**Question-and-Answer Session**

**Operator**

Ladies and gentlemen, we will now begin the question-and-answer portion of today’s call. (Operator Instructions) And our first question comes from Sherri Scribner with Deutsche Bank. Your line is open.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank North America

Hi, thank you. I was hoping you could just go through the puts and takes on the gross margin guidance for the fourth quarter. I would think that the client business being may be at the softer you have better mix in the quarter. So I was just trying to understand that a bit better. Thanks.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

So if you look at Sherri. This is Steve. We’re going to take a small absorption had in terms of lower volumes that will be offset by favorable mix in terms of capacity enterprise and certainly we will see a little bit, client margins tend to be a little bit lower than the corporate as a general statement, but on balance things that net out to the extent that we think that our margins will be flat, quarter-on-quarter.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank North America

Okay, thanks Steve. That’s helpful. And then, it’s been a while since your last Analyst Day. I wanted to see if you could provide an update on your, on priorities for cash, in terms of how much you expect to use for buybacks and your plans to increase the dividend. Thank you.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

So, we continue to be committed to the capital allocation plan that we announced back in September 2012, in terms of 50% of our free cash-flow been returned to shareholders and the rest to be – I will call it held in reserve for potential strategic opportunities, as we look at the changes that we see in the storage ecosystem, we continue to think that there are opportunities for us to – I’ll say expand our footprint, in terms of the storage industry and ways that not only add value for our customers, but also add value for our shareholders.

So at present, we are sticking with that capital allocation plan; of course we periodically review that, as a part of our overall review of our strategic priorities, but at this point there is no intend to change in our capital allocation plans.

**Operator**

Your next question comes from Ananda Baruah with Brean Capital. Your line is open.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital

Hi guys, thanks for taking the question. Congrats on the early solid quarter and Olivier welcome. I guess yes two if I could I guess both on kind of datacenter and cloud, so the SSD revenue was quite strong sequentially this quarter. Could you talk to – to what degree that was related to hyper scale build out, which you guys had talked to expecting and to what degree they’re related, I guess, OEM product refraction? And then I have a follow-up in that regard as well. Thanks.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

So let me kind of opine in a broader picture. We are seeing broad based strength in terms of the broader enterprise business, both in terms of traditional customers as well as the hyperscale data center customers, both in terms of our capacity enterprise business, which we saw a nice pickup this past quarter. We expect that momentum to continue into the December quarter and correspondingly we’re also seeing, as you indicated, strong strength in our enterprise SSD business.

That is really, I’ll call it, across the board and really speaks to the strength of our product line both in terms of – well, really across the board, performance enterprise, capacity enterprise as well as in terms of enterprise SSD. We clearly have the broadest product line in the industry and not only that. We have the broadest products that we arguably believe that we got very strong performance from a product standpoint as well. So that’s being reflected in our performance as well as the build out that we’re continuing to see from the customer perspective.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital

Steve, that’s really helpful context. I appreciate. And I guess just in that regard how are you guys thinking about the cadence of hyperscale deployments as we get into the first half of the year given there’s a lot of, I guess, call it lack of pent-up demand coming in the second half of year? And then also, how are you guys thinking about, I don’t know, the adoption kind of curve just in the enterprise, [tried and true] (ph) enterprise given that second half of the year is a heavy product cycle, second half with the OEM? Thanks.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Sure. I mean we have, I’ll call it, increasing visibility. Obviously, we had good visibility till the December quarter probably in terms of what we see from a demand perspective. We got increasing visibility on what’s going to happen in the first part of 2015 and we believe that strength will continue from an industry perspective as well as from our perspective in the broader enterprise space through the first half of calendar 2015.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital

Thanks a lot.

**Operator**

Next question is from Aaron Rakers with Stifel. Your line is open.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus & Company, Inc.

Yes. Thanks for taking the questions, a couple as well. So, first of all, I want to go a little bit deeper in terms of the portfolio difference between you and Seagate. I think one of the things that we’ve started this year is a pretty good adoption of your Helium drive. I think Seagate though had a very strong growth in their high capacity drives as well. Can you talk a little about the competitive landscape? What do you feel your share position is within these cloud and hyperscale guides? And then with that how you’re seeing the adoption rate pickup with regard to the Helium drives?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

We’re seeing strong momentum in terms of adoption of our Helium based drives not only in terms of 6 terabyte, but substantial interest in adoption of the 8 terabyte as well. And so, we feel very good about where we’re positioned particularly with the hyperscale guide, it’s a little bit more difficult to know exactly what our share position is? But we feel very comfortable with where we’re at from a customer and from a competitive product perspective recognizing the fact that Seagate is a formidable competitor, but we feel very good about where we’re positioned right now.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus & Company, Inc.

Okay. And then as a follow-up, well, there is not a lot of questions right now with regard to MOFCOM. I think it’s still obviously an important variable to consider in the model. So maybe if you can give us an update where you stand with regard to the dialogue with MOFCOM and is there any kind of updated views on expectations with regard to the timing of a decision on MOFCOM and as you’re opinions or views change on a potential synergy opportunities being able to integrate Apache. Thank you.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

And so Aaron, no specific update that’s any different than what I provided last quarter, our dialogue with MOFCOM continues. It continues to be constructive and it continues to be active. And so I was in China a couple of weeks ago and met with MOFCOM. And as I indicated, we continue to have a discussion about our situation, the process that they will use from a review perspective. I’ll call parameters that they will use to evaluate our application. And so we although maybe a bit discouraged I guess you might say in terms of the timing. We are positive about our ongoing dialogue with China with the monopoly bureau.

They have not provided any indication as to specific timing. I think one of the things that we have to recognize is that the whole separate remedy that was imposed was a new remedy. It was not something that they had done before. The reapplication to have it lifted is therefore by definition also a new process and an undefined process. And the Chinese are being very deliberate with that review. We respect that. And like I said, we may be a bit frustrated in terms of we certainly would like them to move faster, but at present we continue to be encouraged by the constructive nature of our dialogue.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus & Company, Inc.

Thank you very much.

**Operator**

Next question comes from James Kisner with Jefferies. Your line is open.

[**James Kisner**](http://seekingalpha.com/search/transcripts?term=James+Kisner&sasource=participant) - Jefferies Equity Research

Hi, guys. Thanks for taking my questions. First on Helium, just wanted to understand if you had any capacity constraints and all were you able to meet all the demands for Helium drives?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

No capacity constraints related to our Helium-based drives.

[**James Kisner**](http://seekingalpha.com/search/transcripts?term=James+Kisner&sasource=participant) - Jefferies Equity Research

Great and just separately just mathematically there seems like you may be losing a little bit of share near-term on notebooks. Just could you comment on that as skepticism you’re seeing is this just a quarter-to-quarter duration or what you think?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Yes, if you look at our share over the last several quarters, we have had the – we’ve sort of been up and down maybe a point or two. If you recall last quarter or two quarters ago, so the June quarter, we gained two points in market share, this quarter we lost, I believe, about 170 basis points. So this tends to be the normal ebb and flow that occurs in our business from a share perspective.

And as was indicated yesterday on our largest competitors call, they took some incremental business or were provided some incremental business in the gaming segment that drove a reasonable amount from what we can gather of their share increase and correspondingly drove the Lion’s share of our market share decline. And also you can see that that was lower margins business and perpetuated itself and our respective financial performance.

[**James Kisner**](http://seekingalpha.com/search/transcripts?term=James+Kisner&sasource=participant) - Jefferies Equity Research

Great, thank you.

**Operator**

Thank you. Our next question is Richard Kugele with Needham Company. Your line is open

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company

Thank you and good afternoon, just a couple of questions. I guess first is close the loop on the settlement with Seagate. I assume that that payment came from offshore cash right and is there any change to how you’re viewing your own capital deployment strategy to shareholders?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

So let me take this one. You’re right; the settlement was paid out of offshore cash. And as a clarification also we distributed 50% of our free cash flow this quarter which is consistent with what we have done over the last two years. Now in the short run, exiting the recent arbitration payment from our calculation, we reserved to not exceeding our capital allocation target. And we expect our board to view this matter next week during its regular meeting and we will update you at that time.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company

Okay. And then actually in that vein, Olivier, how do you view the balance sheet and what do you think is the right type of cash balance to run the two operations as you move forward?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

It’s a question we’re asked a lot. As you can see in our balance sheet, our cash balances are strong with about $1.2 billion of cash in our U.S. bank accounts and also a leverage ratio, which is pretty low at 4.7%. As Steve indicated earlier, we believe that the current allocation, 50% of free cash flow is a good balance to reward our shareholders today, but to reward our shareholders tomorrow by keep investing in the business. So we believe where we’re today – we’re looking at that, but we believe it’s a balanced situation.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company

Okay. And then just lastly geographically. The Americas took up nicely while Asia was down at a percentage of the total. And I’m just wondering if that’s tied into your enterprise strength as the U.S. data centers deploying a lot of high capital. Is that how we should view it?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

That would be part of it and also it’s also a brand with strong – with a lot of that business being in the U.S. So in that regard there’s a bit of seasonality playing into it.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company

Okay. Excellent. Thank you.

**Operator**

Next is from Harlan Sur with JP Morgan. Your line is open.

[**Harlan Sur**](http://seekingalpha.com/search/transcripts?term=Harlan+Sur&sasource=participant) - JP Morgan

Hi, good afternoon. Nice job on the quarterly execution. Your flash business obviously showed some nice acceleration here, up I think almost 40% sequentially, came in number one in SAS SSD. You’ve got a competitive PCIe offering. From a product perspective what’s driving the pickup series? Is it both staff and PCIe? Any color here would be appreciated. And maybe just a quick update on your SATA flash strategy.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Sure. So the primary momentum that we saw in our business was related to our SAS business, and primarily driven by a refreshed product line and we’re going to continue to see that momentum continue over the next few quarters. Relative to PCIe, we continue to be encouraged by that business. We have, as we indicated, had the HGST press event in September. We will have some refreshed products come out that we believe will be more competitive on the PCIe front and that will began to impact our financial results in the middle of next year.

And then, right now on the SATA front, we do not have a competitive offering in that space. We’re looking at it closely and there it is primarily an economic issue. We clearly could address it from a technical capability and customer perspective, but we also want to do it in a way that generates direct kind of returns for ourselves and our shareholders.

[**Harlan Sur**](http://seekingalpha.com/search/transcripts?term=Harlan+Sur&sasource=participant) - JP Morgan

Thanks for that, Steve. And then as a follow-up the enterprise flash is a big market $4 billion. So obviously a lot of room for the team to go from here and as you scale this business higher, do you feel comfortable in being able to cost effectively secure NAND flash supply because it does look like suppliers are going to be fairly tight as we move through next year and potentially through 2016.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

At present we do. We continue to have a very strong relationship with Intel through our joint development arrangements. We’ve recently talked about how that development arrangement has been extended. I believe probably for – I may have my number here wrong, but I think it’s third time that we’ve extended that since. We originally entered into that arrangement back in 2008. We also announced back in September again at the HGST press event that we have expanded our NAND relationship to include Toshiba as well. So we’re working with them on a strategic basis as well. And we’ll continue to evaluate the nature of our relationships in that regard, but right now we feel very comfortable with where we’re at.

[**Harlan Sur**](http://seekingalpha.com/search/transcripts?term=Harlan+Sur&sasource=participant) - JP Morgan

Great, thanks Steve.

**Operator**

Monika Garg with Pacific Crest Securities. Your line is open.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

Hi, Thanks for taking my question. If we look at even your Exabyte growth and even Seagate, but industry Exabyte is very strong in Q-over-Q. If we see similar trend in the disk drive industry, do you think industry could see tight situation over the next three to four quarters? And what will be the criteria if you were look at – if you’re willing add any new capacity?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Sure, that’s something that we continue to watch closely. At present, we do not believe – well, I need to say this way, we believe that we will have adequate supply from a component perspective to meet anticipated demand, but you raised a very good point when you’re talking about these high capacity enterprise drives particularly our 7 Platters Helium-filled drive. We used a lot of components, I mean 14 heads and 7 in Platter.

And so that is something that we’re watching very closely. But right now, we do not anticipate that there will be a problem in meeting customer demand and nor that we believe that there will be any meaningful need to add capacity that will materially impact our stated CapEx plans. Reminding you that relative to CapEx, we have indicated that as of right now we’re about 4% of revenue, we expect that that will continue at that level through the balance of this fiscal year.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

Then a question on the hybrid side, Seagate kind of had a good – they shipped around three million hybrid client mainly in the quarter. Would you kind of consider the hybrid strategy at some point?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

No. We have a hybrid strategy, we continue to review it consistently. We are seeing some encouraging signs in that business, particularly in the client space. We are not from our perspective seeing much interest for hybrid based drives in the enterprise space. We think customers are interested in a disaggregated solution as supposed to an aggregated solution. And we’re going to continue to evaluate what we’re doing from a hybrid perspective, but don’t from a product perspective, from a performance perspective and from an economic perspective. We are bit more muted with regards to our enthusiasm as it relates to hybrid offerings.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

Got it. Thank you so much.

**Operator**

The next question comes from Jayson Noland with Robert W. Baird. Your line is open.

[**Jayson Noland**](http://seekingalpha.com/search/transcripts?term=Jayson+Noland&sasource=participant) - Robert W. Baird & Co., Inc

Okay, okay, great, thank you. I wanted to ask about join technology partnerships, Seagate announced one recently with a cloud service provider in China, recognized you guys probably have these. But just have an announcement formally, how popular are these Steve and should we expect to see more of them going forward.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

The answer is yes. We should expect to see more partnership kind of activity. I don’t quite know how to dimension how popular they are. But with the ecosystem changing so much and it’s changing in some cases in ways that are harder to predict. I mean there’s a lot of evolving technologies. You’ve seen us make some, and these are smaller dollars within the whole grand scheme of things. Make some investments in some storage technology related companies, enter into other kinds of partnership arrangements.

And so that kind of activity will undoubtedly increase. As we look to expand our footprint, expand the way that we can add value and clearly many of these companies given where we sit within the storage world the view us as attractive partners to work with as well.

So I think that we will continue to see that kind of activity expanding for ourselves and for others in the industry.

[**Jayson Noland**](http://seekingalpha.com/search/transcripts?term=Jayson+Noland&sasource=participant) - Robert W. Baird & Co., Inc

Okay. A follow-up there on the financial model. As you head down that path expanding your footprint in the systems business, should that drive gross margin up and investment on the OpEx line up over time?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

We are not specifically indicating that from a model perspective. I mean, we’re going to continue to keep an eye on that. We have been incrementally investing as well as reinvesting in terms of OpEx and shifting things around. But generally speaking, our OpEx levels have stayed relatively consistent from a percentage of revenue perspective.

And then, in terms of gross margin, the opportunities that we are looking at pursuing, whether they be accretive on the gross margin line or accretive on the operating income line, I mean that’s clearly what we’re trying to do is figure out how we can add more value from a customer perspective and if we do our jobs right best to translate to improve the economics on our income statement as well.

[**Jayson Noland**](http://seekingalpha.com/search/transcripts?term=Jayson+Noland&sasource=participant) - Robert W. Baird & Co., Inc

Okay. Thank you.

**Operator**

Next is from Mehdi Hosseini with SIG. Your line is open.

[**Mehdi Hosseini**](http://seekingalpha.com/search/transcripts?term=Mehdi+Hosseini&sasource=participant) - Susquehanna International Group

Yes, thanks for taking my question. Steve, you talked about the enterprise demand strengthening in the first half of 2015. How about traditional notebook and the consumer desktop? Any comment there and to that extent if you could also discuss the pricing trend that you see beyond the December quarter. Thank you.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Sure. Relative to the PC market, both in terms of notebook and desktop, and I’ll address them together rather than individually. We see the PC market as I would characterize it as stable. We’ve seen in terms of IDC numbers that have been published or industry forecast that have been published is PC market declining in the low single-digits. We see that continuing. We don’t see either an acceleration or a deceleration from that perspective. So I would characterize the PC market as stable, which means that it’s certainly much better than it has been. And there’s certainly no slowdown or it’s not worsening and that’s a good thing from our perspective.

Relative to the March quarter or the first half of 2015, I would indicate that our visibility there is not as great as it is in the enterprise market. And so, at this point, we would simply expect that we would see the normal seasonal decline that we traditionally see for a December quarter going into March, end of the first half of the year. So that’s the way we see it right now.

[**Mehdi Hosseini**](http://seekingalpha.com/search/transcripts?term=Mehdi+Hosseini&sasource=participant) - Susquehanna International Group

Great. And then any color on the pricing…

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Pricing has been within our expectation, nothing nearly notable to call out.

[**Mehdi Hosseini**](http://seekingalpha.com/search/transcripts?term=Mehdi+Hosseini&sasource=participant) - Susquehanna International Group

Got it, thank you.

**Operator**

Rob Cihra with Evercore. Your line is open.

[**Rob Cihra**](http://seekingalpha.com/search/transcripts?term=Rob+Cihra&sasource=participant) - Evercore Partners

Hi, thank you very much. I guess one – my question is a follow-up. On the enterprise SSD obviously a nice growth there. Do you had – I think Steve you’d reiterated the plan to be – or the goal to be accretive following sTec and the Virident acquisitions in early calendar 2015. That would imply I would assume that business moving to become meaningfully more of a contributor to the business given the fact that the HGST, Intel SaaS, SSD is still the bulk. I mean is that the case or is that more of a cost cut gets you to the equation. What gets you the equation, I assuming it’s…

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Well, so the primary dependency is ongoing revenue growth. We are investing a certain sum of money from an OpEx perspective to make sure that we have the product – the products out there from an industry perspective but the primary dependency is to that accretive statement is ongoing momentum from a customer acceptance and revenue perspective. And we are comfortable that we’re on the path that we need to be on to make the statement that we expect to be accretive on the first part of 2015.

[**Rob Cihra**](http://seekingalpha.com/search/transcripts?term=Rob+Cihra&sasource=participant) - Evercore Partners

Okay, great. And if I guess a quick follow-up on the Helium drives. I mean are they enough contributor yet to actually make a sort of meaningful impact on your ASPs on the blended ASP in enterprise. I am assuming so, but are they big enough yet to do that? Thanks.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

I mean that really I would paint in the context that our capacity enterprise business was a meaningful contributor to our ASP lift in this past quarter. I don’t know if I want to call out the helium filled drives specifically, but it’s beginning to make certainly a much more meaningful impact. I mean we’re very pleased with where we’re at with the adoption of our helium platform. And not only that I’m very encouraged by customer reaction or anticipation to volume production in the 8 terabyte as well.

[**Rob Cihra**](http://seekingalpha.com/search/transcripts?term=Rob+Cihra&sasource=participant) - Evercore Partners

Right, thank you very much.

**Operator**

Mark Miller with Noble financial Capital. Your line is open.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

Well, thank you for taking my question. We talked earlier about the tightening NAND Flash environment possibility. And I’m just wondering at one point there was a big campaign for relative to competitors who have internal Flash supply as Flash prices increase?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

I’m not sure I didn’t follow your question Mark.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

Well, if the flash prices go up, I mean that’s a percent that you build materials for your drive and I’m just wondering what – how sensitive are you in terms of flash price increases, in term of your margins or your ability to transfer that to your customers?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

Yes, I’m not that concerned about that market at this point. I mean we’ve been in the Enterprise SST business for a while, we’ve gone through some ups and down from a pricing perspective, we certainly have a history of dealing with that in terms of variability and in terms of component cost on our base drive business historically. There’s something that we have to watch and keep our eye on, but I’m comfortable that we’ll be able to deal with whatever variability exists from a component pricing perspective as it related to flash.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

And just wondering it appears that you’re kind of projecting flat overall drag kind of for next year is that same reason of all?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

We haven’t provided a specific forecast for next year stand. What we have indicated is that we expect the TAM for rotating magnetic storage to increase at a low-single digits level from an unit perspective.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

And I apologize for this extra but just a housekeeping question, what was your forecast for SG&A and R&D for next quarter spending?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

As we said – as I said in my remarks about $600 million.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

$600 million so that’s down significantly from this current quarter, is that correct?

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

Correct for two reasons we had one addition week of OpEx last quarter, we had 14 week. And then the other one off incentive payment as well.

[**Mark Miller**](http://seekingalpha.com/search/transcripts?term=Mark+Miller&sasource=participant) - Noble Financial Capital Markets

Okay. I’ve Mr. – the incentive payment. Thank you.

[**Olivier Leonetti**](http://seekingalpha.com/search/transcripts?term=Olivier+Leonetti&sasource=participant) - Chief Financial Officer and Executive Vice President

No problem.

**Operator**

Ben Reitzes with Barclay’s. Your line is open.

[**Benjamin Alexander Reitzes**](http://seekingalpha.com/search/transcripts?term=Benjamin+Alexander+Reitzes&sasource=participant) - Barclays Capital Inc.

Hi, thanks a lot. Steve I wanted to ask you kind of a little more new arms around two things, you already touched on it. In terms of the December quarter guidance with the loss of the extra week, your guidance looks pretty flat up actually if I were to assume that its probably impossible to know what the extra week gave you in the quarter but if you take something off it looks pretty flattish and you were saying down. So I just wanted to see what the extra week was in your guidance and then I just had a quick follow-up?

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

Yes Ben you are right it’s a little bit difficult to calibrate exactly what the impact of the extra week was last quarter. Also not to further confuse things, the December quarter is always a little bit tricky. In the sense that you have Christmas and how much activity actually takes place in the last week. So you could argue that at the 12-week quarter in the sense in terms of the December quarter. The reality of things is that most of our business is reliance shares, OEM based on and such not as transactional.

So I don’t really think that the 14th week had a material impact for us we do believe that is probably slightly accretive if we were to guesstimate, but talking about December quarter I mean there will be some moderations from an overall demand perspective that we think that the demand environment as on balance. It’s pretty good. It’s not great, certainly not bad. But it continues to be generally relatively steady.

[**Benjamin Alexander Reitzes**](http://seekingalpha.com/search/transcripts?term=Benjamin+Alexander+Reitzes&sasource=participant) - Barclays Capital Inc.

Okay, great. And then I just open you could clarify one other thing that you said around 50% of free cash flow billing to shareholders and the other 50% joining reserve for potential opportunities. I was just wondering if you could hold that comment around potential opportunities. Did you mean more on the enterprise and flat side or do you if there is a way to holding that I mean it’s really hard to say what you are going to go out and buy into, but if you are the specific, do you see it more in consumer enterprise or however you want to specify that would be great. Thanks.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

There are two principle opportunities that we think where we our position from a product and customer perspective to expand our footprint. One, I’m clearly as in the enterprise space. If you want to call that moving us to stock and a way that is complementary to what many of our – what much of our customers are doing. And also, we do think that we have incremental opportunity in the consumer or prosumer or smaller, medium business opportunities from a storage perspective as well. So that’s would be the two principle areas that we would be focusing on.

[**Benjamin Alexander Reitzes**](http://seekingalpha.com/search/transcripts?term=Benjamin+Alexander+Reitzes&sasource=participant) - Barclays Capital Inc.

Great, thanks so much.

[**Stephen D. Milligan**](http://seekingalpha.com/search/transcripts?term=Stephen+D.+Milligan&sasource=participant) - Chief Executive Officer and President

So thank you again for joining us today. In closing, I want to thank all of our employees and suppliers for their commitment and outstanding execution and our customers for their continued business.