**Operator**

Good afternoon, and welcome to the Seagate Technology Fiscal Fourth Quarter and Year-End 2014 Financial Results Conference Call. My name is Kathleen, and I will be your coordinator for today. At this time all participants are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session. As a reminder, this conference is being recorded for replay purposes.

At this time, I would like to turn the call over to Kate Scolnick, Vice President, Investor Relations. Please proceed, Kate.

[**Kate Scolnick**](http://seekingalpha.com/search/transcripts?term=Kate+Scolnick&sasource=participant) - Vice President, Investor Relations

Thank you. Good afternoon, everyone, and welcome to today's call. Joining me today from Seagate's executive team are Steve Luczo, Chairman and CEO; Pat O'Malley, EVP and CFO; Jamie Lerner, President, Cloud Systems and Solutions; Dave Mosley. President, Operations and Technology; and Rocky Pimentel, President, Global Markets and Customers.

We've posted our press release and detailed supplemental information about our fiscal fourth quarter and year end on our Investor Relations site at Seagate.com. During today's call, we will review the highlights from the June quarter and fiscal 2014 and then provide the company's outlook for the first fiscal quarter 2015. We will refer to non-GAAP measures which are reconciled to GAAP figures in our supplement. After that, we will open up the call for questions.

As a reminder, this conference call contains forward-looking statements including, but not limited to statements related to the company's historical and currently anticipated future operating and financial performance in the September quarter and thereafter and includes statements regarding customer demand in general market conditions.

These forward-looking statements are also based on information available to Seagate as of the date of this conference call and are based on management's current view and assumptions. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated by these forward-looking statements. Information concerning risks, uncertainties, and other factors that could cause results to differ are contained in the company's Quarterly Report on Form 10-Q filed with the U.S. Security and Exchange Commission on April 30, 2014, and in the supplemental information posted to our website.

These forward-looking statements should not be relied upon as representing the company's view of any subsequent date and Seagate undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date they are made.

I would now like to turn the call over to Steve Luczo. Please go ahead, Steve.

[**Steve Luczo**](http://seekingalpha.com/search/transcripts?term=Steve+Luczo&sasource=participant) - Chairman and Chief Executive Officer

Thanks, Kate. Good afternoon, everyone, and thank you for joining us today. Seagate demonstrated strong operational performance in the June quarter, achieving revenues of $3.3 billion and on a non-GAAP basis gross margin of 28.5%, net income of $370 million, and diluted earnings per share of $1.10.

We had another strong cash flow quarter generating $577 million in operating cash flow and $446 million in free cash flow. Full-year fiscal 2014 revenues were $13.7 billion and on a non-GAAP basis, we achieved gross margin of 28.5%, net income of $1.8 billion, and diluted earnings per share of $5.04.

Operating cash flow generated for the fiscal year was over $2.5 billion and free cash flow was approximately $2 billion.

We exceeded our shareholder capital return goals for the year, returning $2.5 billion in the form of dividends and share redemptions to our shareholders. We ended the fiscal year with approximately $2.7 billion in cash and investments, and $327 million ordinary shares outstanding.

One of our strategic priorities for fiscal year 2014 was to further optimize Seagate's capital structure to support the long-term growth of the company. Over the course of the fiscal year, we successfully raised $1.8 billion in investment grade debt while retiring $700 million. These actions decreased our weighted average interest rate to 5% and extended our debt maturity profile out to 2025.

We continue to be focused on making investments and acquisitions to build out Seagate's storage offering, enter new market adjacencies and expand our core technical capabilities. The first quarter for our Cloud Systems and Solutions business, which includes the OneStor systems, ClusterStor and Evolve product lines was strong and we exceeded our internal revenue plan.

The traction we are achieving with existing and new customers is encouraging and we believe this momentum will create new revenue opportunities in the future.

At the end of May, we announced our plan to acquire the SSD controller and PCIe assets from Avago, to further build out our integrated flash technology portfolio, expand our customer base, and drive new revenue opportunities. The transaction is on track to close at the end of August or beginning of September and we look forward to talking more broadly about our strategic plans post-close.

Our fiscal year capital expenditures were $559 million below our long-term planning range of 6% to 8% of revenue. We continue to plan cautiously and focus on deploying capital towards the maintenance of our existing operation, increase technical R&D capabilities, and improvements to our global facilities footprint.

Looking ahead to fiscal 2015 and beyond, the significant changes and economics and architectures taking place in the traditional storage industry continued to create opportunities for Seagate. As we plan for our next fiscal year, we remain focused on investing in our storage technology product portfolio to deliver high quality storage products and solutions that create advantages for our customers.

Some of these investments will have immediate benefit to our business, while others will take more time, but we believe will create important strategic advantages for Seagate in the storage marketplace.

As noted on our last call, we talked about demand momentum building towards the back-half of the year. Based on the June quarter activity and as a result of ongoing conversations with customers, we continued to see demand trends strengthening across multiple segments. This is the first time we've seen this kind of sustained traction during the last four years. In addition, while it is early in the quarter, we are seeing higher-than-normal pull rates for July and a significant increase in capacity for drive thus far.

Turning to our outlook, we believe market demand in September and December quarters are being driven by a few key factors, improving sequential momentum in the cloud market and the traditional enterprise market consistent with product refreshes, sequential strength in the notebook market, and seasonal demand for gaming and branded. Taking these factors into account, industry estimates are for market demand to be approximately 142 million units to 146 million units in the September quarter.

Given the current outlook for notebook demand, we anticipate the addressable market will be at the higher end of that range. In this demand environment, we believe Seagate's product portfolio is well positioned competitively. In the enterprise market, most of our major OEMs and cloud customers are qualified or are actively qualifying our 6 terabyte product. This product has many industry-leading features in terms of capacity, performance, and cost.

We have also delivered 8 terabyte customer development units to major customers and cloud service providers and the initial customer feedback has been very positive. While it’s still early in the development of our Kinetic object-based storage platform, we are in deep technical discussions with a very broad-base of enterprise customers. We believe our focus on developing key values for object-based storage will make the Kinetic platform a differentiated offering in the cloud storage marketplace.

In conjunction with improving dynamics in the client market, we have been focusing on optimizing our client product portfolio and reinforcing our competitive position. This past quarter we finished qualification of our 7200 RPM notebook product at all major OEMs, and we expect to quickly ramp volume in this critical space and win share that is in line with our segment averages.

We are encouraged by the adoption we are achieving with key OEMs for our hybrid drives and the top three worldwide PC manufacturers now offer our hard drive in their mainstream product lines. We have seen a significant acceleration in demand and plan to ship over 2.5 million hybrid drives in the September quarter.

And finally, we expect to maintain share in the gaming market and have a fully refreshed portfolio for the branded space for Seagate and LaCie products. Based on industry forecast at this time in the quarter and the competitive positioning of our product portfolio, we are planning to achieve revenue of at least $3.55 billion in the September quarter. We are targeting product gross margins to be relatively flat, recognizing we have margin pressure associated with the integration of Xyratex and the Avago flash technology assets.

Operating expenses will be approximately $550 million, slightly above our long-term targeted range of 12% to 14%. We are planning for our core businesses expense to be relatively flat and approximately $35 million in one-time expenses from our planned 14-week quarter and other charges.

In summary, Seagate is very well positioned for continued success and while our forecasting continues to maintain a sense of caution due to macroeconomic conditions and industry dynamics, the trends we are seeing in the marketplace are continuing to align with our long-term expectations for exabytedemand and the growing need for economical and efficient storage.

We are optimistic about our storage technology leadership position and we look forward to updating you on our vision and strategic plan at our strategic update on September 12. On behalf of the entire management team, I want to thank our employees for meeting our operational goals for the fiscal year and positioning Seagate for ongoing success in fiscal year 2015.

I also want to thank our customers, partners, suppliers, and shareholders for their continued support and commitment.

And we can now turn it over for Q&A