale investment securities (Book value of $55,305 at June 30, 2002 and $58,843 at December 31, 2001)	57,309	60,586
Loans less allowance for credit losses of $2,389 at June 30, 2002 and $2,474 at December 31, 2001	152,279	130,797
Equipment leased to others, net	723	1,217
Bank premises and equipment, net	2,881	1,864
Accrued interest receivable and other assets	8,466	6,479
Total assets	$ 247,818	$ 219,066
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 61,549	$ 49,016
Interest bearing	146,032	143,116
Total deposits	207,581	192,132
Short-term borrowings	7,000	1,000
Long-term borrowings	8,000	2,000
Accrued interest payable and other liabilities	3,011	3,106
Total liabilities	225,592	198,238
Shareholders equity:		
Preferred stock, no par value: 10,000,000 shares authorized, no shares issued or outstanding		
Common stock, no par value; 20,000,000 shares authorized, 1,294,283 and 1,285,357 shares issued and outstanding at June 30, 2002 and December 31, 2001	6,129	6,049
Retained earnings	14,895	13,733
Accumulated other comprehensive income, net of tax	1,202	1,046
Total shareholders equity	22,226	20,828
Total liabilities and shareholders equity	$ 247,818	$ 219,066

See notes to consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP

CONSOLIDATED STATEMENT OF INCOME

For the Three and Six Month Periods Ended June 30, 2002 and 2001

(In Thousands Except Earnings Per Share Amounts)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(Unaudited)	**2002**	**2001**	**2002**	**2001**
INTEREST INCOME:				
Interest and fees on loans	$ 2,831	$ 2,541	$ 5,441	$ 5,093
Interest on Federal funds sold	21	83	45	140
Interest and dividends on investment securities:				
Taxable	630	860	1,288	1,893
Exempt from Federal income taxes	120	118	241	236
Interest on deposits with other banks	1	1	1	3
Total interest income	3,603	3,603	7,016	7,365
INTEREST EXPENSE:				
Interest on deposits	581	1,103	1,196	2,319
Other	102		163	11
Total interest expense	683	1,103	1,359	2,330
Net interest income before provision for credit losses	2,920	2,500	5,657	5,035
PROVISION FOR CREDIT LOSSES		35		497
Net interest income after provision for credit losses	2,920	2,465	5,657	4,538
NON-INTEREST INCOME:				
Service charges	538	316	890	565
Rentals from equipment leased to others	274	344	620	689
Loan placement fees	64	54	147	96
Net realized gain on sales of investment securities		55	26	371
Other income	191	221	385	1,064
Total non-interest income	1,067	990	2,068	2,785
NON-INTEREST EXPENSES:				
Salaries and employee benefits	1,525	1,328	2,926	2,587
Occupancy and equipment	322	226	570	451
Depreciation and provision for losses on equipment leased to others	247	301	494	752
Other expense	1,046	843	1,832	1,660
Total non-interest expenses	3,140	2,698	5,822	5,450
Income before income taxes	847	757	1,903	1,873
INCOME TAX EXPENSE	238	257	611	652
Net income	$ 609	$ 500	$ 1,292	$ 1,221
Basic earnings per share	$ 0.47	$ 0.39	$ 1.00	$ 0.94
Diluted earnings per share	$ 0.45	$ 0.38	$ 0.95	$ 0.92

See notes to consolidated financial statements

CENTRAL VALLEY COMMUNITY BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Six Month Periods ended June 30, 2002 and 2001

(Unaudited) (In thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Shareholders Equity	Comprehensive Income
	Stock	Amount				
Balance, January 1, 2001	1,303	$ 6,465	$ 11,354	$ 851	$ 18,670	
Comprehensive income						
Net income			1,221		1,221	$ 1,221
Other comprehensive income, net of tax:						
Unrealized gains on available-for-sale investment securities				181	181	181
Total comprehensive income						$ 1,402
Stock options exercised and related tax benefit	7	69			69	
Repurchase and retirement of common stock	(9)	(159)			(159)	
Balance, June 30, 2001	1,301	$ 6,375	$ 12,575	$ 1,032	$ 19,982	
Balance, January 1, 2002	1,285	$ 6,049	$ 13,733	$ 1,046	$ 20,828	
Comprehensive income						
Net income			1,292		1,292	$ 1,292
Other comprehensive income, net of tax:						
Unrealized gains on available-for-sale investment securities				156	156	156
Total comprehensive income						$ 1,448
Cash dividend - $.10 per share			(130)		(130)	
Stock options exercised and related tax benefit of $61,000	13	167			167	
Repurchase and retirement of common stock	(4)	(87)			(87)	
Balance, June 30, 2002	1,294	$ 6,129	$ 14,895	$ 1,202	$ 22,226	

See notes to consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2002 and 2001

(In Thousands) (Unaudited)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,292	$ 1,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses		497
Allowance for residual losses on equipment leased to others		100
Depreciation, amortization and accretion, net	1,092	939
Net realized gains on sales of available-for-sale investment securities	(26)	(371)
Gain on sale of equipment	(1)	
Gain on sale of equipment leased to others		(58)
Net increase in deferred loan fees	56	80
Net (increase) decrease in accrued interest receivable and other assets	(690)	248
Increase in cash surrender value of life insurance	(119)	(91)
Net (decrease) increase in accrued interest payable and other liabilities	(34)	459
Deferred Income tax expense	187	
Net cash provided by operating activities	1,757	3,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale investment securities	(9,607)	(7,956)
Proceeds from sales and calls of available-for-sale investment securities	1,955	15,307
Proceeds from principal repayments and maturities of available for sale investment securities	10,908	7,208
Net increase in loans and leases	(21,538)	(15,662)
Proceeds from sale of equipment	7	58
Purchase of premises and equipment	(1,307)	(212)
Purchase of single premium cash surrender value life insurance policies	(1,475)	(327)
Net cash used in investing activities	(21,057)	(1,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	13,681	2,029
Net increase (decrease) in time deposits	1,767	(2,651)
Proceeds from short-term borrowings	8,000	
Proceeds from long-term borrowings	6,000	
Payments on short-term borrowings	(2,000)	
Payments on notes payable for equipment leased to others		(31)
Cash paid for dividends	(130)	
Share repurchase and retirement	(87)	(159)
Proceeds from exercise of stock options	106	51
Net cash provided by (used in) financing activities	27,337	(761)

CASH USED IN DISCONTINUED OPERATIONS		(89)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,037	590
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,123	23,076
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26,160	23,666
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest expense	1,323	2,367
Income taxes	445	60
Non-Cash Investing Activities:		
Net change in unrealized gain on available-for-sale investment securities	261	301

See notes to consolidated financial statements

CENTRAL VALLEY COMMUNITY BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. GENERAL

All adjustments (consisting only of normal recurring accruals) which, in the opinion of Management, are necessary for a fair presentation of the Company s consolidated financial position at June 30, 2002 and December 31, 2001; the results of its operations, changes in shareholders equity and its cash flows for the three month periods ended June 30, 2002 and 2001, and the six month periods ended June 30, 2002 and 2001 have been included. The results of operations and cash flows for the periods presented are not necessarily indicative of the results for a full year.

The accompanying unaudited financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the Company s annual report for the year ended December 31, 2001.

Note 2. EARNINGS PER SHARE

	For Quarters Ended June 30,			
EARNINGS PER SHARE (Unaudited)	**2002**		**2001**	
Basic earnings per share	$	0.47	$	0.39
Diluted earnings per share	$	0.45	$	0.38

	For Six Months Ended June 30,			
EARNINGS PER SHARE (Unaudited)	**2002**		**2001**	
Basic earnings per share	$	1.00	$	0.94
Diluted earnings per share	$	0.95	$	0.92

Weighted Average Number of Shares Outstanding

	For Quarter Ended June 30, 2002	**For Quarter Ended June 30, 2001**
Basic Shares	1,294,552	1,301,357
Diluted Shares	1,369,825	1,335,689

	For Six Months Ended June 30, 2002	**For Six Months Ended June 30, 2001**

Basic Shares	1,294,593	1,303,757
Diluted Shares	1,363,729	1,329,602

Note 3. COMPREHENSIVE INCOME

Total comprehensive income is comprised of net earnings and net unrealized gains and losses on available-for-sale securities. Total comprehensive income for the three-month periods ended June 30, 2002 and 2001 was $1,014,000 and $426,000, respectively. For the six-month periods ended June 30, 2002 and 2001, comprehensive income totaled $1,448,000 and $1,402,000, respectively.

Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis should be read in conjunction with the Company s unaudited consolidated financial statements, including the notes, appearing elsewhere in this document.

All statements contained herein that are not historical facts, such as statements regarding the Company s current business strategy and the Company s plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to, those described in Management s Discussion and Analysis of Financial Condition and Results of Operations and include, among other things, (1) significant increases in competitive pressures in the banking industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) fluctuations in the real estate market; (6) changes in business conditions and inflation; and (7) changes in securities markets. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.

Overview:

Central Valley Community Bancorp (OTC:CVCY) (the Company) was incorporated on February 7, 2000. The formation of the holding company offered the Company more flexibility in meeting the long-term needs of customers, shareholders, and the community it serves. The Company currently has one bank subsidiary. The Company s market area includes the entire central valley area from Sacramento, California to Bakersfield, California. To garner public acceptance beyond the Clovis-Fresno area, the Company made a decision in the first half of 2002, to change the name of its one subsidiary, Clovis Community Bank, to Central Valley Community Bank (the Bank). This change was announced in the second quarter of 2002 and has been well received.

The Company reported net income of $1,292,000 for the first half of 2002 compared to $1,221,000 in the same period of 2001. The primary contributors to the increase were a $622,000 increase in net interest income before provision for credit losses and a $497,000 reduction in the provision for credit losses. These increases were partially offset by a $717,000 decrease in non-interest income and a $427,000 increase in non-interest expense. The increase in net income is more significant after adjusting for non-recurring items in 2001.

In 2001, the Company realized income from funds received as part of an insurance settlement and gains from sales of investments, which were partially offset by additions to the Bank s provision for credit losses and provision for losses on equipment leased to others. After adjustments to exclude these items, net income for the first half of 2001 would have been $704,000. Comparing the two periods after the 2001 adjustment would reflect a $588,000, or 83.5%, increase for the first half of 2002 compared to the same period of 2001, as discussed below.

During the first half of 2002, the Bank relocated the River Park Branch in Fresno, California to a new site. Due to the success of the River Park Branch staff, the branch outgrew its initial 2,000 square foot leased facility and has relocated to a new 5,000 square foot facility in the same area. Leasehold improvements associated with this new facility are reflected in bank premises and equipment, net of depreciation, which increased $981,000 comparing June 2002 to June 2001.

The Bank also opened a new full service branch in the Sacramento area during the first half of 2002. The new Sacramento Private Banking facility is intended to serve the Sacramento area needs of the Company s existing commercial customers whose needs fall outside the Fresno area but within the Sacramento area, as well as serving the banking needs of new customers.

The Bank also has plans to relocate its Fig Garden Branch from its 350 square foot location to a new 2,000 square foot site in the same area. The relocation is scheduled for the third quarter of 2002.

During the second quarter of 2002, the Bank formed a real estate investment trust, Central Valley Community Realty, LLC for the purpose of utilizing a means to potentially generate future additional capital for the Bank and with the intent of reducing state income tax expense. However, no assurance can be given that the Company will be successful in accomplishing these objectives.

Average assets for the first half of 2002 were $231,859,000 compared to $197,620,000 for the same period in 2001. The $34,239,000, or 17.3%, increase can be mainly attributed to the 39.8% increase in average loans. Loan growth is discussed in more detail below.

Average earning assets for the first half of 2002 were $206,635,000 compared to $175,339,000 for the same period in 2001. The $31,296,000, or 17.8%, increase can be mainly attributed to the increase in loan volumes mentioned above.

Similar to most of the banking industry, the Company s net interest margin continues to be challenged by the 475 basis point decrease in Federal funds interest rates by the Federal Open Market Committee (FOMC) in 2001. Managing the decrease in loan yields and the effective rates paid on deposits have become increasingly difficult as the deposit rates may have reached near the bottom of consumer tolerance. Refer to Market Risk for further discussion of the Bank s interest rate position.

The Company s net interest margin decreased 26 basis points in the periods under review. The net interest margin for the six-month period ended June 30, 2002 was 5.48% compared to 5.74% for the same period in 2001. The decrease can be partially attributed to the declining rate environment and the fact that assets generally reprice more quickly than liabilities. West Coast prime rate remained constant in the first six months of 2002 compared to a decline of 275 basis points in the first six months of 2001. The effective yield on loans for those same periods was 7.59% and 9.87%, respectively. The effective rate on interest bearing deposits and other borrowings for the first half of 2002 was 1.73% compared to 3.49% for the same period in 2001.

The Company s market focus for loans continues to concentrate on small to medium businesses offering both commercial and real estate loans, however the Company also offers consumer and agricultural lending. These loans are diversified as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating interest rate loans and typically obtains collateral in the form of real estate, business equipment, or accounts receivable, but looks to business cash flow as its primary source of repayment.

The following table indicates outstanding loan balances by type at June 30, 2002 and 2001 respectively, and their percentage to total loans.

Loan Type **(Unaudited) (In thousands)**		**June 30, 2002**	**% of Total loans**		**June 30, 2001**	**% of Total loans**
Commercial & Industrial	$	60,758	39.3%	$	52,713	47.3%
Real Estate		36,407	23.5%		33,021	29.7%
Real Estate - construction, land development and other land loans		50,239	32.5%		17,150	15.4%
Consumer & Installment		5,669	3.7%		7,249	6.5%
Agricultural		1,595	1.0%		1,223	1.1%
Total loans	$	154,668	100.0%	$	111,356	100.0%

The significant increase in real estate construction, land development and other land loans is partially attributable to the purchase of loan participations from other financial institutions and through brokers. These loans are to borrowers located in the Company s general market area and undergo the same loan review process as loans originated by the Company. The Company believes that these loans represent no greater risk factors than loans originated by the Company.

Although management believes the loans within the concentrations reflected in the above table have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company s primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate-related non-performing loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Company.

Return on average assets (ROA) and return on average equity (ROE) for the periods under review are reflected in the following table.

(Unaudited)	**For the Quarter Ended June 30, 2002**	**For the Quarter Ended June 30, 2001**
ROA	1.02%	1.01%
ROE	11.07%	10.97%

(Unaudited)	**For the Six Months Ended June 30, 2002**	**For the Six Months Ended June 30, 2001**
ROA	1.11%	1.24%
ROE	11.92%	12.73%

The following table sets forth average assets, liabilities and shareholders equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the quarters ended June 30, 2002 and 2001 and the six months ended June 30, 2002 and 2001. The average balances reflect daily averages except non-accrual loans that were computed using quarterly and year-to-date averages.

CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Unaudited) (Dollars In Thousands)

	FOR THE THREE MONTHS ENDED June 30, 2002			FOR THE THREE MONTHS ENDED JUNE 30, 2001		
	AVERAGE BALANCE	**INTEREST**	**AVERAGE INTEREST RATE**	**AVERAGE BALANCE**	**INTEREST**	**AVERAGE INTEREST RATE**
ASSETS						
Interest-earning deposits in other banks	$ 100	$ 1	2.60%	$ 100	$ 1	4.95%
Investment securities:						
Taxable securities	48,860	630	5.16%	52,968	860	6.49%
Non-taxable securities	9,384	120	5.12%	8,506	118	5.55%
Total investment securities	58,244	750	5.15%	61,474	978	6.36%
Federal funds sold	5,079	21	1.65%	8,169	83	4.06%
Loans	149,335	2,831	7.58%	106,197	2,541	9.57%
Total interest-earning assets	212,758	3,603	6.77%	175,940	3,603	8.19%
Allowance for credit losses	(2,336)			(2,251)		
Non-accrual loans	948			147		
Cash and due from banks	13,913			12,757		
Premises	2,876			1,905		
Other non-earning assets	10,678			9,613		
Total average assets	$ 238,837	$ 3,603		$ 198,111	$ 3,603	
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings and negotiable orders of withdrawal	$ 45,970	$ 43	0.37%	$ 38,830	$ 72	0.74%
Money market accounts	48,086	191	1.59%	41,980	358	3.41%
Time certificates of deposit, under $100,000	37,138	259	2.79%	35,846	447	4.99%
Time certificates of deposit, $100,000 and over	14,858	88	2.37%	16,568	226	5.46%
Other borrowed funds	14,209	102	2.87%	0		0.00%
Federal funds purchased	14			15		5.00%
Total interest-bearing liabilities	160,275	683	1.70%	133,239	1,103	3.31%
Non-interest bearing demand deposits	54,542			43,121		
Other liabilities	2,005			3,518		
Shareholders equity	22,015			18,233		
Total average liabilities and shareholders equity	$ 238,837	$ 683		$ 198,111	$ 1,103	
		$ 3,603	6.77%		$ 3,603	8.19%

Interest income and rate earned on average earning assets						
Interest expense and interest cost related to average interest-bearing liabilities		683	1.70%		1,103	3.31%
Net interest income and net interest margin	$	2,920	5.49%	$	2,500	5.68%

CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Unaudited) (Dollars In Thousands)

	FOR THE SIX MONTHS ENDED June 30, 2002			FOR THE SIX MONTHS ENDED JUNE 30, 2001		
	AVERAGE BALANCE	**INTEREST**	**AVERAGE INTEREST RATE**	**AVERAGE BALANCE**	**INTEREST**	**AVERAGE INTEREST RATE**
ASSETS						
Interest-earning deposits in other banks	$ 100	$ 1	2.60%	$ 100	$ 3	4.95%
Investment securities:						
Taxable securities	48,402	1,288	5.32%	57,354	1,893	6.60%
Non-taxable securities	9,325	241	5.17%	8,511	236	5.55%
Total investment securities	57,727	1,529	5.30%	65,865	2,129	6.46%
Federal funds sold	5,425	45	1.66%	6,148	140	4.55%
Loans	143,383	5,441	7.59%	103,226	5,093	9.87%
Total interest-earning assets	206,635	7,016	6.79%	175,339	7,365	8.40%
Allowance for credit losses	(2,357)			(2,131)		
Non-accrual loans	948			134		
Cash and due from banks	13,908			12,696		
Premises	2,480			1,862		
Other non-earning assets	10,245			9,720		
Total average assets	$ 231,859	$ 7,016		$ 197,620	$ 7,365	
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities:						
Savings and negotiable orders of withdrawal	$ 45,225	$ 84	0.37%	$ 38,780	$ 158	0.81%
Money market accounts	48,825	395	1.62%	41,315	754	3.65%
Time certificates of deposit, under $100,000	36,575	533	2.91%	35,980	934	5.19%
Time certificates of deposit, $100,000 and over	14,388	184	2.56%	16,946	473	5.58%
Other borrowed funds	11,917	163	2.74%	375	10	5.33%
Federal funds purchased	25	0	0.00%	28	1	5.00%
Total interest-bearing liabilities	156,955	1,359	1.73%	133,424	2,330	3.49%
Non-interest bearing demand deposits	50,959			42,555		
Other liabilities	2,261			2,455		
Shareholders equity	21,684			19,186		
Total average liabilities and shareholders equity	$ 231,859	$ 1,359		$ 197,620	$ 2,330	
		$ 7,016	6.79%		$ 7,365	8.40%

Interest income and rate earned on average earning assets						
Interest expense and interest cost related to average interest-bearing liabilities		1,359	1.73%		2,330	3.49%
Net interest income and net interest margin	$	5,657	5.48%	$	5,035	5.74%

Results of Operations for the Second Quarter of 2002 Compared to the Second Quarter of 2001

Net income for the second quarter of 2002 was $609,000 compared to $500,000 for the second quarter of 2001, a $109,000, or 21.8%, increase. The increase in net income between the periods resulted from increases in net interest income after provision for credit losses and non-interest income which were partially offset by increases in non-interest expense.

NET INTEREST INCOME

Net interest income is the Company s primary source of revenue. Net interest income is the difference between the interest income received on interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is primarily affected by two factors, the volume and mix of interest-earning assets and interest-bearing liabilities and the interest rates earned on those assets and paid on the liabilities.

Interest income from loans increased 11.4%, or $290,000, in the periods under review as average total loan volumes increased 41.3% to $150,283,000 for the second quarter of 2002 compared to $106,344,000 for the same period of 2001. The $43,939,000 increase in the average loan volume can be attributed to the continued success of the Company s strategic plan to build its core business with the introduction of new products, seasoned commercial bankers, and strong emphasis on business development and customer retention activities. Additionally, the successes of the River Park Branch and the expansion into the Sacramento market mentioned above have also contributed to the increase in volume. The Company purchased loans from other financial institutions and brokers during 2002 which also reflects in the second quarter 2002 volumes. No assurance can be given that this level of loan growth will continue.

The Company s loan to deposit ratio at June 30, 2002 was 73.6% compared to 58.8% at June 30, 2001.

A significant portion of the Bank s loan portfolio utilizes prime rate as a reference point in pricing loans. West Coast prime averaged 4.75% for the second quarter of 2002 compared to 7.41% for the same period of 2001. Average yield on loans (excluding non-accrual loans) was 7.58% for the three-month period ended June 30, 2002 compared to 9.57% in the same period of 2001.

The designation of a loan as non-accrual for financial reporting purposes does not relieve the borrower of its obligation to pay interest. Accordingly, the Company may ultimately recover all or a portion of the interest due on these non-accrual loans. A non-accrual loan returns to accrual status when the loan becomes contractually current and future collectibility of amounts due is reasonably assured.

A summary of non-accrual, restructured and past due loans at June 30, 2002, December 31, 2001 and June 30, 2001 is set forth below. All of the non-accrual loans arise out of four banking relationships of which two constitute the majority of the total non-accruals at June 30, 2002. Management can give no assurances that non-accrual and other non-performing loans will not increase in the future.

(Unaudited) (In Thousands)	**June 30, 2002**	**December 31, 2001**	**June 30, 2001**

Non-accrual			
Loans secured by real estate	$ 276	$ 95	$ 61
Commercial & industrial loans	779	1,013	69
Consumer loans	0	1	0
Total non-accrual	$ 1,056	$ 1,109	$ 130
Accruing loans past due 90 days or more	0	0	0
Restructured loans	623	627	0
Total non-performing loans	$ 1,679	$ 1,736	$ 130
Non-accrual loans to total loans	0.7%	0.8%	0.11%
Loans considered to be impaired	$ 1,056	$ 1,108	$ 16
Related allowance for credit losses on impaired loans	$ 158	$ 198	$ 8

The investment policy of the Company is established by the Board of Directors and implemented by the Bank s Investment Committee. It is designed primarily to provide and maintain liquidity, to enable the Company to meet its pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement the Company s lending activities.

Investments typically have yields lower than loans. Interest income from investment securities, Federal funds sold, and interest-bearing deposits in other banks decreased 27.3% in the periods under review. The decrease in these categories of income can be attributed to lower Federal funds rates, lower yields on new investment purchases, and decreased investment securities volume. The effective yield for investment securities not including Federal funds sold was 5.15% for the second quarter of 2002 compared to 6.36% for the same period in 2001. The effective yield for Federal funds sold was 1.65% for the second quarter of 2002 compared to 4.06% for the second quarter of 2001. As previously stated, FOMC lowered the Federal funds rate 475 basis points in 2001 which created, by the nature of collateralized mortgage obligations (CMOs) and mortgage backed securities (MBS), increased levels of principal prepayments in the periods under review. While a portion of the paydowns provided funding for loans, excess funds were generally reinvested at lower yields than those generated by the original investment.

Management s review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with the Bank s investment policy. The policy addresses issues of average life, duration, concentration guidelines, prohibited investments, and prohibited practices.

The Company recognizes the interest rate risk and prepayment risks associated with MBS and CMOs. In a declining interest rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investments would be expected to shorten. Conversely, if interest rates increase, prepayments would be expected to decline and the average life of the MBS and CMOs would be expected to extend. The percentage of MBS and CMOs to total assets was 13% at June 30, 2002 compared to 18% at June 30, 2001. The Bank has purchased certain of these investments which are meant to perform well in an increasing rate environment and others that are meant to perform well in a declining rate environment, with the ultimate goal of a balanced portfolio.

Average investment securities, including interest-bearing deposits in other banks and Federal funds sold, decreased 9.1%, or $6,320,000, to $63,423,000 for the second quarter of 2002 compared to $69,743,000 for the second quarter of 2001. Principal paydowns and liquidity needs for the increased loan volumes were the major contributors to the decrease in investment volume. Principal paydowns were $4,762,000 for the second quarter of 2002 compared to $2,503,000 for the same period of 2001.

The amortized cost and estimated market value of available-for-sale investment securities at June 30, 2002 and June 30, 2001 consisted of the following:

June 30, 2002 (Unaudited) (In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Market Value**
U.S. Government agencies	$ 8,478	$ 332		$ 8,810
Obligations of states and political subdivisions	12,077	733	$ (6)	12,810
U.S. Government agencies collateralized by mortgage obligations	32,537	865		33,396
Corporate bonds	971	80		1,051
Other securities	1,242			1,242
	$ 55,305	$ 2,010	$ (6)	$ 57,309

June 30, 2001 (Unaudited) (In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Market Value**
U.S. Treasury securities	$ 1,002	$ 3		$ 1,005
U.S. Government agencies	6,310	285		6,595
Obligations of states and political subdivisions	12,039	597		12,636
U.S. Government agencies collateralized by mortgage obligations	34,953	822	(33)	35,742
Federal Home Loan Mortgage Corporation non-cumulative preferred stock	1,009		(9)	1,000
Corporate bonds	964	55		1,019
Other securities	2,453			2,453
	$ 58,730	$ 1,762	$ (42)	$ 60,450

The Company offers a variety of deposit accounts having a range of interest rates and terms. The Company s deposits consist of savings, demand deposits, and certificates of deposit accounts. The flow of deposits is influenced significantly by general economic conditions, changes in the money market and prevailing interest rates and competition. The Company s deposits are obtained primarily from the geographic area in which its offices are located. The Company relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. The Company does not use brokered deposits, and, based on historical experience, management believes it will continue to retain a large portion of its time deposit accounts at maturity.

Interest expense for the second quarter of 2002 was $683,000 compared to $1,103,000 for the second quarter of 2001. This $420,000, or 38.1%, decrease in interest expense can be partially attributed to the 475 basis point decrease in Federal funds interest rates in 2001 compared to the stable interest rate environment in the second quarter of 2002. Interest rates on deposits typically lag behind immediate changes in Federal funds rates and then generally reflect only a percentage of the rate changes on deposit accounts. Effective rates for interest bearing liabilities was 1.70% for the

second quarter of 2002 compared to 3.31% for the same period of 2001, a 161 basis point decrease. If interest rates were to decline or continue to remain unchanged in the remainder of 2002, the Company could experience restraints on further decreases in the rates paid on deposit products. Additionally, the interest rate risk could increase as depositors are reluctant to accept continued low deposit rates and search for higher yields in investment products other than those offered by the Company. Conversely, if interest rates were to increase, the Company could benefit from the immediate increase in loan rates without comparable immediate increases in deposit rates.

The following table indicates the average balances of interest-bearing deposit products, the percentage of each to total deposits, and the effective rates paid.

	Quarter Ended June 30, 2002			Quarter Ended June 30, 2001		
(Unaudited) (Dollars in Thousands)	**Quarterly Avg.Bal.**	**% of Total Deposits**	**Effective Rate**	**Quarterly Avg.Bal.**	**% of Total Deposits**	**Effective Rate**
NOW Accounts	$ 33,127	16.5%	0.24%	$ 28,027	15.9%	0.46%
MMDA Accounts	48,086	24.0%	1.59%	41,980	23.8%	3.41%
Time Deposits	51,996	25.9%	2.67%	52,414	29.7%	5.14%
Savings Accounts	12,843	6.4%	0.73%	10,803	6.1%	1.48%
Total interest-bearing	146,052	72.8%	1.59%	133,224	75.5%	3.31%
Non-interest bearing	54,542	27.2%		43,121	24.5%	
Total Deposits	$ 200,594	100.0%		$ 176,345	100.0%	

Non-interest bearing deposits provide fairly inexpensive funding for loans and offer the opportunity for the Company to enhance and strengthen its net interest margin. Non-interest bearing deposits increased 26.5% in the second quarter of 2002 compared to the same period in 2001.

Other interest expense increased in the periods under review as the Company utilized its Federal Home Loan Bank (FHLB) credit line in the second quarter of 2002 in anticipation of short-term liquidity needs as well as to take advantage of opportunities to lock in low funding rates for increased loan growth. Borrowings from the FHLB were $15,000,000 at June 30, 2002. There were no balances outstanding at June 30, 2001. The average maturies and weighted average rate of the borrowings at June 30, 2002 was 1.1 years and 2.81%, respectively. The Company will continue to analyze the advantages and disadvantages of borrowing funds versus selling investment securities as part of its ongoing funding analysis.

Net interest income before provision for credit losses for the second quarter of 2002 was $2,920,000 compared to $2,500,000 for the second quarter of 2001, an increase of $420,000, or 16.8%. The increase in net interest income can be mainly attributed to the increase in loan interest income and the decrease in interest expense mentioned above.

PROVISION FOR CREDIT LOSSES

The Company provides for possible credit losses by a charge to operating income based upon the composition of the loan portfolio, past delinquency levels, losses and non-performing assets, economic and environmental conditions and other factors which, in management s judgment, deserve recognition in estimating credit losses. Loans are charged off when they are considered uncollectible or of such little value that continuance as an active earning bank asset is not warranted.

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit Officer (CCO), who reviews the grades for accuracy. The risk grading and reserve allocation is analyzed annually by a third party credit reviewer and by various regulatory agencies.

The CCO sets the specific reserve for all adversely risk-graded credits quarterly. This process includes the utilization of loan delinquency reports, classified asset reports, and portfolio concentration reports to assist in accurately assessing credit risk and establishing appropriate reserves. Reserves are also allocated to credits that are not adversely graded. Use of historical loss experience within the portfolio along with peer bank loss experience determines the level of reserves held.

The allowance for credit losses is reviewed at least quarterly by the Board s Audit Committee and by the Board of Directors. Reserves are allocated to loan portfolio categories using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. The Company has adopted the specific reserve approach to allocate reserves to each adversely graded asset, as well as to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or the Company s own internal review process. Additions are also required when, in management s judgment, the allowance does not properly reflect the portfolio s potential loss exposure.

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate the Company s potential losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

The Company made no additions to the allowance for credit losses in the second quarter of 2002 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged off loans. In the second quarter of 2001, $35,000 was added to the allowance for credit losses. Additionally, the Company s historical net charge-off ratio, which reflects net charge-offs to beginning loan balances for the past three (3) years, declined to 0.209% for 2001 compared to 0.295% for 2000 and 2.642% for 1999.

At June 30, 2002, and December 31, 2001, the Company s recorded investment in loans that were considered to be impaired totaled $1,056,000 and $1,108,000, respectively. The related allowance for credit losses on these impaired loans was $158,000 and $198,000, respectively. At June 30, 2001, the amount of impaired loans was immaterial.

The ratio of net credit recoveries to total average loans outstanding was 0.11% for the second quarter of 2002 compared to net credit recoveries of 0.01% for the same period in 2001. Net recoveries were $172,000 for the second quarter of 2002 and $11,000 for the same period of 2001. Non-performing loans at June 30, 2002 and 2001 were $1,679,000 and $237,000, respectively. The ratio of non-performing loans to the allowance for credit losses at June 30, 2002 was 70.3% compared to 10.3% at June 30, 2001. The increase can be mainly attributable to two non-accrual commercial borrowing relationships mentioned above.

Based on information currently available, management believes that the allowance for credit losses will be adequate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any

given period.

Net interest income after the provision for credit losses increased $455,000, or 18.5%, in the periods under review.

NON-INTEREST INCOME

Non-interest income includes service charges, rental income from equipment leased to others, loan placement fees and other income as well as gains on sale of assets and gains on securities transactions.

Non-interest income increased $77,000, or 7.8%, to $1,067,000 in the second quarter of 2002 compared to $990,000 in the second quarter of 2001. The major contributor to the increase was service charges.

Service charges increased $222,000, or 70.3% in the periods under review. Increased deposit accounts and lower earnings credit rates for commercial deposit accounts were contributors to the increase. Business related deposit accounts may earn credit for average deposit holdings which may be used to offset service expenses. When the earnings credit is lower, the business will be required to increase deposit holdings or pay additional charges. The Company introduced a new product, Overdraft Privilege Account, in the second quarter of 2002, which created additional fees.

Rental income from equipment leased to others decreased $70,000 or 20.4% comparing the quarter ended June 30, 2002 to the same period in 2001. The decrease can be attributed to the maturity of several leases in the portfolio. The Company has decided not to actively pursue new operating lease arrangements. This decision is reflected in the lower volume of equipment leases to others, which was $723,000 at June 30, 2002 compared to $1,217,000 at December 31, 2001 and $1,881,000 at June 30, 2001

The Company earns loan placement fees from the brokerage of single-family residential mortgage loans. Loan placement fees increased $10,000, or 18.5%, in the periods under review. The 475 basis point reductions in the Federal funds rate by the FOMC in 2001 provided consumers with numerous opportunities for refinancing of single-family homes. Mortgage rates have continued to decrease in the current rates unchanged environment providing continued opportunities for refinance and new purchases. As interest rates remain unchanged or begin to increase, the opportunities for continued growth in this area may decline.

The Company had no net realized gain on sales of investment securities for the second quarter of 2002 compared to $55,000 for the same period in 2001. Liquidity needs in the first quarter of 2001 provided an opportunity for the Company to invest funds in higher yielding loans at a time when the loan demand increased and deposit volumes did not keep pace. As stated above, in the routine analysis of liquidity needs, the Company compares the advantages of borrowing funds or selling securities to meet liquidity needs. As discussed further in Liquidity , the Company utilized its FHLB borrowing line in the second quarter of 2002 to meet liquidity needs as opposed to the selling of securities to meet liquidity needs in the same period of 2001.

Other income decreased $30,000 in the periods under review. The majority of the decrease can be attributed to Other Real Estate Owned recoveries of $59,000 recognized in 2001.

NON-INTEREST EXPENSES

Non-interest expenses include salaries and employee benefits, occupancy and equipment expenses, depreciation and provision for losses on equipment leased to others and other expenses.

Non-interest expense for the second quarter of 2002 increased $489,000, or 18.5%, compared to the same period of 2001. The increase is mainly due to salaries, occupancy and equipment and other non-interest expense.

Salaries and employee benefits increased $197,000, or 14.8%, in the second quarter of 2002 compared to the same period in 2001. The increase can be mainly attributed to general salary and benefits increases that enable the Company to manage recent and projected growth and retain

qualified personnel. Additional personnel for the new Sacramento Branch were also partially responsible for the increase.

Occupancy and equipment expense increased $96,000 or 42.5% in the periods under review. Costs associated with the relocation of the River Park Branch, the start up of the Sacramento Branch, and the change in the Bank s name were the main contributors to the increase. The Company also accelerated depreciation on leasehold improvements for its Fig Garden Branch in anticipation of the relocation in the second half of 2002.

Depreciation and provision for losses on equipment leased to others decreased $54,000 or 17.9% in the periods under review. The decrease is mainly the result of the Company s decision not to actively pursue new operating lease arrangements.

Other non-interest expenses increased 31.4%, or $250,000 in the periods under review. Advertising and stationery costs related to the Bank s name change from Clovis Community Bank to Central Valley Community Bank as described in the Overview , are the major contributors to the increase. Additionally start up costs for the Bank s real estate investment trust are reflected in the increase.

INCOME BEFORE TAXES

Income before income tax expense increased $90,000 or 11.9%, to $847,000 for the second quarter of 2002 compared to $757,000 for the second quarter of 2001.

Results of Operations for the First Half of 2002 Compared to the First Half of 2001

Net income for the first half of 2002 was $1,292,000 compared to $1,221,000 for the first half of 2001, a $71,000, or 5.8%, increase. The increase in net income between the periods resulted from increases in net interest income after provision for credit losses, which were partially offset by decreases in non-interest income and increases in non-interest expenses. As stated in the Overview , the Company recognized certain non-recurring income in the first half of 2001. After adjustments to exclude these items, net income for the first half of 2001 would have been $699,000. Comparing the two periods after the 2001 adjustment would reflect a $593,000, or 84.8%, increase for the first half of 2002 compared to same period of 2001.

NET INTEREST INCOME

Interest income from loans increased 6.8%, or $348,000, in the periods under review as average total loan volumes increased 38.9% to $144,331,000 for the first half of 2002 compared to $103,360,000 for the same period of 2001. The $40,971,000 increase in the average loan volume can be attributed to the continued success of the Company s strategic plan to build its core business with the introduction of new

products, seasoned commercial bankers, and strong emphasis on business development and customer retention activities. Additionally, loans purchased from other financial institutions and brokers contributed to the successful growth. The Company s loan to deposit ratio was 73.6% at June 30, 2002 compared to 58.8% at June 30, 2001. No assurance can be given that this level of loan growth will continue.

A significant portion of the Bank s loan portfolio utilizes prime rate as a reference point in pricing loans. West Coast prime averaged 4.75% for the first half of 2002 compared to 7.99% for the same period of 2001. Average yield on loans (excluding non-accrual loans) was 7.59% for the six-month period ended June 30, 2002 compared to 9.87% in the same period of 2001.

Interest income from investment securities, Federal funds sold, and interest-bearing deposits

in other banks decreased 30.7% in the periods under review. The decrease in these categories of income can be attributed to lower Federal funds rates, lower yields on new investment purchases, and increased loan demand. The effective rate for investment securities not including Federal funds sold was 5.30% for the first half of 2002 compared to 6.46% for the same period in 2001. The effective yield for Federal funds sold was 1.66% for the first half of 2002 compared to 4.55% for the first half of 2001. Average investment securities, including interest-bearing deposits in other banks and Federal funds sold, decreased $8,861,000, to $63,252,000 for the first half of 2002 compared to $72,113,000 for the first half of 2001.

As previously stated, FOMC lowered the Federal funds rate 475 basis points in 2001 which created, by the nature of collateralized mortgage obligations (CMOs) and mortgage backed securities (MBS), increased levels of principal prepayments in the periods under review. While a portion of the paydowns provided funding for loans, excess funds were generally reinvested at lower yields than those generated by the original investment. Principal paydowns and increased loan volumes were the major contributors to the decrease in investment volume. Principal paydowns were $10,908,000 for the first half of 2002 compared to $4,908,000 for the same period of 2001.

Interest expense for the first half of 2002 was $1,359,000 compared to $2,330,000 for the first half of 2001. This $971,000, or 41.7%, decrease in interest expense can be partially attributed to the 475 basis point decrease in Federal funds interest rates in 2001. Effective rates for all interest bearing liabilities was 1.73% for the first half of 2002 compared to 3.49% for the same period of 2001, a 1.76 basis point decrease.

The following table indicates the average balances of interest-bearing deposit products, the percentage of each to total deposits, and the effective rates paid.

	Six Month Period Ended June 30, 2002			**Six Month Period Ended June 30, 2001**		
(Unaudited) (Dollars in Thousands)	**Year-to-date Average Balance**	**% of Total Deposits**	**Effective Rate**	**Year-to-date Average Balance**	**% of Total Deposits**	**Effective Rate**
NOW Accounts	$ 32,721	16.7%	0.24%	$ 28,062	16.0%	0.48%
MMDA Accounts	48,825	24.9%	1.62%	41,315	23.5%	3.65%
Time Deposits	50,963	26.0%	2.81%	52,926	30.2%	5.32%
Savings Accounts	12,504	6.4%	0.72%	10,718	6.1%	1.681%
Total interest-bearing	145,013	74.0%	1.65%	133,021	75.8%	3.48%
Non-interest bearing	50,959	26.0%		42,555	24.2%	
Total Deposits	$ 195,972	100.0%		$ 175,576	100.0%	

Non-interest bearing deposits provide fairly inexpensive funding for loans and offer the opportunity to strengthen the Company s net interest margin. Average non-interest bearing deposits increased 19.8% in the first six months of 2002 compared to the same period of 2001.

Other interest expense increased in the periods under review. As stated above, the Company utilized its Federal Home Loan Bank (FHLB) credit line in the first half of 2002 in anticipation of short-term liquidity needs as well as opportunities to lock in low funding rates for potential loan growth. The Company will continue to analyze the advantages and disadvantages of borrowing funds versus selling investment securities as part of its ongoing funding analysis.

Net interest income before provision for credit losses for the first half of 2002 was $5,657,000 compared to $5,035,000 for the first half of 2001, an increase of $622,000, or 12.3%. The increase in net interest income can be attributed mainly to the increase in loan interest income and the decrease in deposit interest expense mentioned above.

PROVISION FOR CREDIT LOSSES

The Company made no additions to the allowance for credit losses in the first half of 2002 due mainly to decreased levels of risk-rated loans which was partially offset by the increase in loan volumes mentioned above. In the first half of 2001, $497,000 was added to the allowance for credit losses. Additionally, the Company s historical net charge-off ratio, which reflects net charge-offs to beginning loan balances for the past three (3) years, declined to 0.209% for 2002 compared to 0.295% for 2001 and 2.642% for 1999.

At June 30, 2002, and December 31, 2001 the Company s recorded investment in loans that were considered to be impaired totaled $1,056,000 and $1,108,000, respectively. The related allowance for credit losses on these impaired loans was $158,000 and $198,000 respectively. Impaired loans were immaterial at June 30, 2001.

An analysis of the changes in the allowance for credit losses for the six month periods ended June 30, 2002 and 2001 is as follows**:**

(Unaudited) (In thousands)	**Allowance for Credit Losses For the Six Months Ended June 30,**			
	2002		**2001**	
Balance, beginning of the year	$	2,474	$	2,047
Provision charged to operations		0		497
Losses charged to the allowance		(302)		(328)
Recoveries on loans previously charged off		217		83
Balance, end of period	$	2,389	$	2,299

The ratio of net credit losses to total average loans outstanding was 0.06% for the first half of 2002 compared to net credit losses of 0.24% for the same period in 2001. Net charge offs were $85,000 and $245,000 for the first half of 2002 and 2001, respectively

Based on information currently available, management believes that the allowance for credit losses are adequate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

Net interest income after the provision for credit losses increased $1,119,000, or 24.7%, in the periods under review.

NON-INTEREST INCOME

Non-interest income decreased $717,000, or 25.8%, to $2,068,000 in the first half of 2002 compared to $2,785,000 in the first half of 2001. The major contributors to the decrease were other income and net realized gain on sales of investment securities recognized in 2001, which was partially offset by an increase in service charges in 2002.

Service charges increased $325,000, or 57.5% in the periods under review. Increased deposit accounts and lower earnings credit rates for commercial deposit accounts were the main contributors to the increase. Business related deposit accounts may earn credit for average deposit holdings which may be used to offset service expenses. When the earnings credit is lower, the business will be required to increase deposit holdings or pay additional charges. Additionally, the Company introduced a successful new deposit product, Overdraft Privilege Account, in the first half of 2002.

The Company earns loan placement fees from the brokerage of single-family residential mortgage loans. Loan placement fees increased $51,000, or 53.1%, in the periods under review. The 475 basis point reductions in the Federal funds rate by the FOMC in 2001 provided consumers with numerous opportunities for refinancing of single-family homes. As interest rates remain unchanged or begin to increase, the opportunities for continued growth in this area may decline.

Rental from equipment leased to others decreased $69,000 or 10.0% in the periods under review. As discussed in the Results of Operations for the Second Quarter of 2002 , the decrease is mainly the result of the Company s decision not to actively pursue new operating lease arrangements.

Net realized gain on sales of investment securities decreased $345,000 to $26,000 for the second quarter of 2002 compared to $371,000 for the same period in 2001. Liquidity needs in the first half of 2001 provided an opportunity for the Company to sell securities at a gain and invest funds in higher yielding loans at a time when the loan demand increased and deposit volumes did not keep pace. As stated previously, in the routine analysis of liquidity needs, the Company compares the advantages of borrowing funds or selling securities to meet liquidity needs.

Other income decreased $679,000 in the periods under review. The majority of the decrease can be attributed to the non-recurring earnings in 2001 from an insurance settlement mentioned above.

NON-INTEREST EXPENSES

Non-interest expense for the first half of 2002 increased $427,000, or 7.9%, compared to the same period of 2001. The increase is mainly due to advertising costs associated with the Bank s name change from Clovis Community Bank to Central Valley Community Bank, increased salary expenses, and occupancy and equipment expenses which were partially offset by decreases in depreciation and provision for losses on equipment leased to others.

Salaries and employee benefits increased $339,000, or 13.1%, in the first half of 2002 compared to the same period in 2001. The increase can be mainly attributed to general salary and benefits increases and additional personnel that enable the Company to properly manage recent and projected growth and retain qualified personnel.

Occupancy and equipment expense increased $119,000 or 26.4% in the periods under review. The Company accelerated depreciation on leasehold improvements for two branches in anticipation of their re-locations. Additional contributors were expenses associated with the name change and start up costs associated with the Sacramento Branch.

Depreciation and provision for losses on equipment leased to others decreased $258,000 or 34.30% in the periods under review. As discussed in the Results of Operations for the Second Quarter of 2002 , the decrease is mainly the result of the Company s decision not to actively pursue new operating lease arrangements.

Other non-interest expenses increased $227,000 or 14.1% in the periods under review. Advertising costs increased 60.0%, or $108,000 reflecting the costs associated with the name change. Audit and accounting fees increased $82,000 mainly due to costs associated with the formation of the real estate investment trust. Stationery and supplies increased $28,000, again reflecting costs

associated with the name change and the opening of the Sacramento Branch. Offsetting these increases were decreases to legal fees of $46,000 and sundry operating losses of $11,000.

INCOME BEFORE TAXES

Income before income tax expense increased $30,000 or 1.6%, to $1,903,000 for the first half of 2002 compared to $1,873,000 for the first half of 2001.

OTHER INFORMATION

The Bank s efficiency ratio is calculated by dividing non-interest expenses by the sum of net interest income before provision for credit losses and non-interest income. The ratio for the first half of 2002 was 75.4% compared to 69.0% in the first half of 2001. Excluding the non-recurring income and expenses realized in the first half of 2001, the ratio for the period ended June 30, 2001 was 78.5% compared to 75.4% for the same period in 2002. This means that for every dollar of income generated, the cost of generating that income was 75.4 cents in the first half of 2002 and 78.5 cents for the same period of 2001. The lower the ratio, the more efficient the Company s operations. While reducing operating expenses can lower the ratio, the Company s low loan to deposit ratio, which reduces net interest income, also significantly affects this ratio. Although the Company s loan to deposit ratio has significantly increased in the period under review, the ratio remains lower than the Company s peers, which was 77.4% at December 31, 2001.

OFF BALANCE SHEET COMMITMENTS:

Off balance sheet commitments are comprised of the unused portions of commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions. Included are loan proceeds that the Company is obligated to advance, such as loan draws, construction progress payments, seasonal or living advances to farmers under prearranged lines of credit, rotating or revolving credit arrangements, including retail credit cards, or similar transactions. Forward agreements and commitments to issue a commitment at some point in the future are also included. The Company holds no off balance sheet derivatives and engages in no hedging activities.

The following table shows the distribution of the Company s undisbursed loan commitments for the six months ended June 30, 2002 and 2001, respectively.

Loan Type (In thousands)		**June 30, 2002**		**June 30, 2001**
Commercial & Industrial	$	23,270	$	30,647
Real Estate		19,441		22,722
Consumer & Installment		10,317		7,266
Total	$	53,028	$	60,635

CAPITAL RESOURCES:

Changes in total shareholders equity are reflected in the table below. The change in accumulated other comprehensive income reflects the effect on equity of unrealized gains or losses on available for sale securities.

(In thousands)	June 30, 2002 (Unaudited)	December 31, 2001(Audited)	June 30, 2001 (Unaudited)	3	3
Total	$2,371	$ (1)	$2,370		

Included in Cash and cash equivalents	$2,101
Included in Short term investments	252
Included in Other assets, net	17
Total	$2,370

At July 2, 2010, with the exception of the Company's auction rate securities, the Company had no marketable securities that had been in a continuous unrealized loss position for a period greater than 12 months and determined no investments were other-than-temporarily impaired (see Note 8).

The fair value of the Company's investment in debt securities at July 2, 2010, by remaining contractual maturity, was as follows:

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Due in less than 1 year	$ 2,265	$ 1	$ 2,266
Due in 1 to 3 years	87		87
Thereafter	19	(2)	17
Total	$ 2,371	$ (1)	$ 2,370

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the fair value of available-for-sale securities at July 3, 2009:

(Dollars in millions)	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Money market funds	$ 914	$	$ 914
Commercial paper	348		348
U.S. treasuries and agency bonds	52	1	53
Certificates of deposit	50		50
Auction rate securities	21	(3)	18
Corporate bonds	16		16
Municipal bonds	14		14
Total	$ 1,415	$ (2)	$ 1,413
Included in Cash and cash equivalents			$ 1,281
Included in Short term investments			114
Included in Other assets, net			18
Total			$ 1,413

Restricted Cash and Investments

As of July 2, 2010, the Company's restricted cash and investments of $114 million consisted of $76 million cash held in trust for payment of its deferred compensation plan liabilities and $38 million in cash and investment collateral held at banks for various performance obligations. As of July 3, 2009, the Company's restricted cash and investments of $508 million consisted primarily of $380 million of proceeds from the issuance of the Company's 10% Senior Secured Second-Priority Notes due May 2014 (the "10% Notes") held in escrow for repayment or repurchase of debt, $85 million of cash held in trust for payment of its deferred compensation plan liabilities, and $43 million in cash collateral held at banks for various performance obligations.

Accounts Receivable, net

(Dollars in millions)	July 2, 2010	July 3, 2009
Accounts receivable	$ 1,410	$ 1,043
Allowance for doubtful accounts	(10)	(10)
	$ 1,400	$ 1,033

Activity in the allowance for doubtful accounts is as follows:

(Dollars in millions)	Balance at Beginning of Period	Charges to Operations	Deductions[1]	Balance at End of Period

Fiscal year ended June 27, 2008	$	50	$	(3)	$	(41)	$	6
Fiscal year ended July 3, 2009	$	6	$	4	$		$	10
Fiscal year ended July 2, 2010	$	10	$	1	$	(1)	$	10

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

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

(Dollars in millions)	July 2, 2010	July 3, 2009
Raw materials and components	$ 263	$ 201
Work-in-process	145	120
Finished goods	349	266
	$ 757	$ 587

Other Current Assets

(Dollars in millions)	July 2, 2010	July 3, 2009
Vendor non-trade receivables	$ 351	$ 326
Other	163	202
	$ 514	$ 528

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

Property, Equipment and Leasehold Improvements, net

(Dollars in millions)	Useful Life in Years	July 2, 2010	July 3, 2009
Land		$ 22	$ 22
Equipment	3 5	5,309	5,034
Building and leasehold improvements	Up to 48	1,164	1,083
Construction in progress		347	128
		6,842	6,267
Less accumulated depreciation and amortization		(4,579)	(4,038)
		$ 2,263	$ 2,229

Depreciation expense, which includes amortization of leasehold improvements, was $745 million, $862 million and $750 million for fiscal years 2010, 2009 and 2008, respectively. Additionally, depreciation expense in fiscal year 2009 included $57 million of accelerated depreciation charges related primarily to the closure of the Milpitas and Pittsburgh facilities.

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 2010, 2009 and 2008, the Company capitalized interest of $3 million, $6 million and $10 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Impairment of Goodwill and Other Long-lived Assets

Goodwill

The Company tests goodwill for impairment on an annual basis and, if required, at an interim date should events occur or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying value.

During fiscal year 2009, the Company observed a sharp deterioration in the general business environment and in all of its major markets. The Company determined that a significant adverse change in its business climate had occurred, and completed a review of goodwill for impairment.

As a result, the Company recorded impairment charges of $2.1 billion for the goodwill of the Hard Disk Drive reporting unit, representing 100% of its carrying value, and $150 million for the goodwill of the Services reporting unit reducing the carrying value to $31 million. These impairment charges were included in Impairment of goodwill and other long-lived assets, net of recoveries in the Consolidated Statement of Operations.

The changes in the carrying amount of goodwill by reporting units for fiscal years 2010 and 2009 were as follows:

(Dollars in millions)	Hard Disk Drive	Services	Total
Balance at June 27, 2008[1]	$ 2,199	$ 183	$ 2,382
Goodwill adjustments[2]	(32)	(2)	(34)
Impairment charges[1]	(2,167)	(150)	(2,317)
Balance at July 3, 2009	$	$ 31	$ 31
Balance at July 2, 2010	$	$ 31	$ 31

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

(2) Goodwill adjustments during fiscal year 2009 included an aggregate $25 million reduction in unrecognized tax benefits during the period, which was recorded as a reduction to goodwill.

In accordance with its policy, the Company performed an annual impairment review of the remaining goodwill during its fourth quarter of fiscal year 2010. The Company concluded that goodwill in the amount of $31 million, which relates entirely to the Company's Services reporting unit, was not impaired at July 2, 2010.

Other Long-lived Assets (Property, equipment, leasehold improvements, and other intangible assets)

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 circumstance indicate that their carrying value may not be recoverable.

During fiscal year 2010, the Company committed to a plan to sell certain equipment related to certain research activities that have ceased. The Company recorded a charge of $57 million in order to write down the carrying amount of these assets to estimated fair value less costs to sell. The Company has substantially completed the sale of these assets.

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal year 2009, the Company determined that the adverse change in the business climate discussed under "Goodwill" above was also an indicator requiring the testing of its other long-lived assets for recoverability. The Company determined that the asset group to be tested for recoverability was at the reporting unit level as it was the lowest level at which cash flows were identifiable. The Company tested the other long-lived assets of both the Hard Disk Drive and Services reporting units for recoverability and concluded that the carrying value of the Hard Disk Drive reporting unit was recoverable while that of the Services reporting unit was not.

The Company recorded impairment charges of $3 million for the property and equipment and intangible assets of the Services reporting unit during fiscal year 2009. The Company recorded these impairment charges in Impairment of goodwill and other long-lived assets, net of recoveries in the Consolidated Statement of Operations. No impairment charge was recorded for the intangible assets or property, equipment and leasehold improvements of the Hard Disk Drive reporting unit.

Other intangible assets consist primarily of existing technology, customer relationships and trade names acquired in business combinations. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets. Amortization of the existing technology intangible asset is charged to Cost of revenue while the amortization of the other intangible assets is included in Operating expenses in the Consolidated Statements of Operations. In fiscal years 2010, 2009 and 2008, amortization expense for other intangible assets was $35 million, $69 million and $94 million, respectively.

The carrying value of intangible assets as of July 2, 2010 is set forth in the following table:

(Dollars in millions, except years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Existing technology	$ 181	$ (177)	$ 4	0.6
Customer relationships	156	(153)	3	0.9
Trade names	37	(37)		
Patents and licenses	9	(9)		
Total acquired identifiable intangible assets	$ 383	$ (376)	$ 7	1.0

The carrying value of intangible assets as of July 3, 2009 is set forth in the following table:

(Dollars in millions, except years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Existing technology	$ 181	$ (169)	$ 12	1.5
Customer relationships	156	(134)	22	1.2
Trade names	37	(29)	8	0.9
Patents and licenses	9	(9)		
Total acquired identifiable intangible assets	$ 383	$ (341)	$ 42	1.3

4. Restructuring and Exit Costs

During fiscal year 2010, the Company recorded restructuring and other charges of $66 million mainly comprised of charges related to its AMK restructuring plan announced in the first quarter of fiscal year 2010 and additional restructuring charges related to its Pittsburgh facility and facilities acquired as a part of the Maxtor Corporation ("Maxtor") acquisition. The Company's significant restructuring plans are

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

described below. All restructuring charges are reported in Restructuring and other, net on the Consolidated Statement of Operations, unless otherwise noted.

2010 Plan. During fiscal year 2010, the Company recorded $4 million related to employee termination costs for a new plan as a result of the Company's ongoing focus on cost efficiencies in all areas of its business. The Company made cash payments of $2 million relating to this plan during fiscal year 2010. The 2010 Plan is expected to be completed by the end of the Company's first quarter of fiscal year 2011.

AMK Plan. In August 2009, the Company announced that it will close its AMK facility in Singapore. The Company expects to complete the closure during fiscal year 2011. The hard drive manufacturing operations will be relocated to other existing Seagate facilities and the Company's Asia International Headquarters (IHQ) will remain in Singapore. This closure and relocation is part of the Company's ongoing focus on cost efficiencies in all areas of its business and is intended to facilitate leveraging manufacturing investments across fewer sites. The Company does not expect the closure to meaningfully change production capacity. The Company currently estimates total restructuring charges of approximately $60 million, all in cash, including approximately $40 million for post-employment benefits, approximately $10 million for the relocation of manufacturing equipment, and approximately $10 million for other plant closure and relocation costs. During fiscal year 2010, the Company accrued total restructuring charges of $38 million related to post-employment benefits and $1 million related to other exit costs. The Company made cash payments of $3 million relating to this plan during fiscal year 2010.

January and May 2009 Plans. From inception of the Company's restructuring plans announced in January and May of 2009 through July 2, 2010, the Company has recorded restructuring charges of approximately $167 million primarily related to post employment benefits. The Company made cash payments of $60 million relating to these plans during fiscal year 2010. The January and May 2009 Plans were substantially complete by the end of the Company's third quarter of fiscal year 2010.

Site Closures. The Company announced the closure of its research facility in Pittsburgh, Pennsylvania and its media manufacturing facility in Milpitas, California in September 2008 and July 2008, respectively. Operations at these facilities had ceased as of the end of the Company's fiscal year 2009. From the inception of these plans through July 2, 2010, the Company has recorded restructuring related charges of approximately $117 million, including $18 million of restructuring costs recorded in fiscal year 2010 when the estimated lease obligations were revised based on current market conditions. These closures are currently expected to result in total charges of approximately $140 million. The Company made cash payments of $9 million relating to these plans during fiscal year 2010. The remaining balance of $18 million as of July 2, 2010 is associated with facility lease obligations that are expected to continue through the end of fiscal year 2017.

Maxtor and Other. Through July 2, 2010, the Company recorded certain exit costs aggregating $269 million related to its acquisition of Maxtor, including $4 million in fiscal year 2010 relating to adjustments to previously recorded restructuring charges to reflect its revised sub-lease expectations for its Maxtor facilities closure. During fiscal year 2010, the Company made cash payments on these restructuring plans of $9 million. The remaining balance of $24 million, as of July 2, 2010, is primarily associated with the exit of certain facilities. Payment of these exit costs are expected to continue through the end of fiscal year 2016.

During fiscal year 2009, the Company recorded restructuring and other charges of $210 million, comprised mainly of charges related to the May 2009 Plan and January 2009 Plan, both intended to realign its cost structure with the macroeconomic business environment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal year 2008, the Company recorded restructuring charges of $79 million, comprised mainly of charges related to the planned closures of its Limavady, Northern Ireland and Milpitas, California operations.

The following table summarizes the Company's restructuring activities for fiscal years 2010, 2009 and 2008.

(Dollars in millions)	Post-Employee Benefits	Operating Leases	Other Exit Costs	Impaired Equipment and Other Intangible Assets	Total
All Restructuring Activities					
Accrual balances at June 29, 2007	$ 10	$ 28	$ 4	$	$ 42
Restructuring charges	58		18	3	79
Cash payments	(16)	(11)	(4)		(31)
Non-cash charges				(3)	(3)
Accrual balances at June 27, 2008	$ 52	$ 17	$ 18	$	$ 87
Restructuring charges	176	12	15		203
Cash payments	(164)	(8)	(24)		(196)
Adjustments	(3)	19	(9)		7
Accrual balances at July 3, 2009	$ 61	$ 40	$	$	$ 101
Restructuring charges	42	15	7		64
Cash payments	(62)	(14)	(7)		(83)
Adjustments	(3)	5			2
Accrual balances at July 2, 2010	$ 38	$ 46	$	$	$ 84

Of the accrued restructuring balance of approximately $84 million at July 2, 2010, $51 million is included in Accrued expenses and $33 million is included in Other non-current liabilities on the Company's Consolidated Balance Sheet. Of the accrued restructuring balance of approximately $101 million at July 3, 2009, $72 million is included in Accrued expenses and $29 million is included in Other non-current liabilities on the Company's Consolidated Balance Sheet.

5. Debt and Convertible Notes

Long-Term Debt

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

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$430 Million Aggregate Principal Amount of 10% Senior Secured Second-Priority Notes due May 2014 (the "10% Notes"). On May 1, 2009, the Company's subsidiary, Seagate Technology International, completed the sale of $430 million aggregate principal amount of the 10% Notes, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The obligations under the 10% Notes are unconditionally guaranteed by the Company and certain of its significant subsidiaries. In addition, the obligations under the 10% Notes are secured by a second-priority lien on substantially all of the Company's tangible and intangible assets. The indenture governing the 10% Notes contains covenants that limit the Company's ability, and the ability of certain of its subsidiaries, (subject to certain exceptions) to: incur additional debt or issue certain preferred shares, create liens, pay dividends, redeem or repurchase debt or shares, and enter into certain transactions with the Company's shareholders or affiliates.

$600 Million Aggregate Principal Amount of 6.8% Senior Notes due October 2016 (the "2016 Notes"). The 2016 Notes bear interest at the rate of 6.8% per year, payable semi-annually on April 1 and October 1 of each year. The 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.

$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 net proceeds from the offering of the 2020 Notes were approximately $587 million, which will be used to repay, redeem and/or repurchase a portion of the Company's outstanding indebtedness and for general corporate purposes. The 2020 Notes bear interest at the rate of 6.875% per year, payable semi-annually on May 1 and November 1 of each year. The 2020 Notes are redeemable any time after May 1, 2015 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 2020 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.

$55 Million Aggregate Principal Amount of 5.75% Subordinated Debentures due March 2012 (the "5.75% Debentures"). The 5.75% Debentures require semi-annual interest payments on March 1 and September 1 and annual sinking fund payments of $5 million or repurchases of $5 million in principal amount of debentures in lieu of sinking fund payments. On June 25, 2010, the Company gave notice to the holders of its 5.75% Debentures that it will call for redemption the entire $33 million outstanding aggregate principal amount of the 5.75% Debentures. As a result, the 5.75% Debentures are classified as Current portion of long-term debt on the Company's Consolidated Balance Sheet at July 2, 2010. Subsequently, the 5.75% Debentures were redeemed for cash on July 27, 2010 at 100% of their principal amount, plus accrued and unpaid interest to the redemption date.

SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$300 Million Aggregate Principal Amount of Floating Rate Senior Notes due October 2009 (the "2009 Notes"). The 2009 Notes matured and were repaid on October 1, 2009.

Convertible Notes

On July 4, 2009, the Company implemented a change in accounting in accordance with ASC 470-20, *Debt with Conversion and Other Options* (formerly FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*), for its convertible debt instruments on a retrospective basis to separately account for its convertible debt in two parts, (i) a debt component which was recorded upon acquisition at the estimated fair value of a similar debt instrument without the debt-for-equity conversion feature; and (ii) an equity component that was included in paid-in capital and represents the estimated fair value of the conversion feature at issuance. The bifurcation of the debt and equity components resulted in a discounted carrying value of the debt component compared to the principal amount. The discount is accreted to the carrying value of the debt component through interest expense over the expected life of the debt using the effective interest method.

$135 Million Aggregate Principal Amount of 6.8% Convertible Senior Notes due April 2010 (the "6.8% Notes"). The 6.8% Notes require semi-annual interest payments payable on April 30 and October 30. The 6.8% Notes were originally assumed in the business combination with Maxtor on May 19, 2006 and were recorded as long-term debt at a par value of $135 million and a substantial premium of $18 million, which was recorded to Additional paid-in capital. The debt component of the 6.8% Notes at acquisition was determined to be $135 million, based on the contractual cash flows discounted at 6.8%, which was the estimated rate of a comparable non-convertible debt instrument as of May 19, 2006. As a result, implementation of the new requirements of ASC 470-20 had no effect on the accounting for the 6.8% Notes. On April 30, 2010, the Company repaid the remaining 6.8% Notes for $77 million at maturity.

$326 Million Aggregate Principal Amount of 2.375% Convertible Senior Notes due August 2012 (the "2.375% Notes"). The 2.375% Notes require semi-annual interest payments payable on February 15 and August 15. The 2.375% Notes were originally assumed in the business combination with Maxtor on May 19, 2006 and were recorded as Current portion of long-term debt at par value of $326 million and a substantial premium of $157 million, which was recorded to Additional paid-in capital. The debt component of the 2.375% Notes at acquisition was determined to be $252 million, based on the contractual cash flows discounted at 6.9%, which was the estimated rate of a comparable non-convertible debt instrument as of May 19, 2006. As a result of implementing ASC 470-20, $74 million was recorded as an increase to Additional paid-in capital and a corresponding debt discount as of the date of acquisition. The 2.375% Notes may, subject to certain conditions, be converted into the Company's common shares based on a conversion rate of 60.6968 shares, per $1,000 principal amount of notes, which represents a conversion price of approximately $16.48 per share. Effective April 3, 2010, the 2.375% Notes became convertible during the fourth quarter of fiscal year 2010 as the Company's shares traded above 110% of the conversion price for at least 20 consecutive trading days of the last 30 trading days of the previous fiscal quarter (the "Share Price Condition"). On June 25, 2010, the Company issued a notice of redemption to the holders of its 2.375% Notes to call the entire $326 million outstanding aggregate principal amount of the 2.375% Notes (the "2.375% Redemption Notice"). As of July 3, 2010, the Share Price Condition was no longer satisfied and the conversion value did not exceed the principal value on the 2.375% Notes; however, the 2.375% Notes continue to be convertible in accordance with their terms as a result of the 2.375% Redemption Notice. As a result, the 2.375% Notes are classified as Current portion of long-term debt on the Company's Consolidated Balance Sheet at July 2, 2010. All outstanding 2.375% Notes were redeemed for cash on August 20, 2010 at a redemption price equal to 100.68% of their principal amount, plus accrued and unpaid interest to the redemption date.

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 2.375% Notes and 5.75% Debentures are included in future principal payments on debt for fiscal year 2011 in the table below. At July 2, 2010, future principal payments on short-term and long-term debt were as follows (in millions):

Fiscal Year	
2011	$ 359
2012	560
2013	
2014	430
2015	
Thereafter	1,200
	$ 2,549

The following illustrates the retrospective impact of implementing the provisions of the change in accounting for convertible debt on the previously stated Consolidated Statement of Operations for the fiscal years ended July 3, 2009 and June 27, 2008:

Retrospective Impact on the Consolidated Statement of Operations

(Dollars in millions)	Fiscal Year Ended July 3, 2009			Fiscal Year Ended June 27, 2008		
	As Originally Stated	Effect of Change in Accounting	Restated	As Originally Stated	Effect of Change in Accounting	Restated
Impairment of goodwill and long-lived assets	$ 2,290	$ 30	$ 2,320	$	$	$
Interest expense	(134)	(9)	(143)	(126)	(11)	(137)
Net income (loss)	(3,086)	(39)	(3,125)	1,262	(11)	1,251
Net income (loss) per share:						
Basic	$ (6.32)	$ (0.08)	$ (6.40)	$ 2.46	$ (0.02)	$ 2.44
Diluted	(6.32)	(0.08)	(6.40)	2.36	(0.02)	2.34

There was no net impact resulting from this accounting change on the Company's cash flows from operating activities, investing activities or financing activities as reflected in the Consolidated Statements of Cash Flows.

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information regarding the equity and liability components of the 2.375% and 6.8% Notes as of July 2, 2010 and July 3, 2009:

(Dollars in millions)	As of July 2, 2010	July 3, 2009 Restated
2.375% Notes		
Principal amount	$ 326	$ 326
Unamortized discount	(28)	(40)
Liability component	$ 298	$ 286
Equity component	$ 231	$ 231
6.8% Notes		
Principal amount and liability component	$	$ 116
Equity component	$	$ 17

The remaining discount on the 2.375% Notes continued to be amortized through the redemption date on August 20, 2010. The effective interest rate, contractual interest expense and amortization of debt discount for the 2.375% Notes for the fiscal years ended July 2, 2010, July 3, 2009 and June 27, 2008 were as follows:

(Dollars in millions, except for percentages)	Fiscal Years Ended July 2, 2010	July 3, 2009 Restated	June 27, 2008 Restated
Effective interest rate	6.9%	6.9%	6.9%
Interest expense contractual	$ 8	$ 8	$ 8
Interest expense amortization of debt discount due to change in accounting	$ 12	$ 12	$ 11

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

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

	Fiscal Years Ended		
(Dollars in millions)	**July 2, 2010**	**July 3, 2009[1]**	**June 27, 2008[1]**
Current tax expense (benefit):			
U.S. Federal	$ (14)	$ 2	$ 8
U.S. State	1	3	10
Non-U.S.	9		26
Total Current	(4)	5	44
Deferred tax expense (benefit):			
U.S. Federal	(37)	291	34
U.S. State	2	4	3
Non-U.S.	(1)	11	(14)
Total Deferred	(36)	306	23
Provision for (benefit from) income taxes	$ (40)	$ 311	$ 67

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

Income (loss) before income taxes consisted of the following:

	Fiscal Years Ended		
(Dollars in millions)	**July 2, 2010**	**July 3, 2009[1]**	**June 27, 2008[1]**
U.S	$ 58	$ (354)	$ 79
Non-U.S.	1,511	(2,460)	1,239
	$ 1,569	$ (2,814)	$ 1,318

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

All fiscal year 2008 and fiscal year 2009 information in this Note 6 has been retroactively restated for the impacts of ASC 470-20, *Debt with Conversion and Other Options*.

U.S. federal current tax benefit of $14 million included the $11 million benefit from the net operating loss ("NOL") Carryback described below. The Company did not record an excess tax benefit associated with stock option deductions in fiscal year 2010 or 2009. For fiscal year 2008, there were $6 million of excess tax benefits recorded to Additional paid-in capital associated with stock option deductions.

The U.S. federal and state net deferred tax benefit recorded in fiscal year 2010 of $35 million includes $55 million of deferred tax benefit from the reversal of a portion of the U.S. valuation allowance recorded in fiscal year 2009. The valuation allowance reversal recorded in fiscal year 2010 resulted from revisions to the Company's forecasts of U.S. taxable income. The U.S. federal and state deferred tax expense in fiscal year 2009 of $295 million resulted primarily from recording additional valuation allowance for U.S. federal and state deferred tax assets.

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Dollars in millions)	Fiscal Years Ended July 2, 2010	July 3, 2009[1]
Deferred tax assets		
Accrued warranty	$ 137	$ 162
Inventory valuation accounts	54	44
Receivable reserves	16	16
Accrued compensation and benefits	147	132
Depreciation	145	140
Restructuring accruals	15	17
Other accruals and deferred items	51	67
Net operating losses and tax credit carry-forwards	1,085	1,151
Other assets	12	12
Total Deferred tax assets	1,662	1,741
Valuation allowance	(1,164)	(1,297)
Net Deferred tax assets	498	444
Deferred tax liabilities		
Unremitted earnings of certain non-U.S. entities	(3)	(1)
Acquired intangible assets	(3)	(11)
Debt discount	(10)	(16)
Depreciation	(9)	
Total Deferred tax liabilities	(25)	(28)
Net Deferred tax assets	473	416
Deferred taxes on inter-company transactions	32	53
Total Deferred tax assets	$ 505	$ 469
As Reported on the Balance Sheet		
Current assets Deferred income taxes	$ 118	$ 97
Non-current assets Deferred income taxes	395	372
Other current liabilities	(8)	
Total Deferred income taxes	$ 505	$ 469

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

At the beginning of fiscal year 2010, the Company established deferred tax liabilities associated with accounting changes relating to convertible debt pursuant to ASC 470-20 (see Note 5). Fiscal year 2009 amounts in the table above for deferred tax liabilities, valuation allowance, current assets and non-current assets were restated to reflect the retrospective impact of the ASC 470-20 accounting change.

At July 2, 2010, the deferred tax asset valuation allowance was approximately $1.2 billion reflecting a decrease of approximately $133 million in fiscal year 2010. The decrease in valuation allowance includes a $55 million reversal of a portion of the U.S. valuation allowance recorded in fiscal year 2009 associated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with revisions by the Company to forecasts of U.S. taxable income and a decrease associated with the utilization of tax net operating loss carry forwards in fiscal year 2010. At July 3, 2009, the deferred tax asset valuation allowance was approximately $1.3 billion reflecting an increase of approximately $864 million in fiscal year 2009. The increase in valuation allowance resulted primarily from the liquidation of the Company's wholly owned subsidiary, Maxtor, effective June 1, 2009 and represented the net effects of the extinguishment of all deferred tax assets related to historical carryover tax attributes of Maxtor and the increase in deferred tax assets related to tax net operating losses incurred in connection with the liquidation transaction. The net increase in the valuation allowance in fiscal year 2008 was $34 million.

At July 2, 2010, the Company had $505 million of net deferred tax assets. The realization of $473 million 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 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 the Company reevaluates the underlying basis for its estimates of future U.S. and certain non-U.S. taxable income.

At July 2, 2010, the Company had U.S. federal, state and non-U.S. tax net operating loss carryforwards of approximately $2.7 billion, $1.9 billion and $589 million, respectively, which will expire at various dates beginning in fiscal year 2011, if not utilized. At July 2, 2010, the Company had U.S. federal and state tax credit carryforwards of $256 million and $69 million, respectively, which will expire at various dates beginning in fiscal year 2011, if not utilized. Certain of these tax net operating losses and tax credit carryforwards have not been audited by the relevant tax authorities and could be subject to adjustment on examination. Of the $2.7 billion of loss carryovers noted above, approximately $753 million will be credited to Additional paid-in capital upon recognition.

Approximately $461 million and $93 million of the Company's U.S. NOL and tax credit carryforwards, respectively, are subject to an annual limitation of $44.8 million pursuant to U.S. tax law.

During the fiscal year ended July 2, 2010, an enacted legislative change in U.S. tax law was taken into account in computing the Company's income tax provision. The Worker, Homeownership, and Business Assistance Act of 2009 was enacted on November 6, 2009. This law allowed the Company to elect an increased carryback period for net operating losses incurred in 2008 or 2009 from two years to three, four, or five years at the Company's option. The Company recorded an $11 million income tax benefit as result of the increased carryback period.

In connection with the Company's previously announced plans to move its corporate headquarters to Ireland, the Company initiated certain pre-reorganization steps which resulted in its existing Cayman parent holding company becoming an Irish tax resident in fiscal year 2010. As a result of the Company becoming an Irish tax resident in fiscal year 2010, the Irish statutory rate of 25% is used in fiscal year 2010

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for purposes of the reconciliation between the provision for income taxes at the statutory rate and the effective tax rate. For fiscal years 2009 and 2008, a notional 35% statutory rate is used.

(Dollars in millions)	Fiscal Years Ended July 2, 2010	July 3, 2009(1)	June 27, 2008(1)
Provision (benefit) at statutory rate	$ 392	$ (985)	$ 461
Net U.S. state income tax provision	3	6	12
Permanent differences	2	9	10
Non-deductible goodwill impairments		813	
Valuation allowance	(77)	310	(37)
Non-U.S. losses with no tax benefits	31	263	46
Non-U.S. earnings taxed at less than statutory rate	(393)	(138)	(452)
Tax expense related to intercompany transactions	26	27	24
Other individually immaterial items	(24)	6	3
Provision for (benefit from) income taxes	$ (40)	$ 311	$ 67

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

A substantial portion of the Company's operations in China, Malaysia, Singapore, Switzerland and Thailand operate under various tax holidays and tax incentive programs, which expire in whole or in part at various dates through 2020. Certain of the tax holidays may be extended if specific conditions are met. The net impact of these tax holidays and tax incentive programs was to increase the Company's net income by approximately $307 million in fiscal year 2010 ($0.60 per share, diluted), to decrease the Company's net loss by approximately $79 million in fiscal year 2009 ($0.16 per share, diluted), and to increase the Company's net income by $214 million in fiscal year 2008 ($0.40 per share, diluted).

Since establishing Irish tax residency in fiscal year 2010 as a result of the implementation of certain pre-reorganization steps in connection with the Company's previously announced plan to move its corporate headquarters to Ireland, 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 was approximately $2.7 billion. The determination of the amount of Irish tax that would accrue if such amount was remitted into Ireland is not practicable.

Effective at the beginning of fiscal year 2008, the Company adopted the authoritative guidance on accounting for uncertainty in income taxes. This guidance contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of the guidance, the Company increased its liability for net unrecognized tax benefits at the date of adoption. The Company accounted for the increase primarily as a cumulative effect of a change in accounting principle that resulted in a decrease to retained earnings of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$3 million and an increase to goodwill of $25 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $385 million excluding interest and penalties.

As of July 2, 2010 and July 3, 2009, the Company had approximately $115 million and $118 million, respectively, in unrecognized tax benefits excluding interest and penalties. The amount of unrecognized tax benefits, if recognized, that would impact the effective tax rate were $115 million and $118 million as of July 2, 2010 and July 3, 2009, respectively, subject to certain future valuation allowance reversal.

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

	Fiscal Years Ended		
(Dollars in millions)	**July 2, 2010**	**July 3, 2009**	**July 3, 2008**
Balance of unrecognized tax benefits at the beginning of the year	$ 118	$ 374	$ 385
Gross increase for tax positions of prior years	2	49	3
Gross decrease for tax positions of prior years	(5)	(287)	(13)
Gross increase for tax positions of current year	6	13	12
Gross decrease for tax positions of current year			(3)
Settlements	(4)		(1)
Lapse of statutes of limitation	(3)	(23)	(9)
Non-U.S. exchange (gain)/loss	1	(8)	
Balance of unrecognized tax benefits at the end of the year	$ 115	$ 118	$ 374

It is the Company's policy to include interest and penalties related to unrecognized tax benefits in the provision for taxes on the Consolidated Statements of Operations. During fiscal year 2010, the Company recognized a net benefit for interest and penalties of $1 million as compared to a net benefit of $6 million during fiscal year 2009 and an expense of $3 million during fiscal year 2008. As of July 2, 2010, the Company had $15 million of accrued interest and penalties related to unrecognized tax benefits as compared to $16 million as of July 3, 2009.

During the fiscal year ended July 2, 2010, the Company's unrecognized tax benefits excluding interest and penalties decreased by approximately $3 million primarily due to (i) reductions associated with the expiration of certain statutes of limitation of $3 million, (ii) reductions associated with effectively settled positions of $4 million, (iii) a reduction of $5 million associated with interpretation of tax law as a result of the final 9th Circuit Court of Appeals' decision relating to stock based compensation deductions, (iv) increases in current year unrecognized tax benefits of $6 million, and (v) increases from other activity, including non-U.S. exchange losses, of $3 million.

During the 12 months beginning July 3, 2010, the Company expects to reduce its unrecognized tax benefits by approximately $5 million as a result of the expiration of certain statutes of limitation. The Company does not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the resolution and/or timing of closure on open audits are highly uncertain as to when these events occur.

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The Company files U.S. federal, U.S. state, and non-U.S. tax returns. The Internal Revenue Service (IRS) is currently examining fiscal years 2005 through 2007. For state and non-U.S. tax returns, the Company is generally no longer subject to tax examinations for years prior to fiscal year 2001. The statute of limitation for U.S. Federal returns is open for fiscal year 2005 and forward.

7. Derivative Financial Instruments

The Company is exposed to foreign currency exchange rate, interest rate, and to a lesser extent, equity price risks relating to its ongoing business operations. The Company enters into foreign currency forward exchange contracts 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 designated as hedge or non-hedge instruments. The Company records all derivatives on the Consolidated Balance Sheets at fair value. The effective portions of cash flow hedges are recorded in other comprehensive income 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 Company's unrealized net gains (losses) on cash flow hedges are included as a component of Accumulated other comprehensive income (loss) at July 2, 2010 and July 3, 2009 and were not material.

The Company dedesignates its cash flow hedges when the forecasted hedged transactions are realized or it is probable the forecasted hedged transaction will not occur in the initially identified time period. At such time, the associated gains and losses deferred in Other comprehensive income (loss) (OCI) are reclassified into earnings in the same period that the underlying hedged transaction is included in earnings. Any subsequent changes in the fair value of such derivative instruments are immediately reflected in earnings. As of July 2, 2010, the Company's existing foreign currency forward exchange contracts are expected to mature within 12 months. The deferred amount currently recorded in Accumulated other comprehensive income (loss) expected to be recognized into earnings over the next 12 months is $4 million.

As of July 2, 2010, the total notional value of the Company's outstanding foreign currency forward exchange contracts was:

(Dollars in millions)	Contracts Qualifying as Hedges Under ASC 815		Contracts Not Qualifying as Hedges Under ASC 815	
Thai baht	$	406	$	163
Singapore dollars		84		8
Yen		1		
Czech koruna				10
	$	491	$	181

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 July 3, 2009, 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 2, 2010, the notional investments underlying the TRS amounted to $68 million. The contract term of the TRS is approximately one year and is settled on a monthly basis, therefore limiting counterparty performance risk. The terms of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the TRS required the Company to pledge initial collateral of $18 million to the counterparty for the term of the contract. Additional collateral may be posted contingent on the counterparty's exposure to the market value of the TRS. The cash pledged is recorded as restricted cash. The Company did not designate the TRS as a hedge. Rather, the Company records all changes in the fair value of the TRS to earnings to offset the market value changes of the SDCP liabilities.

The following table shows the Company's derivative instruments measured at gross fair value as reflected in the Consolidated Balance Sheet as of July 2, 2010:

Fair Values of Derivative Instruments

(Dollars in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Foreign currency forward exchange contracts	Other current assets	$ 5	Accrued expenses	$
Derivatives not designated as hedging instruments under ASC 815:				
Foreign currency forward exchange contracts	Other current assets	$ 2	Accrued expenses	$
Total return swap	Other current assets		Accrued expenses	(1)
Total derivatives		$ 7		$ (1)

The following tables show the effect of the Company's derivative instruments on Other comprehensive income (loss) (OCI) and the Consolidated Statement of Operations for the fiscal year ended July 2, 2010:

(Dollars in millions) Derivatives Designated as Cash Flow Hedges under ASC 815	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)[(a)]
Foreign currency forward exchange contracts	$ 14	Cost of revenue	$ 10	Cost of revenue	$ 1

Derivatives Not Designated as Hedging Instruments under Statement ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign currency forward exchange contracts	Other, net	$ 14

Total return swap	Operating expenses		9
		$	23

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relationships and $1 million related to the amount excluded from the assessment of hedge effectiveness, for the fiscal year ended July 2, 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of July 3, 2009, the total notional value of the Company's outstanding foreign currency forward exchange contracts was:

(Dollars in millions)	Contracts Qualifying as Hedges Under ASC 815	Contracts Not Qualifying as Hedges Under ASC 815
Thai baht	$ 104	$ 64
Singapore dollars	24	3
Czech koruna		8
	$ 128	$ 75

The following table shows the Company's derivative instruments measured at gross fair value as reflected in the Consolidated Balance Sheet as of July 3, 2009:

Fair Values of Derivative Instruments

	Asset Derivatives		Liability Derivatives	
(Dollars in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Foreign currency forward exchange contracts	Other current assets	$ 1	Accrued expenses	$
Derivatives not designated as hedging instruments under ASC 815:				
Foreign currency forward exchange contracts	Other current assets	$	Accrued expenses	$
Total return swap	Other current assets		Accrued expenses	(1)
Total derivatives		$ 1		$ (1)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables show the effect of the Company's derivative instruments on OCI and the Consolidated Statement of Operations for the fiscal year ended July 3, 2009:

(Dollars in millions) Derivatives Designated as Cash Flow Hedges under ASC 815	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)[(a)]
Foreign currency forward exchange contracts	$ (24)	Cost of revenue	$ (36)	Cost of revenue	$ (1)

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign currency forward exchange contracts	Other, net	$ (18)
Total return swap	Operating expenses	(1)
		$ (19)

(a) The amount of gain or (loss) recognized in income represents $0 related to the ineffective portion of the hedging relationships and $(1) million related to the amount excluded from the assessment of hedge effectiveness, for the fiscal year ended July 3, 2009, respectively.

8. Fair Value

Measurement of Fair Value

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

Fair Value Hierarchy

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

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

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis, excluding accrued interest components, as of July 2, 2010:

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**
Assets:				
Money market funds	$ 833	$	$	$ 833
Commercial paper		1,231		1,231
U.S. treasuries and agency bonds		155		155
Certificates of deposit		25		25
Asset-backed securities		45		45
Corporate bonds		41		41
International treasuries		20		20
Municipal bonds		3		3
Total Cash Equivalents and Marketable Securities	833	1,520		2,353
Restricted Cash and Investments:				
Money market funds	76			76
Certificates of deposit		5		5
Auction rate securities			17	17
Derivative assets		7		7
Total Assets	$ 909	$ 1,532	$ 17	$ 2,458
Liabilities:				
Derivative liabilities	$	$ (1)	$	$ (1)
Total Liabilities	$	$ (1)	$	$ (1)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Cash and cash equivalents	$ 833	$ 1,268	$	$ 2,101
Short-term investments		252		252
Restricted cash and investments	76	5		81
Other current assets		7		7
Other assets, net			17	17
Total Assets	$ 909	$ 1,532	$ 17	$ 2,458
Liabilities:				
Accrued expenses	$	$ (1)	$	$ (1)
Total Liabilities	$	$ (1)	$	$ (1)

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, 2009:

(Dollars in millions)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Money market funds	$ 914	$	$	$ 914
Commercial paper		348		348
U.S. treasuries and agency bonds		53		53
Certificates of deposit		25		25
Corporate bonds		16		16
Municipal bonds		14		14
Total Cash Equivalents and Marketable Securities	914	456		1,370
Restricted Cash and Investments:				
Money market funds	464			464
Certificates of deposit		6		6
Auction rate securities			18	18
Derivative assets		1		1

Total Assets	$	1,378	$	463	$	18	$	1,859
Liabilities:								
Derivative liabilities	$		$	(1)	$		$	(1)
Total Liabilities	$		$	(1)	$		$	(1)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fair Value Measurements at Reporting Date Using			
(Dollars in millions)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Cash and cash equivalents	$ 914	$ 342	$	$ 1,256
Short-term investments		114		114
Restricted cash and investments	464	6		470
Other current assets		1		1
Other assets, net			18	18
Total Assets	$ 1,378	$ 463	$ 18	$ 1,859
Liabilities:				
Accrued expenses	$	$ (1)	$	$ (1)
Total Liabilities	$	$ (1)	$	$ (1)

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

The Company classifies items in Level 2 if the financial asset or liability is valued using observable inputs. The Company uses observable inputs including quoted prices in active markets for similar assets or liabilities. Level 2 assets include: agency bonds, corporate bonds, commercial paper, municipal bonds, and U.S. Treasuries. These debt investments are priced using observable inputs and valuation models which vary by asset class. The Company uses a pricing service to assist in determining the fair values of all of its cash equivalents and marketable securities. For the cash equivalents and marketable securities in the Company's portfolio, multiple pricing sources are generally available. The pricing service uses inputs from multiple industry standard data providers or other third party sources and various methodologies, such as weighting and models, to determine the appropriate price at the measurement date. The Company corroborates the prices obtained from the pricing service against other independent sources and, as of July 2, 2010, 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 a total return swap. The Company recognizes derivative financial instruments in its consolidated financial statements at fair value in accordance with ASC 815. 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.

The Company's Level 3 assets consist of auction rate securities with a par value of approximately $19 million, all of which are collateralized by student loans guaranteed by the Federal Family Education Loan Program. Beginning in the fiscal quarter ended March 28, 2008, these securities failed to settle at auction and have continued to fail through July 2, 2010. Since there is no active market for these securities, the Company valued them using a discounted cash flow model. The valuation model is based on the income approach and reflects both observable and significant unobservable inputs. Since the Company continues to earn interest on its auction rate securities at the maximum contractual rate, there have been no payment defaults with respect to such securities, and they are all collateralized, the Company expects to recover the entire amortized cost basis of these auction rate securities. The Company does not intend to sell these securities and has concluded it is not more likely than not that the Company will be required to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sell the securities before the recovery of their amortized cost basis. As such, the Company believes the impairments totaling $2 million are not other-than-temporary and therefore have been recorded in Accumulated other comprehensive income (loss). Given the uncertainty as to when the liquidity issues associated with these securities will improve, these securities were classified as long-term investments in the Company's Consolidated Balance Sheets.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the fiscal year ended July 2, 2010:

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction Rate Securities
Balance at June 27, 2008	$
Transfers in/(out) of Level 3	28
Total net gains (losses) (realized and unrealized):	
Realized gains (losses)[1]	(2)
Unrealized gains (losses)[2]	
Purchases, sales, issuances, settlements	(8)
Balance at July 3, 2009	18
Total net gains (losses) (realized and unrealized):	
Realized gains (losses)[1]	
Unrealized gains (losses)[2]	(1)
Balance at July 2, 2010	$ 17

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Items Measured at Fair Value on a Non-Recurring Basis

The following table presents the Company's assets and liabilities that were measured at fair value on a non-recurring basis during fiscal year 2010.

	Fair Value Measurements Using			
(Dollars in millions)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets:				
Assets held for sale	$	$	$ 11	$ 11
Equity investment	$	$	$ 4	$ 4

On September 29, 2009, the Company committed to a plan to sell certain equipment related to certain research activities that have ceased. The Company expects the sale of these assets to be completed no later than the end of its first quarter of fiscal year 2011. During fiscal year 2010, the Company recognized a charge of $57 million in Impairment of long-lived assets, net of $7 million in recoveries, which is recorded in its Consolidated Statement of Operations for the fiscal year ended July 2, 2010 in order to write down the carrying amount of these assets to the then estimated fair value of $11 million less costs to sell as of September 29, 2009. The Company used a combination of the market and cost approaches in order to determine the fair value of assets held for sale. The methodology employed involved applying market derived factors, which represented the discount that a market participant would expect to pay for a used asset based on estimated replacement cost. The discounts applied to replacement costs, which consider all forms of physical, functional and economic obsolescence, were obtained from discussions with brokers and other market participants. As the valuation of the Company's assets held for sale contained unobservable inputs, they were classified as Level 3 inputs.

During the second quarter of fiscal year 2010, the Company determined that one of its equity investments accounted for under the cost method was other-than-temporarily impaired, and recognized a charge of $13 million in order to write down the carrying amount of the investment to estimated fair value, which was recorded in Other, net in its Consolidated Statements of Operations for the fiscal year ended July 2, 2010. Since there was no active market for the equity securities of the investee, the Company estimated fair value of the investee by using the market approach to estimate the fair value of its underlying intellectual property assets at the end of the first quarter of fiscal 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Fair Value Disclosures

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

	July 2, 2010		July 3, 2009	
(Dollars in millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount[1]**	**Estimated Fair Value**
LIBOR Based Credit Facility	$	$	$ 350	$ 350
Capital Leases	2	2		
10.0% Senior Secured Second-Priority Notes due May 2014	413	490	410	445
Floating Rate Senior Notes due October 2009			300	299
6.8% Convertible Senior Notes due April 2010			116	116
6.375% Senior Notes due October 2011	559	577	599	581
5.75% Subordinated Debentures due March 2012	31	33	37	35
2.375% Convertible Senior Notes due August 2012[1]	298	329	286	283
6.8% Senior Notes due October 2016	599	587	599	550
6.875% Senior Notes due May 2020	600	574		
	2,502	2,592	2,697	2,659
Less short-term borrowings and current portion of long-term debt	(329)	(362)	(771)	(769)
Long-term debt, less current portion	$ 2,173	$ 2,230	$ 1,926	$ 1,890

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(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

9. Shareholders' Equity

Share Capital

See Note 18, Subsequent Events, for a description of events related to the change in jurisdiction of the Company's incorporation on July 3, 2010, and the impact on the Company's share capital.

The Company's authorized share capital was $13,500 at July 2, 2010, and consisted of 1,250,000,000 common shares, par value $0.00001, of which 470,240,793 shares were outstanding as of July 2, 2010 and 100,000,000 preferred shares, par value $0.00001, of which none were issued or outstanding as of July 2, 2010.

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

Preferred shares The Company is authorized to issue up to a total of 100,000,000 preferred shares in one or more series, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 common 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 common shares and the voting and other rights of the holders of common shares. As of July 2, 2010, there were no preferred shares outstanding.

Issuance of Common Shares

During fiscal year 2010, the Company issued approximately 6.2 million of its common shares from the exercise of stock options, 0.4 million from the vesting of nonvested shares, and approximately 4 million of its common shares related to the Company's employee stock purchase plan.

Repurchases of Equity Securities

On January 27, 2010, the Company's Board of Directors authorized an Anti-Dilution Share Repurchase Program, which was publicly announced on February 1, 2010. The repurchase program authorizes the Company to repurchase its common shares to offset increases in diluted shares, such as those caused by employee stock plans and convertible debt, used in the determination of diluted net income per share. The timing and number of shares to be repurchased by the Company will be dependent on general business and market conditions, cash flows generated by future operations, the price of its common shares, cash requirements for other investing and financing activities, and maintaining compliance with its debt covenants. Repurchases may be made through open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means, such as by way of an accelerated share repurchase program, through block trades or through the purchase of call options or the sale of put options. Additionally, there is no minimum or maximum number of shares to be repurchased under the program and the authority for the Anti-Dilution Share Repurchase Program will continue until terminated by the Company's Board of Directors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth information with respect to repurchases of the Company's shares made during fiscal year 2010:

January 2010 Anti-Dilution Share Repurchase Program

(In millions, except average price paid per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Purchased Under the Plans or Programs
January 2, 2010 through January 29, 2010		$		$
January 30, 2010 through February 26, 2010	13.5	18.53	13.5	251
February 27, 2010 through April 2, 2010				
Through 3rd Quarter of Fiscal Year 2010	13.5	$ 18.53	13.5	$ 251
April 3, 2010 through April 30, 2010	1.5	19.22	1.5	29
May 1, 2010 through May 28, 2010	17.4	17.52	17.4	304
May 29, 2010 through July 2, 2010				
Total Through 4th Quarter of Fiscal Year 2010	32.4	$ 18.02	32.4	$ 584

10. Compensation

Tax-Deferred Savings Plan

The Company has a tax-deferred savings plan, the Seagate 401(k) Plan (the "40l(k) plan"), for the benefit of qualified employees. The 40l(k) plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to make contributions to the 401(k) plan on a monthly basis. Pursuant to the 401(k) plan, the Company matches 50% of employee contributions, up to 6% of compensation, subject to maximum annual contributions of $3,500 per participating employee. During fiscal years 2010, 2009 and 2008, the Company made matching contributions of $12 million, $13 million and $15 million, respectively.

Stock-Based Benefit Plans

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

Seagate Technology 2001 Share Option Plan (the "SOP") In December 2000, the Company's board of directors adopted the 2001 Share Option Plan. Under the terms of the SOP, eligible employees, directors, and consultants can be awarded options to purchase common shares of the Company under vesting terms to be determined at the date of grant. A maximum of 100 million common shares is issuable under the SOP. Options granted to employees generally vest as follows: 25% of the shares on the first anniversary of the vesting commencement date and the remaining 75% proportionately each month over the next 36 months. Options granted under the SOP were granted at fair market value, with options granted up through September 5, 2004 expiring ten years from the date of grant and options granted subsequent to

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September 5, 2004 expiring seven years from the date of grant. As of July 2, 2010, there were approximately 3.3 million common shares available for issuance under the SOP.

Seagate Technology 2004 Stock Compensation Plan On August 5, 2004, the Company's board of directors adopted the Seagate Technology 2004 Stock Compensation Plan (the "SCP"), and on October 28, 2004, the Company's shareholders approved the SCP. A maximum of 63.5 million common shares is issuable under the SCP, including 10 million authorized for issuance of share awards. Options granted to employees generally vest as follows: 25% of the shares on the first anniversary of the vesting commencement date and the remaining 75% proportionately each month over the next 36 months. Share awards granted to employees generally vest 25% annually. As of July 2, 2010, there were approximately 17 million common shares available for issuance under the SCP.

Seagate Technology Employee Stock Purchase Plan (the "ESPP") The Company established the Seagate Technology Employee Stock Purchase Plan in December 2002. As of July 2, 2010, there were 40 million common shares authorized to be issued under the ESPP. In no event shall the total number of shares issued under the ESPP exceed 75 million common shares. The ESPP consists of a six-month offering period with a maximum issuance of 1.5 million common shares per offering period. The ESPP permits eligible employees who have completed 20 days of employment prior to the commencement of any offering period to purchase common shares through payroll deductions generally at 85% of the fair market value of the common shares. As of July 2, 2010, there were approximately 10 million common shares available for issuance under the ESPP.

Determining Fair Value

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value The fair value of the Company's nonvested shares and performance shares is the price of the Company's shares on the grant date. The fair value of the Company's shares related to options granted to employees and shares issued from the ESPP for fiscal years 2010, 2009 and 2008 were estimated using the following weighted-average assumptions:

	Fiscal Years Ended		
	2010	**2009**	**2008**
Nonvested Shares			
Weighted-average fair value	$15.47	$13.09	$22.24
Performance Shares			
Weighted-average fair value	n/a	$12.38	$26.47
Options			
Expected term (in years)	4.2	4.0 4.5	4.0
Volatility	51 57%	36 50%	35 36%
Expected dividend rate	0%	0 12.2%	1.5 2.5%
Risk-free interest rate	1.7 2.1%	1.6 3.0%	2.3 4.2%
Weighted-average fair value	$6.45	$1.47	$7.31
ESPP			
Expected term (in years)	0.5	0.5	0.5
Volatility	49 60%	39 84%	31 36%
Expected dividend rate	0%	3.0 3.2%	1.7 2.3%
Risk-free interest rate	0.2 0.3%	0.4 2.0%	2.0 5.0%
Weighted-average fair value	$4.19	$2.48	$4.67

Stock Compensation Expense

Stock Compensation Expense The Company recorded $57 million, $83 million and $113 million of stock-based compensation during fiscal years 2010, 2009 and 2008, 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.

Cash Flows from Excess Tax Benefits The cash flows resulting from excess tax benefits (tax benefits related to the excess of proceeds from employee's exercises of stock options over the stock-based compensation cost recognized for those options) are classified as financing cash flows. The Company did not recognize any cash flows from excess tax benefits during fiscal years 2010 and 2009. The Company recorded approximately $6 million of excess tax benefits as a financing cash inflow during fiscal year 2008.

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Stock Option Activity

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

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In millions)		(In years)	(Dollars in millions)
Outstanding at July 3, 2009	67.4	$ 13.03	4.7	$ 181
Granted	0.3	14.78		
Exercised	(6.2)	9.94		
Forfeitures	(3.3)	15.83		
Expirations	(3.6)	20.40		
Outstanding at July 2, 2010	54.6	$ 12.73	3.9	$ 232
Vested and expected to vest at July 2, 2010	52.0	$ 13.07	3.9	$ 211
Exercisable at July 2, 2010	31.1	$ 15.92	2.9	$ 70

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common shares for the options that were in-the-money at July 2, 2010. During fiscal years 2010, 2009 and 2008, the aggregate intrinsic value of options exercised under the Company's stock option plans was $41 million, $12 million and $155 million, respectively, determined as of the date of option exercise. The aggregate fair value of options vested during fiscal year 2010 was approximately $53 million.

At July 2, 2010 the total compensation cost related to options granted to employees but not yet recognized was approximately $46 million, net of estimated forfeitures of approximately $2 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of approximately 1.8 years and will be adjusted for subsequent changes in estimated forfeitures.

Nonvested Share Activity

The following is a summary of nonvested share activities:

Nonvested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
(In millions)		
Nonvested at July 3, 2009	1.4	$ 13.91
Granted	0.1	$ 15.47
Forfeitures	(0.2)	$ 13.59
Vested	(0.4)	$ 14.66
Nonvested at July 2, 2010	0.9	$ 13.77

At July 2, 2010, the total compensation cost related to nonvested shares granted to employees but not yet recognized was approximately $9 million, net of estimated forfeitures of approximately $1 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of 2.3 years and

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will be adjusted for subsequent changes in estimated forfeitures. The aggregate fair value of nonvested shares vested during fiscal year 2010 was approximately $6 million.

Performance Share Activity

The following is a summary of performance share activities:

Performance Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
(In millions)		
Performance Shares at July 3, 2009	1.0	$ 22.72
Granted		
Forfeitures	(0.7)	$ 26.47
Performance Shares at July 2, 2010	0.3	$ 12.34

At July 2, 2010, the total compensation cost related to performance shares granted to employees but not yet recognized was approximately $2 million. This cost is being amortized on a straight-line basis over a weighted-average remaining term of 1.6 years. As of July 2, 2010, none of the performance shares issued have vested.

ESPP

During fiscal years 2010 and 2009, the aggregate intrinsic value of options exercised under the Company's ESPP was approximately $31 million and $7 million, respectively. At July 2, 2010, the total compensation cost related to options to purchase the Company's common shares under the ESPP but not yet recognized was approximately $1 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately one month.

The following table shows the shares issued, and their respective weighted-average purchase price, pursuant to the ESPP during fiscal year 2010.

	July 30, 2009	January 29, 2010
Shares issued (in millions)	2.5	1.5
Weighted-average purchase price per share	$ 3.37	$ 10.48

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. The Company's assets designated to pay benefits under the plan are held by a rabbi trust. The assets and liabilities of a rabbi trust are accounted for as assets and liabilities of the Company. At July 2, 2010 and July 3, 2009, the assets held in the rabbi trust were approximately $76 million and $85 million, respectively, and are included in Restricted cash and investments on the Consolidated Balance Sheets. The deferred compensation obligation related to the rabbi trust included in Accrued expenses on the accompanying Consolidated Balance Sheets was approximately $82 million and $89 million as of July 2, 2010 and July 3, 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the quarter ended July 3, 2009, 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 2, 2010, the notional investments underlying the TRS amounted to $68 million. The Company records all changes in the fair value of the TRS to earnings to offset the market value changes of the SDCP liabilities. The Company records gains or losses on the SDCP as compensation expense in Cost of revenue and Operating expenses.

11. Earnings Per Share

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

	Fiscal Years Ended		
(In millions, except per share data)	**July 2, 2010**	**July 3, 2009[1]**	**June 27, 2008[1]**
Numerator:			
Net income (loss)	$ 1,609	$ (3,125)	$ 1,251
Adjustment for interest expense on 6.8% Convertible Senior Notes due April 2010	5		9
Net income (loss), as adjusted	$ 1,614	$ (3,125)	$ 1,260
Denominator:			
Weighted-average common shares outstanding	492	490	514
Weighted-average nonvested shares	(1)	(2)	(2)
Total shares for purpose of calculating basic net income (loss) per share	491	488	512
Weighted-average effect of dilutive securities:			
Dilution from employee stock options and ESPP	20		17
2.375% Convertible Senior Notes due August 2012	1		5
6.8% Convertible Senior Notes due April 2010	2		4
Dilutive potential common shares:	23		26
Total shares for purpose of calculating diluted net income (loss) per share	514	488	538
Net income (loss) per share:			
Basic net income (loss) per share	$ 3.28	$ (6.40)	$ 2.44
Diluted net income (loss) per share	$ 3.14	$ (6.40)	$ 2.34

(1) As adjusted due to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Fiscal Years Ended		
(In millions)	**July 2, 2010**	**July 3, 2009**	**June 27, 2008**
Stock options and ESPP	20	55	23
Nonvested shares and Performance shares		2	
6.8% Convertible Senior Notes due April 2010		4	

12. Business Segment and Geographic Information

The Company has concluded that its manufacture and distribution of disk drives constitutes one reporting segment. The Company's manufacturing operations are based on technology platforms that are used to produce various disk drive products that serve multiple disk drive 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 technologies and sealed drive 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 each of fiscal years 2010, 2009 and 2008, Hewlett-Packard Company accounted for approximately 16% of consolidated revenue, while Dell Inc. accounted for approximately 11% of consolidated revenue in each of fiscal years 2010, 2009 and 2008. No other customer accounted for more than 10% of consolidated revenue in any year presented.

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

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

(In millions)	Fiscal Years Ended July 2, 2010	July 3, 2009	June 27, 2008
Revenue from external customers[1]:			
United States	$ 3,081	$ 2,695	$ 3,880
The Netherlands	2,728	2,849	3,696
Singapore	5,546	4,186	4,915
Other	40	75	217
Consolidated	$ 11,395	$ 9,805	$ 12,708
Long-lived assets:			
Singapore	$ 888	$ 842	$ 1,020
United States	369	547	774
Thailand	287	223	303
China	246	178	210
Malaysia	208	238	197
Other	398	320	266
Consolidated	$ 2,396	$ 2,348	$ 2,770

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

13. Legal, Environmental and Other Contingencies

The Company assesses the probability of an unfavorable outcome of all its material litigation, claims, or assessments to determine whether a liability had been incurred and whether it is probable that one or more future events will occur confirming the fact of the loss. In the event that an unfavorable outcome is determined to be probable and the amount of the loss can be reasonably estimated, the Company establishes an accrual for the litigation, claim or assessment. 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 the Company in the U.S. District Court for the Southern District of New York, alleging infringement of U.S. Patent Nos. 4,916,635, "Shaping Command Inputs to Minimize Unwanted Dynamics" (the '635 patent) and U.S. Patent No. 5,638,267, "Method and Apparatus for Minimizing Unwanted Dynamics in a Physical System" (the '267 patent), misappropriation of trade secrets, breach of contract, tortious interference with contract and fraud relating to Convolve and MIT's Input Shaping® and Convolve's Quick and Quiet technology. The plaintiffs claimed their technology is incorporated in Seagate's sound barrier technology, which was publicly announced on June 6, 2000. The complaint seeks injunctive relief, $800 million in compensatory damages and unspecified punitive damages, including willful infringement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 6, 2001, the U.S. Patent and Trademark Office (USPTO) issued to Convolve US Patent No. 6,314,473, "System for Removing Selected Unwanted Frequencies in Accordance with Altered Settings in a User Interface of a Data Storage Device," (the '473 patent"). Convolve filed an amended complaint on January 16, 2002, alleging defendants infringe this patent.

The '635 patent expired on September 12, 2008. The court ruled in 2010 that the '267 patent was out of the case. No trial date has been set in the litigation. The Company believes the claims are without merit, and intends to defend against them vigorously.

Siemens, AG v. Seagate Technology (Ireland) On December 2, 2008, Siemens served Seagate Technology (Ireland), an indirect wholly-owned subsidiary of Seagate Technology, with a writ of summons alleging infringement of European Patent (UK) No. 0 674 769 (the EU '769 patent), which is the European counterpart to US Patent No. 5,686,838 upon which Siemens had sued Seagate Technology in the United States. The suit was filed in the High Court of Justice in Northern Ireland, Chancery Division. Siemens alleges that giant magnetoresistive (GMR), tunnel magnetoresistive (TMR), and tunnel giant magnetoresistive (TGMR) products designed and manufactured by Seagate Technology (Ireland) infringe the EU '769 patent. Trial on liability issues was completed in June 2010, and the Company awaits the court's decision. The Company believes the claims are without merit.

Qimonda AG v. LSI Corporation, et al. On December 19, 2008, the US International Trade Commission (ITC) instituted an investigation under section 337 of the Tariff Act of 1930, as amended, at the request of complainant Qimonda AG, naming LSI Corporation and six Seagate Technology entities as respondents. The complaint alleges that LSI Corporation and Seagate import products into the US that infringe seven Qimonda patents relating to the design and manufacture of semiconductor integrated chips. The ITC trial was held in June 2009. On October 14, 2009, the Administrative Law Judge issued an Initial Determination finding the Qimonda patents either invalid, not infringed, or both. Qimonda appealed to the ITC Commission, who ruled on January 29, 2010, that the patents were either invalid, not infringed, or both. On March 31, 2010, Qimonda noticed an appeal of the Commissions' ruling to the Court of Appeals for the Federal Circuit. The Company intends to vigorously oppose the appeal.

Collins, et al. v. Seagate Technology, et al. On July 15, 2009, Carl Collins and Farzin Davanloo filed a complaint against Seagate Technology, Seagate Technology LLC and 19 other hard drive, computer, and retail companies. The complaint alleges that unspecified hard disk drives and components thereof infringe US patent Nos. 5,411,797 (the '797 patent) and 5,478,650 (the '650 patent), both entitled "Nanophase Diamond Films." The case is pending in the US District Court for the Eastern District of Texas, Marshall Division. The complaint seeks unspecified damages and an injunction. The Company filed an answer to the complaint on September 8, 2009, denying all material allegations and asserting affirmative defenses.

Alexander Shukh v. Seagate Technology Former Seagate engineer Alexander Shukh filed a complaint and an amended complaint against Seagate in Minnesota federal court, alleging, among other things, employment discrimination based on his Belarusian national origin and wrongful failure to name him as an inventor on several patents and patent applications. Mr. Shukh's employment was terminated as part of a company-wide reduction in force in fiscal year 2009. He seeks damages in excess of $75 million. The Company believes the claims are without merit and intends to vigorously defend this case.

Siemens GmbH v. Seagate Technology (Germany) On March 26, 2010, Siemens commenced proceedings against Seagate Technology GmbH, the Netherlands branch office of Seagate Technology International, and Seagate Technology LLC in the Dusseldorf District Court in Germany. The complaint alleges infringement of European Patent Number 0 674 769 (the "EU '769 Patent"), which corresponds to the patent in suit in the U.S. and Northern Ireland Siemens' litigations. Siemens seeks a declaration that

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the EU '769 Patent is infringed by GMR and TMR products, removal of all infringing inventory, damages in an unstated amount, and costs. The Company intends to vigorously oppose this action.

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

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

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

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

The Company may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products. For example, the European Union ("EU") enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which prohibits the use of certain substances, including lead, in certain products, including disk drives, put on the market after July 1, 2006. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. 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 2, 2010 (lease payments are shown net of sublease income):

Fiscal Years Ending	Operating Leases (Dollars in millions)
2011	$ 48
2012	43
2013	26
2014	18
2015	13
Thereafter	81
	$ 229

Total rent expense for all land, facility and equipment operating leases, net of sublease income, was approximately $25 million, $23 million and $32 million for fiscal years 2010, 2009 and 2008, respectively. Total sublease rental income for fiscal years 2010, 2009 and 2008 was $10 million, $10 million and $6 million, respectively. The Company subleases a portion of its facilities that it considers to be in excess of current requirements. As of July 2, 2010, total future lease income to be recognized for the Company's existing subleases is approximately $15 million.

The Company recorded amounts for both adverse and favorable leasehold interests and for exit costs that apply directly to the lease commitments assumed through the acquisition of Maxtor. As of July 2, 2010, the Company has a $30 million adverse leasehold interest related to leases acquired from Maxtor. The adverse leasehold interest is being amortized to Cost of revenue and Operating expenses over the remaining duration of the leases. In addition, the Company had $24 million and $29 million remaining in accrued exit costs related to the planned exit of Maxtor leased excess facilities at July 2, 2010 and July 3, 2009, respectively (see Note 4).

Capital Expenditures. The Company's non-cancelable commitments for construction of manufacturing facilities and purchases of equipment approximated $326 million at July 2, 2010.

15. Guarantees

Indemnifications to Officers and Directors

On May 4, 2009, the Company entered into a new form of indemnification agreement (the "Revised Indemnification Agreement") with its officers and directors of the Company and its subsidiaries (each, an "Indemnitee"). The Revised Indemnification Agreement provides indemnification in addition to any of Indemnitee's indemnification rights under the Company's Articles of Association, applicable law or otherwise, and indemnifies an Indemnitee for certain expenses (including attorneys' fees), judgments, fines

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and settlement amounts actually and reasonably incurred by him or her in any action or proceeding, including any action by or in the right of the Company or any of its subsidiaries, arising out of his or her service as a director, officer, employee or agent of the Company or any of its subsidiaries or of any other entity to which he or she provides services at the Company's request. However, an Indemnitee shall not be indemnified under the Revised Indemnification Agreement for (i) any fraud or dishonesty in the performance of Indemnitee's duty to the Company or the applicable subsidiary of the Company or (ii) Indemnitee's conscious, intentional or willful failure to act honestly, lawfully and in good faith with a view to the best interests of the Company or the applicable subsidiary of the Company. In addition, the Revised Indemnification Agreement provides that the Company will advance expenses incurred by an Indemnitee in connection with enforcement of the Revised Indemnification Agreement or with the investigation, settlement or appeal of any action or proceeding against him or her as to which he or she could be indemnified. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay on behalf of its officers and directors. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Intellectual Property Indemnification Obligations

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

Product Warranty

The Company estimates probable product warranty costs at the time revenue is recognized. The Company generally warrants its products for a period of one to five years. The Company uses estimated repair or replacement costs and uses statistical modeling to estimate product return rates in order to determine its warranty obligation. In addition, estimated settlements for customer compensatory claims relating to product quality issues, if any, are accrued as warranty expense. Changes in the Company's product warranty liability during the fiscal years ended July 2, 2010 and July 3, 2009 were as follows:

	Fiscal Years Ended	
(In millions)	**July 2, 2010**	**July 3, 2009**
Balance, beginning of period	$ 437	$ 445
Warranties issued	200	263
Repairs and replacements	(214)	(243)
Changes in liability for pre-existing warranties, including expirations	(51)	(28)
Balance, end of period	$ 372	$ 437

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Related Party Transactions

During fiscal year 2010, members of the Company's board of directors also served on the boards of the following companies with which the Company had transactions:

Microsoft Corporation ("Microsoft"). During fiscal years 2010 and 2008, the Company recorded revenue of $94 million and $5 million from sales to Microsoft, respectively. During fiscal year 2009, the Company's sales to Microsoft were immaterial. The Company's purchases from Microsoft for fiscal years 2010, 2009 and 2008 were immaterial. At July 2, 2010 and July 3, 2009, the Company's accounts receivable and accounts payable related to Microsoft were immaterial.

United Parcel Service, Inc. ("UPS") The Company made payments for freight and logistics services to UPS of $120 million, $167 million and $207 million in fiscal years 2010, 2009 and 2008, respectively. At July 2, 2010 and July 3, 2009, the Company had accounts payable to UPS of $21 million and $18 million, respectively.

LSI Corporation ("LSI") The Company recorded revenue of $63 million, $38 million and $48 million from sales to LSI for fiscal years 2010, 2009 and 2008, respectively. The Company had accounts receivable of $6 million and $6 million from LSI at July 2, 2010 and July 3, 2009, respectively. The Company made payments to LSI in fiscal years 2010, 2009 and 2008 of $320 million, $153 million and $208 million, respectively, related to purchases of various components. The Company had accounts payable to LSI of $48 million and $55 million at July 2, 2010 and July 3, 2009, respectively.

17. Supplementary Financial Data (Unaudited)

Quarterly Data

The Company operated and reported financial results based on 13-week quarters in fiscal year 2010, which ended on the Friday closest to September 30, December 31, March 31, and June 30.

(In millions, except per share data)	Fiscal Year 2010 Quarters Ended			
	October 2, 2009	January 1, 2010	April 2, 2010	July 2, 2010
Revenue	$ 2,663	$ 3,027	$ 3,049	$ 2,656
Gross margin	653	923	901	728
Income (loss) from operations	221	578	560	380
Net income (loss)	179	533	518	379
Net income (loss) per share:				
Basic	$ 0.36	$ 1.07	$ 1.05	$ 0.79
Diluted	0.35	1.03	1.00	0.76

The Company operated and reported financial results based on a 14-week quarter in its first quarter of fiscal year 2009 ending on the Friday closest to September 30, 2008 and 13-week quarters which ended

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SEAGATE TECHNOLOGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on the Friday closest to December 31, March 31, and June 30 for each of the remaining quarters of fiscal year 2009.

	Fiscal Year 2009 Quarters Ended			
(In millions, except per share data)	**October 3, 2008[1]**	**January 2, 2009[1]**	**April 3, 2009[1]**	**July 3, 2009[1]**
Revenue	$ 3,033	$ 2,270	$ 2,150	$ 2,353
Gross margin	526	316	153	415
Income (loss) from operations	81	(2,473)[2]	(262)	(11)
Net income (loss)	57	(2,824)[2]	(275)	(83)
Net income (loss) per share:				
Basic	$ 0.12	$ (5.80)[2]	$ (0.56)	$ (0.17)
Diluted	0.12	(5.80)[2]	(0.56)	(0.17)

(1) As adjusted due to changes to a required change in the accounting for convertible debt instruments implemented in the first quarter of fiscal year 2010, applied on a retrospective basis.

(2) Includes impairment charges to goodwill and other long-lived assets aggregating $2.3 billion.

18. Subsequent Events

On July 3, 2010, the Company consummated its previously announced reorganization pursuant to which Seagate-Ireland became the publicly traded parent of the Seagate corporate family. In connection with the reorganization, all issued and outstanding Seagate-Cayman common shares were cancelled and ceased to exist, Seagate-Ireland issued ordinary shares on a one-for-one basis to the holders of Seagate-Cayman common shares for each Seagate-Cayman common share that was cancelled. In addition, Seagate-Ireland assumed Seagate-Cayman's equity incentive related plans, sub-plans and agreements, including, but not limited to, the Seagate Technology 2001 Share Option Plan, the Amended Seagate Technology 2004 Stock Compensation Plan, the Seagate Technology Employee Stock Purchase Plan, the Maxtor Corporation 2005 Performance Incentive Plan, the Maxtor Corporation Amended and Restated 1996 Stock Option Plan, and the Quantum Corporation Supplemental Stock Option Plan.

Also on July 3, 2010, Seagate-Cayman entered into a Supplemental Indenture (the "Supplemental Indenture") with Seagate HDD Cayman ("HDD"), Seagate-Ireland, and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Supplemental Indenture supplemented the Indenture dated May 13, 2010 (the "Indenture") among Seagate-Cayman, HDD and the Trustee whereby HDD issued and Seagate-Cayman fully and unconditionally guaranteed the 2020 Notes. Pursuant to the Supplemental Indenture, Seagate-Ireland succeeded to, was substituted for, and assumed all of the obligations of, Seagate-Cayman as guarantor under the Indenture and the 2020 Notes and Seagate-Cayman was released from all obligations and covenants thereunder, as contemplated under Section 10.05(b) of the Indenture.

On July 27, 2010, the Company redeemed its 5.75% Debentures for cash at 100% of their principal amount, plus accrued and unpaid interest to the redemption date for approximately $34 million.

On August 20, 2010, the Company redeemed its 2.375% Notes for cash at 100.68% of their principal amount, plus accrued and unpaid interest to the redemption date for approximately $328 million.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Seagate Technology plc

We have audited the accompanying consolidated balance sheets of Seagate Technology (predecessor of Seagate Technology plc) as of July 2, 2010 and July 3, 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended July 2, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seagate Technology at July 2, 2010 and July 3, 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 2, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, Seagate Technology changed its method of accounting for its 2.375% and 6.8% convertible notes with the retrospective adoption of new guidance on accounting for convertible debt instruments that may be settled in cash upon conversion, effective July 4, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Seagate Technology's (predecessor of Seagate Technology plc) internal control over financial reporting as of July 2, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 20, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California
August 20, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Seagate Technology plc

We have audited Seagate Technology's (predecessor of Seagate Technology plc) internal control over financial reporting as of July 2, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Seagate Technology'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 maintained, in all material respects, effective internal control over financial reporting as of July 2, 2010, 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 (predecessor of Seagate Technology plc) as of July 2, 2010 and July 3, 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended July 2, 2010 and our report dated August 20, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California
August 20, 2010

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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 2, 2010.

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* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management has concluded that our internal control over financial reporting was effective as of July 2, 2010. Our management's assessment of the effectiveness of our internal control over financial reporting as of July 2, 2010 has been audited by Ernst & Young LLP, an independent registered public accounting firm, 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 2, 2010. 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.

ITEM 9B. OTHER INFORMATION

None.

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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 Business Conduct and Ethics that applies to all Seagate employees, officers and members of our Board of Directors, including our principal executive, finance and accounting officers. This Code of Business Conduct and Ethics is posted on our Website. The Internet address for our Website is *www.seagate.com*, and the Code of Business Conduct and Ethics may be found from our main Web page by clicking first on "Investors," next on "Corporate Governance" and then on "Code of Business Conduct and 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 Business Conduct and 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 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

The information regarding security ownership beneficial owners and management and related shareholders required by this Item 12 set forth in the section entitled "Security Ownership of Directors, Executive Officers and Certain Beneficial Owners" 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 "Information about 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.

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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 and Report of Independent Registered Public Accounting Firm are included in Item 8:

	Page No.
Consolidated Balance Sheets July 2, 2010 and July 3, 2009	69
Consolidated Statements of Operations Fiscal Years Ended July 2, 2010, July 3, 2009 and June 27, 2008	70
Consolidated Statements of Cash Flows Fiscal Years Ended July 2, 2010, July 3, 2009 and June 27, 2008	71
Consolidated Statements of Shareholders' Equity Fiscal Years Ended July 2, 2010, July 3, 2009 and June 27, 2008	72
Notes to Consolidated Financial Statements	73
Reports of Independent Registered Public Accounting Firm	120

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.

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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, President, Director and Chairman of the Board of Directors)

Dated: August 20, 2010

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Stephen J. Luczo, Patrick J. O'Malley, and Kenneth M. Massaroni, 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 2, 2010 (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
/s/ STEPHEN J. LUCZO **(Stephen J. Luczo)**	Chief Executive Officer, President, Director and Chairman of the Board of Directors (Principal Executive Officer)	August 20, 2010
/s/ PATRICK J. O'MALLEY **(Patrick J. O'Malley)**	Executive Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	August 20, 2010
/s/ DAVID H. MORTON, JR. **(David H. Morton, Jr.)**	Vice President, Finance and Treasurer (Principal Accounting Officer)	August 20, 2010

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Signature	Title	Date
/s/ FRANK J. BIONDI, JR. **(Frank J. Biondi, Jr.)**	Director	August 20, 2010
/s/ LYDIA M. MARSHALL **(Lydia M. Marshall)**	Director	August 20, 2010
/s/ C.S. PARK **(Dr. C.S. Park)**	Director	August 20, 2010
/s/ ALBERT A. PIMENTEL **(Albert A. Pimentel)**	Director	August 20, 2010
/s/ GREGORIO REYES **(Gregorio Reyes)**	Director	August 20, 2010
/s/ JOHN W. THOMPSON **(John W. Thompson)**	Director	August 20, 2010
/s/ EDWARD J. ZANDER **(Edward J. Zander)**	Director	August 20, 2010

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EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
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	03/05/10	
3.1	Memorandum and Articles of Association of Seagate Technology plc	8-K12B/A	001-31560	3.1	07/09/10	
3.2	Certificate of Incorporation of Seagate Technology plc					X
4.1	Specimen Ordinary Share Certificate					X
4.2	Indenture dated September 20, 2006 among Seagate Technology, Seagate Technology HDD Holdings and U.S. Bank National Association	8-K	001-31560	4.1	09/21/06	
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	4.1	09/21/06	
4.4	Indenture dated as of May 1, 2009, among Seagate Technology International, as Issuer, Seagate Technology, Seagate Technology HDD Holdings, Maxtor Global Ltd., Seagate Technology (Ireland), Seagate Technology Media (Ireland), Seagate International (Johor) Sdn. Bhd., Penang Seagate Industries (M) Sdn. Bhd., Seagate Singapore International Headquarters Pte. Ltd., Seagate Technology (Thailand) Limited, Seagate Technology (US) Holdings, Inc., Maxtor Corporation, i365 Inc. and Seagate Technology LLC, as Guarantors, and Wells Fargo Bank, National Association, as Trustee	8-K	001-31560	4.1	05/05/09	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
4.5	Form of 10.0% Senior Secured Second-Priority Note due 2014	8-K	001-31560	4.1	05/05/09	
4.6	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	4.1	05/14/10	
4.7	Form of 6.875% Senior Note due 2020	8-K	001-31560	4.1	05/14/10	
4.8	Registration Rights Agreement dated as of May 13, 2010, among Seagate HDD Cayman, Seagate Technology and Morgan Stanley & Co. Incorporated and Banc of America Securities LLC	8-K	001-31560	4.3	05/14/10	
10.1+	Amended and Restated Seagate Technology Executive Officer Severance and Change in Control Plan	10-Q	001-31560	10.2	02/01/10	
10.2+	Amended Seagate Technology plc 2001 Share Option Plan					X
10.3+	Seagate Technology plc 2001 Share Option Plan Form of Notice of Stock Option Grant and Option Agreement (includes Compensation Recovery Policy)					X
10.4(a)+	Form of Indemnification Agreement between Seagate Technology Holdings and the director or officer named therein	S-4/A	333-88388	10.17	07/05/02	
10.4(b)+	Form of Revised Indemnification Agreement between Seagate Technology and the director or officer named therein	10-Q	001-31560	10.4(b)	05/06/09	
10.5+	Seagate Technology Executive Officer Performance Bonus Plan	10-Q	001-31560	10.6	10/30/08	
10.6+	Amended Seagate Technology plc 2004 Share Compensation Plan					X
10.7+	Seagate Technology 2004 Stock Compensation Plan Form of Option Agreement (For Outside Directors)	10-Q	001-31560	10.7	11/04/09	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.8+	Seagate Technology 2004 Stock Compensation Plan Form of Option Agreement (For Officers and Non-Officer employees)	S-8	333-128654	99.3	09/28/05	
10.9+	Seagate Technology 2004 Stock Compensation Plan Form of Restricted Stock Bonus Agreement	10-K	001-31560	10.11	08/13/08	
10.10+	Seagate Technology 2004 Stock Compensation Plan Notice of Restricted Stock Bonus Grant (For Outside Directors)	10-Q	001-31560	10.10	11/04/09	
10.11+	Seagate Technology 2004 Stock Compensation Plan Form of Restricted Stock Unit Agreement	10-Q	001-31560	10.11	10/30/08	
10.12+	Seagate Technology plc 2004 Share Compensation Plan Form of Restricted Share Unit Agreement (Outside Directors)					X
10.13+	Seagate Technology plc 2004 Share Compensation Plan Form of Notice of Stock Option Grant and Option Agreement (includes Compensation Recovery Policy)					X
10.14+	Seagate Technology plc Employee Stock Purchase Plan	8-K	001-31560	10.5	07/06/10	
10.15+	Summary description of Seagate Technology plc's Compensation Policy for Non-Management Members of the Board of Directors					X
10.16+	Seagate Technology plc 2004 Share Compensation Plan Form of Notice of Performance Share Bonus Grant and Agreement (includes Compensation Recovery Policy)					X
10.17+	Offer Letter, dated as of January 29, 2009, by and between Seagate Technology and Stephen J. Luczo	10-Q	001-31560	10.20	02/10/09	
10.18+	Seagate Technology 2004 Stock Compensation Plan Form of Restricted Stock Bonus Agreement (includes Compensation Recovery Policy)	10-Q	001-31560	10.22	02/10/09	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.19+	Seagate Technology 2004 Stock Compensation Plan Form of Restricted Stock Unit Agreement (includes Compensation Recovery Policy)	10-Q	001-31560	10.23	02/10/09	
10.20+	Summary of Compensation Arrangements for Patrick J. O'Malley	10-Q	001-31560	10.25	02/10/09	
10.21+	First Amendment to Seagate Deferred Compensation Plan	10-Q	001-31560	10.26	05/05/10	
10.22+	Restated Seagate Deferred Compensation Plan	10-Q	001-31560	10.27	05/05/10	
10.23+	Seagate Deferred Compensation Sub-Plan	10-Q	001-31560	10.28	05/05/10	
10.24	Second Lien U.S. Security Agreement dated as of May 1, 2009, among Seagate Technology International, Seagate Technology, Seagate Technology (US) Holdings, Inc., Maxtor Corporation, i365 Inc., Seagate Technology LLC and Seagate Technology HDD Holdings, as Grantors, and Wells Fargo Bank, National Association, as Collateral Agent for the Secured Parties (as defined therein)	8-K	001-31560	10.7	05/05/09	
10.25	Second Lien U.S. Pledge Agreement dated as of May 1, 2009, among Seagate Technology, Seagate Technology (US) Holdings, Inc., Maxtor Corporation, i365 Inc., Seagate Technology LLC and Seagate Technology HDD Holdings, as Pledgors, and Wells Fargo Bank, National Association, as Collateral Agent for the Secured Parties (as defined therein)	8-K	001-31560	10.8	05/05/09	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.26	Second Priority Omnibus Debenture dated May 1, 2009, between Seagate Technology, Seagate Technology HDD Holdings, Seagate Technology International, Seagate Technology (Ireland) and Seagate Technology Media (Ireland), as Chargors, and Wells Fargo Bank, National Association, as Collateral Agent or Chargee	8-K	001-31560	10.9	05/05/09	
10.27	Form of Second Priority Equitable Share Mortgage in respect of shares dated May 1, 2009, between [Seagate entity], as Mortgagor, and Wells Fargo Bank, National Association, as Collateral Agent	8-K	001-31560	10.10	05/05/09	
10.28	Intercreditor Agreement dated as of May 1, 2009, among JPMorgan Chase Bank, N.A., as Administrative Agent and First Priority Representative for the First Priority Secured Parties (as defined therein), Wells Fargo Bank, National Association, as Collateral Agent and Second Priority Representative for the Second Priority Secured Parties (as defined therein), Seagate Technology HDD Holdings, as Borrower, Seagate Technology International, as the Second Lien Issuer, and each of the other Loan Parties (as defined therein) party thereto	8-K	001-31560	10.11	05/05/09	
10.29	Second Priority Share Charge, dated September 25, 2009, between Seagate Technology International, as chargor and Wells Fargo Bank, National Association, as collateral agent	8-K	001-31560	10.2	10/01/09	
10.30	Second Priority Debenture, dated September 25, 2009, between Seagate Singapore International Headquarters Pte. Ltd., as chargor and Wells Fargo Bank, National Association, as collateral agent	8-K	001-31560	10.4	10/01/09	

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Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
		Incorporated by Reference				
10.31	First Supplemental Indenture, dated as of March 1, 2010, among Seagate Technology International, Seagate HDD Cayman and Wells Fargo Bank, National Association, as trustee, amending and supplementing the Indenture, dated as of May 1, 2009, among Seagate Technology International, as issuer, Seagate Technology and the other guarantors party thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-31560	10.2	03/03/10	
10.32	Second Supplemental Indenture, dated as of March 1, 2010, among Seagate Technology International, Seagate Technology plc and Wells Fargo Bank, National Association, as trustee, amending and supplementing the Indenture, dated as of May 1, 2009, among Seagate Technology International, as issuer, Seagate Technology and the other guarantors party thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-31560	10.3	03/03/10	
10.33	Supplement No. 1, dated as of March 1, 2010, to the Second Lien U.S. Security Agreement, dated as of May 1, 2009, among Seagate Technology International, Seagate Technology and the other guarantors from time to time party thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-31560	10.7	03/03/10	
10.34	Supplement No. 1, dated as of March 1, 2010, to the Second Lien U.S. Pledge Agreement, dated as of May 1, 2009, among Seagate Technology and each of the other guarantors from time to time party thereto and Wells Fargo Bank, National Association, as collateral agent	8-K	001-31560	10.11	03/03/10	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.35	Supplement No. 1, dated as of March 1, 2010, to the Intercreditor Agreement, dated as of May 1, 2009, among JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as Collateral Agent, Seagate Technology HDD Holdings, Seagate Technology International and each of the other loan parties from time to time party thereto	8-K	001-31560	10.12	03/03/10	
10.36	Supplement No. 2, dated as of March 1, 2010, to the Intercreditor Agreement, dated as of May 1, 2009, among JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as Collateral Agent, Seagate Technology HDD Holdings, Seagate Technology International and each of the other loan parties from time to time party thereto	8-K	001-31560	10.13	03/03/10	
10.37	Second Priority Mortgage of Shares in Seagate HDD Cayman, dated March 1, 2010, between Seagate Technology HDD Holdings, as mortgagor, and Wells Fargo Bank, National Association, as mortgagee	8-K	001-31560	10.15	03/03/10	
10.38	Second Priority Mortgage of Shares in Seagate Technology International, dated March 1, 2010, between Seagate HDD Cayman, as mortgagor, and Wells Fargo Bank, National Association, as mortgagee	8-K	001-31560	10.17	03/03/10	
10.39	Second Lien Debenture, dated March 1, 2010, between Seagate HDD Cayman, as chargor, and Wells Fargo Bank, National Association, as chargee	8-K	001-31560	10.19	03/03/10	
10.40	Second Priority Debenture, dated March 1, 2010, between Seagate Technology plc, as chargor, and Wells Fargo Bank, National Association, as collateral agent	8-K	001-31560	10.21	03/03/10	

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Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.41	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	03/03/10	
10.42	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	10.24	03/03/10	
10.43	Third Supplemental Indenture, dated as of March 19, 2010, among Seagate Technology International, as issuer, Seagate Technology and the other guarantors party thereto and Wells Fargo Bank, National Association, as trustee, amending and supplementing the Indenture, dated as of May 1, 2009, among Seagate Technology International, as issuer, Seagate Technology and the other guarantors party thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-31560	10.1	03/22/10	
10.44	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	10.1	07/06/10	
10.45	Deed Poll of Assumption by Seagate Technology plc, dated July 2, 2010	8-K	001-31560	10.2	07/06/10	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.46+	Form of Deed of Indemnity between Seagate Technology plc and the director or company secretary named therein	8-K	001-31560	10.1	07/29/10	
14.1	Code of Business Conduct and Ethics					X
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

\+ Management contract or compensatory plan or arrangement