SEAGATE TECHNOLOGY
Form S-3/A
September 15, 2004
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As filed with the Securities and Exchange Commission on September 15, 2004

Registration No. 333-117517

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SEAGATE TECHNOLOGY

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-0355609**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**

P.O. Box 309GT, Ugland House, South Church Street

George Town, Grand Cayman, Cayman Islands

(345) 949-8066

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

CT Corporation System

818 West Seventh Street, Suite 200

Los Angeles, California 90017

(800) 888-9207
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With copies to:

William L. Hudson	**William H. Hinman, Jr.**
Executive Vice President, General Counsel	**Simpson Thacher & Bartlett LLP**
and Secretary	**3330 Hillview Avenue**
Seagate Technology	**Palo Alto, California 94304**
920 Disc Drive	**(650) 251-5000**
P.O. Box 66360	
Scotts Valley, California 95067	
(831) 438-6550	

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling shareholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling shareholder are soliciting an offer to buy these securities in any jurisdiction where the offer, solicitation or sale is not permitted.

PROSPECTUS (Subject to Completion)

Dated September 15, 2004

60,000,000 Shares

COMMON SHARES

Our controlling shareholder, the selling shareholder, is offering 60,000,000 of our common shares. We will not receive any of the proceeds from the sale of our common shares in this offering.

Our controlling shareholder, the selling shareholder, may not sell (other than pursuant to an exemption from registration) our common shares covered by this prospectus until the registration statement, of which this prospectus forms a part, filed with the Securities and Exchange Commission is effective.

Our common shares are listed on the New York Stock Exchange under the trading symbol STX. On September 14, 2004 the last reported sale price of our common shares on the New York Stock Exchange was $13.56 per share.

Investing in our common shares involves risk. See **Risk Factors beginning on page 6 of this prospectus.**

Neither the Securities Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

, 2004

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ADDITIONAL INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and therefore file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Such reports, proxy statements and other information filed by us may be inspected and copied at the Public Reference Section of the SEC at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549-1004. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings are available to the public over the Internet at the SEC s website at the SEC s website at http://www.sec.gov.

INCORPORATION BY REFERENCE

We incorporate by reference into this prospectus some of the information that we file with the SEC, which means that we can disclose important information to you by referring you to those filings. Any information contained in future SEC filings that are incorporated by reference into this prospectus will automatically update this prospectus, and any information include directly in this prospectus updates and supersedes the information contained in past SEC filings incorporated by reference into this prospectus. The information incorporated by reference, as updated, is an important part of this prospectus. We incorporate by reference the following documents:

- our annual report on Form 10-K/A filed on September 3, 2004 for the fiscal year ended July 2, 2004;
- our current report on Form 8-K filed on July 28, 2004;
- the description of our common shares in our registration statement on Form 8-A filed on December 6, 2002; and
- all documents that we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the completion of the resale of the common shares by the selling shareholder pursuant to this prospectus; provided, however, that we are not incorporating any information furnished under either Item 9 or Item 12 (or their successor provisions, Item 7.01 and Item 2.02 respectively) of any current report on Form 8-K.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is or is deemed to be incorporated by reference into this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom a copy of this prospectus has been delivered, upon the written or oral request of such person, a copy of any and all of the documents that have been or may be incorporated by reference in this prospectus, other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such document. In addition, we make available free of charge all documents we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Seagate Technology

920 Disc Drive

P.O. Box 66360

Scotts Valley, California 95067

Attn: Investor Relations

(831) 439-5337

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You should rely only on the information incorporated by reference or provided in this prospectus or a prospectus supplement or amendment. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should assume that the information appearing in this prospectus or a prospectus supplement or amendment or any documents incorporated by reference therein is accurate only as of the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

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FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus, including the documents incorporated herein by reference, are forward-looking statements, including but not limited to those specifically identified as such, that involve risks and uncertainties. The statements contained herein that are not purely historical are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Exchange Act, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this prospectus are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These forward-looking statements include statements about our revenue, revenue mix, gross margin, operating expense levels, financial outlook, commitments under existing leases, research and development initiatives, sales and marketing initiatives, competition and stock repurchases. In some cases, forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may, the negative of these terms or comparable terminology. For such statements, we claim the prot of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law, you are advised to consult any additional disclosures we make in our quarterly reports on Form 10-Q, annual report on Form 10-K and current reports on Form 8-K filed with the SEC. See Additional Information. We provide a cautionary discussion of selected risks and uncertainties regarding an investment in our common shares under Risk Factors on page 6 of this prospectus. However, other factors besides those listed there could also adversely affect us.

ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated as an exempted company with limited liability under the laws of the Cayman Islands. A substantial portion of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing the common shares to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the Untied States or any state of the United States.

We have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not a kind, the enforcement of which is contrary to public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will: (i) recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, or (ii) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature.

The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

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PROSPECTUS SUMMARY

The following summary may not contain all the information that may be important to you. You should read the entire prospectus, as well as the information incorporated by reference in this prospectus, before making an investment decision. You should carefully consider, among other things, the matters discussed in Risk Factors. Unless the context indicates otherwise, as used in this prospectus, the terms we, us and our refer to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands, and its subsidiaries, and the term common shares refers to our common shares. For ease of reference, throughout this prospectus, we use the term Seagate Delaware to refer to Seagate Technology, Inc., a Delaware corporation, and, unless it is otherwise evident from the context, its subsidiaries before the November 2000 transactions. We use the term predecessor to refer to the rigid disc drive business and storage area network business of Seagate Delaware before the November 2000 transactions. We use the term November 2000 transactions to refer to the series of transactions consummated in November 2000 pursuant to which we acquired the rigid disc drive business of Seagate Delaware.

Seagate Technology Overview

We are a leader in the design, manufacturing and marketing of rigid disc drives. Rigid disc drives, which are commonly referred to as disc drives, are used as the primary medium for storing electronic information in systems ranging from desktop and notebook computers and consumer electronic devices to data centers delivering information over corporate networks and the Internet. We produce a broad range of rigid disc drive products that make us a leader in both enterprise storage applications, where our products are primarily used in enterprise servers, mainframes and workstations, and personal storage applications, where our products are used in PCs, notebook computers and consumer electronic devices.

We sell our rigid disc drives primarily to major original equipment manufacturers, or OEMs, with whom we have longstanding relationships. These customers include Dell, EMC, Hewlett-Packard, IBM and Sun Microsystems. We also have key relationships with major distributors, who sell our rigid disc drive products to small OEMs, dealers, system integrators and retailers throughout most of the world, and we are currently expanding our direct sales to retailers.

In June 2004, we announced 12 new rigid disc drive products, which will be introduced in the current fiscal year, including:

- our first 1-inch form factor rigid disc drive, which will be primarily used in hand held consumer electronics devices such as MP3 players and digital cameras;
- our first 2.5-inch form factor rigid disc drive designed for enterprise storage applications;
- larger capacity 3.5-inch form factor rigid disc drives to address the market for larger capacity personal video recorders and home media storage devices and near line enterprise applications;
- additional capacity models of our 2.5-inch form factor Momentus notebook rigid disc drive, which will more completely address our customers notebook disc drive requirements; and
- new versions of our current Barracuda and Cheetah desktop and enterprise rigid disc drives.

Many of these new products will address disc drive applications for which we currently have no product offerings.

In the quarter ended July 2, 2004, we undertook significant restructuring activities to reduce the costs of our operations in light of our declining revenue, gross margins and earnings over the past several quarters resulting from recent significant price erosion and market share variability, particularly with respect to our enterprise drive products. We continue to look at opportunities for further cost reductions which may result in additional restructuring activities and restructuring charges in the future.

As announced on April 29, 2004, on July 3, 2004 Bill Watkins transitioned into the role of Chief Executive Officer and President. Steve Luczo, our previous CEO, continues to serve as the Chairman of our board of directors and continues to be responsible for our strategic direction, including assessing macro trends in technology and the opportunities they present.

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Seagate, Seagate Technology, Barracuda, Cheetah and Momentus among others, are our registered trademarks. We have a registration pendi
for our Savvio trademark. This prospectus also includes trademarks of other persons.

The address of our principal executive offices is Seagate Technology c/o M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, and the telephone number at that address is (345) 949-8066. Our worldwide web site address is www.seagate.com. However, the information in, or that can be accessed through, our web site is not part of this prospectus.

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RISK FACTORS

An investment in the common shares offered by this prospectus involves a high degree of risk. You should consider carefully the following risk factors in addition to the remainder of this prospectus, including the information incorporated by reference, before making an investment decision. Some statements in this prospectus (including some of the following risk factors) are forward-looking statements. Please refer to the section entitled Forward-Looking Statements.

Risks Related to Our Business

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

Even during periods when demand is stable, the rigid disc drive industry is intensely competitive and vendors typically experience substantial price erosion over the life of a product. Our competitors have historically offered existing products at lower prices as part of a strategy to gain or retain market share and customers, and we expect these practices to continue. We may need to reduce our prices to retain our market share, which could adversely affect our results of operations. Based on our recent experience in the industry with respect to new product introductions, we believe that the rate of increase in areal density, or the storage capacity per square inch on a disc, is slowing from its previous levels. This trend may contribute to increased average price erosion. To the extent that historical price erosion patterns continue, product life cycles may lengthen, our competitors may have more time to enter the market for a particular product and we may be unable to offset these factors with new product introductions at higher average prices. A second trend that may contribute to increased average price erosion is the growth of sales to distributors that serve producers of non-branded products in the personal storage sector. These customers generally have limited product qualification programs, which increases the number of competing products available to satisfy their demand. As a result, purchasing decisions for these customers are based largely on price and terms. Any increase in our average price erosion would have an adverse effect on our result of operations.

Moreover, a significant portion of our success historically has been a result of increasing our market share at the expense of our competitors. However, in the first fiscal quarter of 2004, our market share for our enterprise products was negatively affected by our customers diversifying their sources of supply as the slowing areal density curve has resulted in longer product cycles and more time for our competitors to enter the market for particular products. Additionally, in the third fiscal quarter of 2004, our market share for notebook drive products was negatively affected by an oversupply condition in our customers supply chain. Any significant further decline in our market share would adversely affect our results of operations.

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

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

Captive	Independent

Fujitsu Limited	Maxtor Corporation
Hitachi Global Storage Technologies	Western Digital Corporation
Samsung Electronics Incorporated	
Toshiba Corporation	

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

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In addition, in response to customer demand for high-quality, high-volume and low-cost rigid disc drives, manufacturers of rigid disc drives have had to develop large, in some cases global, production facilities with highly developed technological capabilities and internal controls. The development of large production facilities and industry consolidation can contribute to the intensification of competition. We also face indirect competition from present and potential customers who evaluate from time to time whether to manufacture their own rigid disc drives or other information storage products.

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

In the past, our quarterly revenue and operating results fluctuated significantly from period to period. We expect this fluctuation to continue for a variety of reasons, including:

- changes in the demand for the computer systems, storage subsystems and consumer electronics that contain our rigid disc drives, due to seasonality and other factors;
- changes in purchases from period to period by our primary customers, particularly as our competitors are able to introduce and produce in volume comparable product technology;
- competitive pressures resulting in lower selling prices;
- delays or problems in the introduction of our new products due to inability to achieve high production yields, delays in customer qualification or initial product quality issues;
- shifting trends in customer demand which, when combined with overproduction of particular products, particularly at times like now where the industry is served by multiple suppliers, results in supply/demand imbalances;
- the impact of restructuring activities that the company may engage in;
- adverse changes in the level of economic activity in the United States and other major regions in which we do business;
- our high proportion of fixed costs, including research and development expenses;
- announcements of new products, services or technological innovations by us or our competitors; and
- increased costs or adverse changes in availability of supplies.

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

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

We are continually developing new products in the hope that we will be able to introduce technologically advanced rigid disc drives into the marketplace ahead of our competitors.

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We recently announced 12 new rigid disc drive products which will be introduced in the current fiscal year, many of which will address rigid disc drive applications for which we currently have no product offerings. Some of these new products introduce new form factors, such as our first 1-inch form factor rigid disc drive and our first 2.5-inch form factor rigid disc drive for enterprise applications. Some of these new products also introduce higher levels of areal density than our existing products. We believe that our near-term financial results, including our ability to achieve the results included in publicly announced forecasts will depend heavily on the successful introduction and customer acceptance of these new products.

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

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

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

Increases in sales of notebook computers and in areal density are resulting in a shift to smaller form factor rigid disc drives for an expanding number of applications, including personal computers, enterprise storage applications and consumer electronic devices. Many of these applications have typically used rigid disc drives with a 3.5-inch form factor, which we currently manufacture. Notebook computers typically use 2.5-inch form factor rigid disc drives. We initiated volume shipments of our Momentus notebook disc drive to a number of OEMs in the second fiscal quarter of 2004. These shipments materially contributed to our results of operations in the second fiscal quarter. However, our recently introduced products only address a limited portion of the existing notebook market and in our third fiscal quarter of 2004, ended April 2, 2004, an oversupply of notebook disc drives in the supply chain led to a significant reduction in our shipments of Momentus which adversely impacted our results of operations. We recently announced our first 1-inch form factor rigid disc drive, additional capacity models of our Momentus notebook disc drive and a 2.5-inch form factor disc drive for enterprise storage applications. These products are scheduled for introduction during fiscal year 2005. If we do not successfully introduce these products or if we do not suitably adapt our technology and product offerings to successfully develop and introduce additional smaller form factor rigid disc drives, customers may decrease the amounts of our products that they purchase which would adversely affect our results of operations.

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

Our strategy involves, to a substantial degree, increasing revenue while at the same time reducing operating expenses. In this regard, we have engaged in ongoing, company-wide manufacturing efficiency activities intended to increase productivity and reduce costs. These activities have included closures and transfers of facilities, significant personnel reductions and efforts to increase automation. For example, in our fourth fiscal quarter of 2004, we undertook significant restructuring activities to reduce the costs of our operations and we continue to look at opportunities for further cost reductions, which may result in additional restructuring activities in the future. We cannot assure you that our efforts will result in the increased profitability, cost savings or other benefits that we expect. Moreover, the reduction of personnel and closure of facilities may adversely affect our ability to manufacture our products in required volumes to meet customer demand and may result in other disruptions that affect our products and customer service. In addition, the transfer of manufacturing capacity of a product to a different facility frequently requires qualification of the new facility by some of our OEM customers. We cannot assure you that these activities and transfers will be implemented on a cost-effective basis without delays or disruption in our production and without adversely affecting our customer relationships and results of operations.

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

Our rigid disc drives are components in computers, computer systems and storage subsystems and consumer electronic devices. The demand for these products has been volatile. In a weak economy, consumer spending tends to decline and retail demand for PCs and consumer electronic devices tends to decrease, as does enterprise demand for computer systems and storage subsystems. During economic slowdowns such as the one that began in 2001, demand for rigid disc drives, particularly in the enterprise sector was adversely impacted as a result of the weakened economy and because enterprises shifted their focus from making new equipment purchases to more efficiently using their existing information technology infrastructure through, among other things, adopting new storage architectures. Unexpected slowdowns in demand for computer systems and storage subsystems generally cause sharp declines in demand for rigid disc drive products.

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

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

Because sales of computer systems, storage subsystems and consumer electronics tend to be seasonal, we expect to continue to experience seasonality in our business as we respond to variations in our customers demand for rigid disc drives. In particular, we anticipate that sales of our products will continue to be lower during our fourth fiscal quarter than the rest of the year. In the desktop computer, notebook computer and consumer electronics sectors of our business, this seasonality is partially attributable to our customers increased sales of PCs and consumer electronics during the winter holiday season. In the enterprise sector of our business, our sales are seasonal because of the capital budgeting and purchasing cycles of our end users. Because our working capital needs peak during periods in which we are increasing production in anticipation of orders that have not yet been received, our operating results will fluctuate seasonally even if the forecasted demand for our products proves accurate. Furthermore, it is difficult for us to evaluate the degree to which this seasonality may affect our business in future periods because our overall growth may have reduced the impact of this seasonality in recent periods. In addition, the pattern of seasonal changes in demand may change. For instance, we believe demand for our products used in consumer electronics may be peaking in our first fiscal quarter, which is earlier than in the past.

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

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

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

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

the timing of orders from and shipment of products to key customers;

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unanticipated fluctuations in unit volume purchases from our customers, particularly our distributor customers who recently have accounted for an increasingly larger portion of our total sales;

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

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

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

variations in the cost of components for our products;

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

the impact of changes in foreign currency exchange rates on the cost of producing our products and the effective price of our products to foreign consumers; and

operational issues arising out of the increasingly automated nature of our manufacturing processes.

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

A substantial portion of our sales has been to distributors of desktop disc drive products. Product qualification programs in this distribution channel are limited, which increases the number of competing products that are available to satisfy demand, particularly in times of lengthening product cycles. As a result, purchasing decisions in this channel are based largely on price, terms and product availability. Sales volumes through this channel are also less predictable and subject to greater volatility than sales to our OEM customers. Recently, a number of disc drive manufacturers independently launched initiatives to improve the stability of the distribution channel, particularly with respect to the purchasing behavior of these distributors while other disc drive manufacturers have not. These actions have further increased the uncertainty as to demand within this market segment. To the extent that distributors reduce their purchases of our products or prices decline significantly in the distribution channel, our results of operations would be adversely affected.

Longer Product Life Cycles   Lengthening of product life cycles can make planning product transitions difficult and may reduce the favorable impact of new product transitions.

In contrast to historical trends, based on our recent experience in the industry with respect to new product introductions, we believe that the current rate of increase in areal density is slowing from the rate of the last several years. We believe that this slowdown in the rate of increase in areal density will continue until a significant advance in technology for the electronic storage of data, such as perpendicular recording technology, becomes commercially available.

When the rate of increase in areal density slows, it may contribute to increased average price erosion to the extent historical price erosion patterns continue, a limitation in our ability to introduce new products at higher prices and lengthened product life cycles which permits competitors more time to enter the market for a particular type of disc drive. In addition, the lengthening of product life cycles can make planning product transitions more difficult. To the extent that we prematurely discontinue a product, or do not timely introduce new products, our operating results may be adversely affected.

Because the rate of growth in areal density is slowing, the favorable impact of new product introductions on our results of operations may be minimized. Historically, the introduction of new products generally has had a favorable impact on our results of operations both because the new products are introduced at higher prices than existing competitive offerings and because advances in areal density technology have enabled lower manufacturing costs through a reduction in components such as read/write heads and rigid discs. However, in contrast to when the rate of growth in areal density is increasing, a slowing growth rate in areal density can limit the cost benefits of new products because it is technologically more difficult to reduce the number of read/write heads and rigid discs in a particular drive. In addition, given the environment of intense price competition, in the absence of significant capacity or reliability increases, it is difficult to obtain higher prices for new products.

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Industry Consolidation Consolidation among captive manufacturers may serve to increase their resources and improve their access to customers, thereby making them more formidable competitors.

Consolidation among captive manufacturers may provide them with competitive advantages over independent manufacturers, including us. For example, in December 2002, IBM merged its disc drive business with the disc drive business of Hitachi through the formation of Hitachi Global Storage Technologies, a separate company. Hitachi is the controlling shareholder of Hitachi Global Storage Technologies and is expected to assume full ownership at the end of 2005. As a part of this transaction, each of IBM and Hitachi agreed to multi-year supply commitments with the new company. Because IBM is one of our most significant customers and Hitachi is one of our most significant competitors, there is a significant risk that IBM will decrease the number of rigid disc drives purchased from us and increase the number purchased from the new company. Moreover, economies of scale and the combination of the two companies technological capabilities, particularly in the enterprise sector of our industry, could make the new company a more formidable competitor than IBM or Hitachi operating alone.

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

To achieve consistent success with our OEM customers, it is important that we be an early provider of new types of rigid disc drives featuring leading, high-quality technology. Historically, our operating results have substantially depended upon our ability to be among the first-to-market with new product offerings. However, during a period of slowing areal density growth, such as we are in now, the importance of time-to-market may be less critical. Our market share and operating results in the future may be adversely affected, particularly if the areal density curve resumes its historical rate of growth, if we fail to:

- consistently maintain our time-to-market performance with our new products;
- produce these products in sufficient volume;
- qualify these products with key customers on a timely basis by meeting our customers performance and quality specifications; or
- achieve acceptable manufacturing yields and costs with these products.

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

Moreover, we face the related risk that consumers and businesses may wait to make their purchases if they want to buy a new product that has been shipped or announced but not yet released. If this were to occur, we may be unable to sell our existing inventory of products that may have become less efficient and cost effective compared to new products. As a result, even if we are among the first-to-market with a given product, subsequent introductions or announcements by our competitors of new products could cause us to lose revenue and not achieve a positive return on our investment in existing products and inventory.

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

Our customers have demanded new generations of rigid disc drive products as advances in computer hardware and software have created the need for improved storage products with features such as increased storage capacity, improved performance and reliability of smaller form factors. We, and our competitors have developed improved products, and we will need to continue to do so in the future. For fiscal years 2004, 2003 and 2002, we had product development expenses of $666 million, $670 million and $698 million, respectively. We cannot assure you that we will be able to successfully complete the design or introduction of new products in a timely manner, that we will be able to manufacture new products in sufficient volumes with acceptable manufacturing yields, that we will be able to successfully market these new products or that these products will perform to specifications on a long-term basis. In addition, the impact of slowing areal density growth may adversely impact our ability to be successful.

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

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

The rate of increase in areal density, or storage capacity per square inch on a disc, may be greater than the increase in our customers demand for aggregate storage capacity. As a result, our customers storage capacity needs may be satisfied with fewer rigid disc drives. These factors could decrease our sales, especially when combined with continued price erosion, which could adversely affect our results of operations.

Changes in Information Storage Products Future changes in the nature of information storage products may reduce demand for traditional rigid disc drive products.

We expect that in the future new personal computing devices and products will be developed, some of which, such as Internet appliances, may not contain a rigid disc drive. While we are investing development resources in designing information storage products for new applications, it is too early to assess the impact of these new applications on future demand for rigid disc drive products. We cannot assure you that we will be successful in developing other information storage products. In addition, there are currently no widely accepted standards in various technical areas that may be important to the future of our business, including the developing sector of intelligent storage solutions. Products using alternative technologies, such as semiconductor memory, optical storage and other storage technologies could become a significant source of competition to particular applications of our products.

For example, semiconductor memory is much faster than rigid disc drives, but currently is volatile in that it is subject to loss of data in the event of power failure and is much more costly than rigid disc drive technologies. Flash EEPROM, a nonvolatile semiconductor memory, is currently much more costly than rigid disc drive technologies and, while it has higher read performance than rigid disc drives, it has lower write performance. Flash EEPROM could become competitive in the near future for applications requiring less storage capacity than that required in traditional markets for our products.

High Fixed Costs Our vertical integration strategy entails a high level of fixed costs.

Our vertical integration strategy entails a high level of fixed costs and requires a high volume of production and sales to be successful. During periods of decreased production, these high fixed costs have had, and could in the future have, a material adverse effect on our operating results and financial condition. For example, in 1998 our predecessor experienced a significant decrease in the demand for its products, and because our predecessor was unable to adequately reduce its costs to offset this decrease in revenue, its gross and operating margins suffered. In addition, a strategy of vertical integration has in the past and could in the future delay our ability to introduce products containing market-leading technology, because we may not have developed the technology and source of components for our products and do not have access to external sources of supply without incurring substantial costs.

Research and development expenses represent a significant portion of our fixed costs. As part of our vertical integration strategy, we explore a broad range of ways to improve rigid disc drives as well as possible alternatives to rigid disc drives for storing and retrieving electronic data. If we fail to develop new technologies in a timely manner, and our competitors succeed in doing so, our ability to sell our products could be significantly diminished.

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Conversely, if we over invest in technologies that can never be profitably manufactured and marketed, our results of operations could suffer. By way of example, we have incurred expenses in exploring new technologies for storing electronic data, including perpendicular recording technology, which involves a different orientation for the magnetic field than is currently used in rigid disc drives, and heat assisted magnetic recording technology, which uses heat generated by a laser to improve storage capacity. We believe these new technologies could significantly improve the storage capacity of rigid disc drives over the long term. To date, we have not yet developed a commercial product based on these technologies. Furthermore, based on our recent experience in the industry with respect to new product introductions, we believe that the rate of increase of areal density is slowing as compared to its previous levels, which has lengthened the life cycles of existing products and may further postpone returns on our investments in new technologies. If we have invested too much in new technologies, our results of operations could be adversely affected. In addition, as we replace our existing assets with new, higher cost assets, we expect that our depreciation expense will increase, which will contribute to our high level of fixed costs and reduce our earnings. This could cause the market price of our common shares to decline.

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

The cost, quality and availability of some equipment, components and raw materials used to manufacture rigid disc drives and other information storage products are critical to the successful manufacture of these products. The equipment we use to manufacture our products is frequently custom made and comes from a few suppliers. Particularly important components include read/write heads, recording media, application-specific integrated circuits, or ASICs, spindle motors and printed circuit boards. We rely on sole suppliers and a limited number of suppliers for some of these components, including the read/write heads and recording media that we do not manufacture, ASICs, spindle motors and printed circuit boards. In the past, we have experienced increased costs and production delays when we were unable to obtain the necessary equipment or sufficient quantities of some components and/or have been forced to pay higher prices for some components or raw materials, such as precious metals, that were in short supply in the industry in general.

Due to the weakened economy in general and in the technology sector of the economy in particular, the rigid disc drive industry has experienced economic pressure, which has resulted in consolidation among component manufacturers and may result in some component manufacturers exiting the industry or not making sufficient investments in research to develop new components. In addition, the recent increases in demand for our mobile computing products, such as notebook computers, could lead to shortages in the components used in smaller form factor rigid disc drives such as the glass substrates used to make the recording media for such drives. These events could affect our ability to obtain critical components for our products, including our recently introduced line of products for notebook computers, which in turn could have a material adverse effect on our prospects and results of operations.

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

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

we might be late in shipping products, causing potential customers to make purchases from our competitors and, thus, causing our revenue and operating margin to decline.

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

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

For fiscal years 2004, 2003 and 2002, our top 10 customers accounted for approximately 62%, 63% and 63%, respectively, of our rigid disc drive revenue. Hewlett-Packard accounted for approximately 19% and 18% of our rigid disc drive revenue for fiscal years 2004 and 2003. Sales to Hewlett-Packard and Compaq together accounted for approximately 20% of our rigid disc drive revenue in fiscal year 2002. If any of our key customers were to significantly reduce their purchases from us, our results of operations would be adversely affected. While sales to major customers may vary from period to period, a major customer that permanently discontinues or significantly reduces its relationship with us could be difficult to replace. In line with industry practice, new customers usually require that we pass a lengthy and rigorous qualification process at the customer s cost. Accordingly, it may be difficult for us to attract new major customers.

Customer Concentration Consolidation among our customers could cause sales of our products to decline.

Mergers, acquisitions, consolidations or other significant transactions involving our customers generally entail risks to our business. For example, IBM, which is one of our key customers, merged its disc drive business with the disc drive business of Hitachi through the formation of a new company with which IBM has entered into a multi-year supply agreement. As a result, IBM may decrease its purchases from us in favor of this new company. If a significant transaction involving any of our key customers results in the loss of or reduction in purchases by these key customers, it could have a materially adverse effect on our business, results of operations, financial condition and prospects.

OEM Purchase Agreements Our OEM customers are not obligated to purchase our products.

Typically, our OEM purchase agreements permit OEMs to cancel orders and reschedule delivery dates without significant penalties. In the past, orders from many of our OEMs were cancelled and delivery schedules were delayed as a result of changes in the requirements of the OEMs customers. These order cancellations and delays in delivery schedules have had a material adverse effect on our results of operations in the past and may do so again in the future. Our OEMs and distributors typically furnish us with non-binding indications of their near term requirements, with product deliveries based on weekly confirmations. If actual orders from distributors and OEMs decrease from their non-binding forecasts, these variances could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

We have significant operations in foreign countries, including manufacturing facilities, sales personnel and customer support operations. For fiscal years 2004, 2003 and 2002, approximately 30%, 31% and 31%, respectively, of our rigid disc drive revenue were from sales to customers located in Europe and approximately 40%, 35% and 30%, respectively, were from sales to customers located in the Far East. We have manufacturing facilities in China, Malaysia, Northern Ireland, Singapore and Thailand, in addition to those in the United States. A substantial portion of our desktop rigid disc drive assembly occurs in our facility in China.

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

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

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

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

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

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

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

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

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

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

We have manufacturing facilities in parts of the world that periodically experience political unrest. This could disrupt our ability to manufacture important components as well as cause interruptions and/or delays in our ability to ship components to other locations for continued manufacture and assembly. Any such delays or interruptions could result in delays in our ability to fill orders and have an adverse effect on our results of operation and financial condition. U.S. and international responses to the terrorist attacks on September 11, 2001, the ongoing hostilities in Afghanistan and Iraq and the risk of hostilities with North Korea could exacerbate these risks.

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

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

Conflicts of Interest of our Directors and Officers Our directors and executive officers may have conflicts of interest because of their ownership of capital stock of, and their employment with, our parent company and our affiliates.

Many of our directors and executive officers hold ordinary shares of our parent company, New SAC. Ownership of the capital stock of our parent company by our directors and officers could create, or appear to create, potential conflicts of interest when our directors and officers are faced with decisions that could have different implications for us and for New SAC.

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Some of our directors also serve on the board of New SAC. Several of our executive officers also serve as officers and/or directors of New SAC as well as of other affiliates of ours. In view of these overlapping relationships, conflicts of interest may exist or arise with respect to existing and future business dealings, including the relative commitment of time and energy by our directors and officers to us and to our parent company and affiliates, potential acquisitions of businesses or properties and other business opportunities, the issuance of additional securities, the election of new or additional directors and the payment of distributions by us. We cannot assure you that any conflicts of interest will be resolved in our favor.

Risks Associated with Future Acquisitions We may not be able to identify suitable strategic alliance, acquisition or investment opportunities, or successfully acquire and integrate companies that provide complementary products or technologies.

Our growth strategy may involve pursuing strategic alliances with, and making acquisitions of or investments in, other companies that are complementary to our business. There is substantial competition for attractive strategic alliance, acquisition and investment candidates. We may not be able to identify suitable acquisition, investment or strategic partnership candidates. Even if we were able to identify them, we cannot assure you that we will be able to partner with, acquire or invest in suitable candidates, or integrate acquired technologies or operations successfully into our existing technologies and operations. Our ability to finance potential acquisitions will be limited by our high degree of leverage, the covenants contained in the indenture that governs our outstanding 8% senior notes, the credit agreement that governs our senior secured credit facilities and any agreements governing any other debt we may incur.

If we are successful in acquiring other companies, these acquisitions may have an adverse effect on our operating results, particularly while the operations of the acquired business are being integrated. It is also likely that integration of acquired companies would lead to the loss of key employees from those companies or the loss of customers of those companies. In addition, the integration of any acquired companies would require substantial attention from our senior management, which may limit the amount of time available to be devoted to our day-to-day operations or to the execution of our strategy. Furthermore, the expansion of our business involves the risk that we might not manage our growth effectively, that we would incur additional debt to finance these acquisitions or investments and that we would incur substantial charges relating to the write-off of in-process research and development, similar to that which we incurred in connection with several of our prior acquisitions. Each of these items could have a material adverse effect on our financial position and results of operations.

Potential Loss of Licensed Technology The closing of the November 2000 transactions may have triggered change of control or anti-assignment provisions in some of our license agreements, which could result in a loss of our right to use licensed technology.

We have a number of cross-licenses with third parties that enable us to manufacture our products free from any infringement claims that might otherwise be made by these third parties against us. A number of these licenses contain change of control or anti-assignment provisions. We have taken steps to transfer these licenses in connection with the closing of the November 2000 transactions; however, we cannot assure you that these transfers will not be challenged. For example, Papst Licensing GmbH, IBM and Hitachi initially took the position that their license agreements did not transfer to our new business entities. Subsequently, we entered into new license agreements with IBM and Hitachi in December 2001. In September 2002, we settled a broader dispute with Papst that also resolved the claim by Papst that its license agreement was not properly transferred.

We received a letter dated November 20, 2002 from Read-Rite Corporation asserting that we do not currently have a license to its patented technology and that our rigid disc drive products infringe at least two of its patents. We have since received additional letters from Read-Rite Corporation making the same claims. Seagate Delaware entered into a Patent Cross License Agreement dated December 31, 1994, which covered the two patents referenced in the November 20, 2002 letter, as well as other intellectual property of Read-Rite Corporation. Prior to the November 20, 2002 letter, Read-Rite Corporation had not responded to our efforts to confirm that under the Patent Cross License Agreement we were entitled to a new license agreement in our own name and on materially the same terms as the 1994 agreement. In order to clarify the parties rights under the Patent Cross License Agreement, we filed a declaratory judgment action on May 7, 2003 in the Superior Court of California, County of Santa Clara, seeking a declaration that we are entitled to a cross-license, effective as of November 22, 2000, under terms substantially identical to those contained in the Patent Cross License Agreement. On June 11, 2003 Read-Rite Corporation answered the complaint putting forward a general denial and asserting various affirmative defenses. On June 17, 2003, Read-Rite Corporation filed a voluntary petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. Upon notice, our declaratory judgment action has been stayed. On July 23, 2003, the U.S. Bankruptcy Court approved Western Digital Corporation s bid to acquire the assets of Read-Rite Corporation, including the intellectual property that was the subject of Read-Rite s dispute with us, in a transaction that closed on July 31, 2003. We objected to Western Digital s assumption of the Patent Cross-License Agreement. On November 14, 2003, the Bankruptcy Trustee made a motion to assume or reject certain Read-Rite executory contracts, rejecting the Patent Cross-License Agreement. We have given notice of our election to retain the benefits of the Patent Cross-License Agreement to the extent permitted by Section 365(n) of the U.S. Bankruptcy Code.

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To the extent that third party cross-licenses, including the Patent Cross License Agreement dated December 31, 1994 between Read-Rite Corporation and Seagate Delaware, are deemed not to have been properly assigned to us in the November 2000 transactions, our inability to either obtain new licenses or transfer existing licenses could result in delays in product development or prevent us from selling our products until equivalent substitute technology can be identified, licensed and/or integrated or until we are able to substantially engineer our products to avoid infringing the rights of third parties. We might not be able to renegotiate agreements, be able to obtain necessary licenses in a timely manner, on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, the loss of or inability to extend any of these licenses would increase the risk of infringement claims being made against us, which claims could have a material adverse effect on our business.

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

We cannot be certain that our products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the United States and some foreign countries have not been publicly disclosed until the patent is issued, and we may not be aware of currently filed patent applications that relate to our products or technology. If patents are later issued on these applications, we may be liable for infringement. We may be subject to legal proceedings and claims, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us, or our licensees in connection with their use of our products. We are currently subject to a suit by Convolve, Inc. and the Massachusetts Institute of Technology and a suit pending in Nanjing, China. In addition, as noted above, Read-Rite Corporation, in a letter dated November 20, 2002 and in correspondence since that date, asserted that we do not currently have a license to Read-Rite Corporation patented technology and that our rigid disc drive products infringe at least two Read-Rite Corporation patents.

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

Dependence on Intellectual Property If our intellectual property and other proprietary information were copied or independently developed by competitors, our operating results would be negatively affected.

Our success depends to a significant degree upon our ability to protect and preserve the proprietary aspects of our technology. However, we may be unable to prevent third parties from using our technology without our authorization, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States, or protect us from independently developing or acquiring technology that is similar to ours. For example, in its bankruptcy proceedings under Chapter 7 of the U.S. Bankruptcy Code, Read-Rite Corporation s patents and other intellectual property rights were sold to Western Digital Corporation, who will use this intellectual property to compete against us. The use of our technology or similar technology by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business. If it became necessary for us to resort to litigation to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

Limitations on Patent Protection Our issued and pending patents may not adequately protect our intellectual property or provide us with any competitive advantage.

Although we have numerous U.S. and foreign patents and numerous pending patents that relate to our technology, we cannot assure you that any patents, issued or pending, will provide us with any competitive advantage or will not be challenged by third parties. Moreover, our competitors may already have applied for patents that, once issued, will prevail over our patent rights or otherwise limit our ability to sell our products in the United States or abroad. Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our proprietary technology. With respect to our pending patent applications, we may not be successful in securing patents for these claims. Our failure to secure these patents may limit our ability to protect the intellectual property rights that these applications were intended to cover.

Disclosure of our Proprietary Technology Confidentiality and non-disclosure agreements may not adequately protect our proprietary technology or trade secrets.

We have entered into confidentiality agreements with our employees and non-disclosure agreements with customers, suppliers and potential strategic partners, among others. If any party to these agreements were to violate their agreement with us and disclose our proprietary technology to a third party, we may be unable to prevent the third party from using this information. Because a significant portion of our proprietary technology consists of specialized knowledge and technical expertise developed by our employees, we have a program in place designed to ensure that our employees communicate any developments or discoveries they make to other employees. However, employees may choose to leave our company before transferring their knowledge and expertise to our other employees. Violations by others of our confidentiality or non-disclosure agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline. Our trade secrets may otherwise become known or independently developed by others, and trade secret laws provide no remedy against independent development or discovery.

Service Marks and Trademarks Our failure to obtain trademark registrations or service marks, or challenges to those marks, could impede our marketing efforts.

We have registered and applied for some service marks and trademarks, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee the approval of any of our pending applications by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in the United States and in other countries could limit our ability to use our trademarks and impede our marketing efforts in those jurisdictions.

Environmental Matters We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws.

Our operations inside and outside the United States are subject to laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. In addition to the U.S. federal, state and local laws to which our domestic operations are subject, our extensive international manufacturing operations subject us to environmental regulations imposed by foreign governments.

Although our policy is to apply strict standards for environmental protection at our sites inside and outside the United States, we could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims if we were to violate or become liable under environmental laws or become non-compliant with environmental permits required at our facilities. Contaminants have been detected at some of our present and former sites, principally in connection with historical operations. In addition, we have been named as a potentially responsible party at several superfund sites. While we are not currently aware of any contaminated or superfund sites as to which material outstanding claims or obligations exist, the discovery of additional contaminants or the imposition of additional cleanup obligations at these or other sites could result in significant liability. In addition, the ultimate costs under environmental laws and the timing of these costs are difficult to predict. Liability under some environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. In other words, one liable party could be held liable for all costs at a site. Potentially significant expenditures could be required in order to comply with environmental laws that may be adopted or imposed in the future.

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

Our future performance depends to a significant degree upon the continued service of key members of management as well as marketing, sales and product development personnel. The loss of one or more of our key personnel would have a material adverse effect on our business, operating results and financial condition. We believe our future success will also depend in large part upon our ability to attract, retain and further motivate highly skilled management, marketing, sales and product development personnel. A significant portion of the incentive compensation for our senior management vested in calendar year 2003 and substantially all of this compensation will have vested by November 2004. We may not be able to provide our senior management with adequate additional incentives to remain employed by us after this time. We have experienced intense competition for personnel, and we cannot assure you that we will be able to retain our key employees or that we will be successful in attracting, assimilating and retaining personnel in the future.

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

Our operations are dependent upon our ability to protect our computer equipment and the information stored in our databases from damage by, among other things, earthquake, fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events. As our operations become more automated and increasingly interdependent, our exposure to the risks posed by these types of events will increase. A significant part of our operations is based in an area of California that has experienced power outages and earthquakes and is considered seismically active. We do not have a contingency plan for addressing the kinds of events referred to in this paragraph that would be sufficient to prevent system failures and other interruptions in our operations that could have a material adverse effect on our business, results of operations and financial condition.

Potential Tax Legislation Negative publicity about companies located in certain offshore jurisdictions may lead to new legislation that could increase our tax burden.

Several members of the United States Congress have introduced legislation relating to the U.S. federal tax treatment of U.S. companies that have undertaken certain types of expatriation transactions. While we do not believe that this legislation, as currently proposed, would adversely affect us, the exact scope of the legislation and whether it will ultimately be enacted is unclear at this time. In addition, certain state legislatures have proposed similar legislation. Therefore, it is possible that federal or state legislation in this area, if enacted, could materially increase our future tax burden or otherwise affect our business.

Risks Related to Our Substantial Indebtedness

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

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

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

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

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

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

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

- covenants in our debt instruments limit our ability and the ability of our subsidiaries to pay distributions or make other restricted payments and investments.

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

Our business may not generate cash flow in an amount sufficient to enable us to pay the principal of, or interest on, our indebtedness or to fund our other liquidity needs, including working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances, and other general corporate requirements. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that:

- our business will generate sufficient cash flow from operations;

- we will continue to realize the cost savings, revenue growth and operating improvements that resulted from the execution of our long-term strategic plan; or

- future borrowings will be available to us under our senior secured credit facilities or that other sources of funding will be available to us, in each case, in amounts sufficient to enable us to fund our liquidity needs.

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

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

Our existing debt instruments, including the indenture governing our outstanding 8% senior notes, impose, and the terms of any future debt may impose, operating and other restrictions on us. The indenture governing our 8% senior notes limits our ability to incur additional indebtedness if our consolidated coverage ratio, which is the ratio of the aggregate consolidated EBITDA of our subsidiary, Seagate Technology HDD Holdings, the issuer of our 8% senior notes, and its restricted subsidiaries, to the total interest expense of those entities, is less than or equal to 3.0 to 1.0 during any consecutive four-quarter period. Our existing debt instruments also limit, among other things, our ability to:

pay dividends or make distributions in respect of our shares;

- redeem or repurchase shares;
- make investments or other restricted payments;
- sell assets;
- issue or sell shares of restricted subsidiaries;
- enter into transactions with affiliates;
- create liens;
- enter into sale/leaseback transactions;
- effect a consolidation or merger; and
- make certain amendments to our deferred compensation plans.

These covenants are subject to a number of important qualifications and exceptions, including exceptions that permit us to make significant distributions of cash. In addition, the obligation to comply with many of the covenants under the indenture governing our 8% senior notes will cease to apply if the notes achieve investment grade status.

Our existing debt instruments also require us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

A breach of any of the restrictive covenants described above or our inability to comply with the required financial ratios could result in a default under our existing debt instruments. If a default occurs, the holders of our outstanding 8% senior notes may elect to declare all of our outstanding obligations, together with accrued interest and other fees, to be immediately due and payable. If our outstanding indebtedness were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that debt and any future indebtedness, which would cause the market price of our common shares to decline significantly.

Risks Related to Our Common Shares

Control by Our Sponsor Group Because our sponsor group, through its ownership of New SAC, will continue to hold a controlling interest in us, the influence of our public shareholders over significant corporate actions will be limited.

As of July 2, 2004, New SAC owns approximately 61.5% of our outstanding common shares. New SAC was formed in connection with the November 2000 transactions and is owned by our sponsor group and members of our management. Through their ownership of New SAC, as of July 2, 2004, affiliates of Silver Lake Partners, Texas Pacific Group, August Capital, J.P. Morgan Partners, LLC and investment partnerships affiliated with Goldman, Sachs & Co. indirectly own approximately 19.5%, 13.6%, 7.0%, 4.0% and 1.3%, respectively, of our outstanding common shares. The sponsors and our managements ownership of New SAC and New SAC s and the sponsors ownership of us is the subject of shareholders agreements and other arrangements that result in the sponsors acting as a group with respect to all matters submitted to our shareholders. As a result, as long as New SAC or the members of our sponsor group continue to own over 50% of our outstanding common shares, they will continue to have the power to:

control all matters submitted to our shareholders;

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elect all of our directors; and

exercise control over our business, policies and affairs.

Even if New SAC holds less than 50% of our outstanding common shares and loses certain contractual rights under our shareholders agreement, it will continue to have a significant influence over these matters. Also, New SAC is not prohibited from selling a controlling interest in us to a third party.

Accordingly, our ability to engage in significant transactions, such as a merger, acquisition or liquidation, is limited without the consent of New SAC, which is controlled by the members of our sponsor group. Conflicts of interest could arise between us, and New SAC or our sponsor group, and any conflict of interest may be resolved in a manner that does not favor us. The members of our sponsor group may continue to retain control of us for the foreseeable future, even if New SAC distributes its shares in us to the New SAC shareholders. The members of our sponsor group may decide not to enter into a transaction in which you would receive consideration for your common shares that is much higher than the cost to you or the then-current market price of those shares. In addition, the members of our sponsor group could elect to sell a controlling interest in us and you may receive less than the then-current fair market value or the price you paid for your shares. Any decision regarding their ownership of us that members of our sponsor group may make at some future time will be in their absolute discretion.

Future Sales Additional sales of our common shares by New SAC, our sponsors or our employees or issuances by us in connection with future acquisitions or otherwise could cause the price of our common shares to decline.

If New SAC or after any distribution to our sponsors of our shares by New SAC our sponsors sell a substantial number of our common shares in the future, the market price of our common shares could decline. The perception among investors that these sales may occur could produce the same effect. New SAC and our sponsors have rights, subject to specified conditions, to require us to file registration statements covering common shares or to include common shares in registration statements that we may file. Specifically, any of New SAC, Silver Lake Partners, Texas Pacific Group or August Capital can unilaterally require that we file registration statements covering common shares held by New SAC. In addition, either Silver Lake Partners or Texas Pacific Group can unilaterally cause New SAC to distribute its shares in us to our sponsor group and New SAC s other shareholders. By exercising their registration or distribution rights and selling a large number of common shares (as they are through this prospectus), New SAC or any of the sponsors could cause the price of our common shares to decline. Furthermore, if we were to include common shares in a registration statement initiated by us, those additional shares could impair our ability to raise needed capital by depressing the price at which we could sell our common shares. As a result of the sale by New SAC of the common shares which are the subject of this prospectus or are otherwise sold by New SAC pursuant to an exemption from the registration requirements of the Securities Act, such as through Rule 144, the price of our common shares may decline.

One component of our business strategy is to make acquisitions. In the event of any future acquisitions, we could issue additional common shares, which would have the effect of diluting your percentage ownership of the common shares and could cause the price of our common shares to decline.

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

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

- actual or anticipated variations in our results of operations;
- announcements of innovations, new products or significant price reductions by us or our competitors;
- our failure to meet the performance estimates of investment research analysts;

- the timing of announcements by us or our competitors of significant contracts or acquisitions;
- general stock market conditions;
- the occurrence of major catastrophic events; and
- changes in financial estimates by investment research analysts.

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

We made quarterly cash distributions of $0.04 per share on each of August 22, 2003 and November 21, 2003 to all of our shareholders of record as of August 8, 2003 and November 7, 2003, respectively, including New SAC. We made quarterly cash distributions of $0.06 per share on each of February 27, 2004, May 21, 2004 and August 20, 2004 to all of our shareholders of record as of February 13, 2004, May 7, 2004 and August 6, 2004, respectively, including New SAC.

Our ability to pay quarterly distributions will be subject to, among other things, general business conditions within the rigid disc drive industry, our financial results, the impact of paying distributions on our credit ratings, and legal and contractual restrictions on the payment of distributions by our subsidiaries to us or by us to our shareholders, including restrictions imposed by the covenants contained in the indenture governing our senior notes and the credit agreement governing our senior secured credit facilities. Any reduction or discontinuation of quarterly distributions could cause the market price of our common shares to decline significantly. Moreover, in the event our payment of quarterly distributions is reduced or discontinued, our failure or inability to resume paying distributions at historical levels could result in a persistently low market valuation of our common shares.

Taxation of Distributions Certain U.S. shareholders may be ineligible for favorable U.S. federal income tax treatment on distributions on our common shares.

Because we did not have any current or accumulated earnings and profits for U.S. federal income tax purposes for our taxable year ended July 2, 2004, distributions on our common shares during this period were treated as a return of capital rather than dividend income for U.S. federal income tax purposes. There can be no assurance, however, that we will not have current or accumulated earnings and profits for U.S. federal income tax purposes in future years. To the extent that we have current or accumulated earnings and profits for U.S. federal income tax purposes, distributions on our common shares will not be treated as a return of capital distribution and will be treated as dividend income.

Furthermore, we currently believe that we are a foreign personal holding company for U.S. federal income tax purposes. Under recent U.S. federal income tax legislation, U.S. shareholders who are individuals will not be eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15%) on distributions on our common shares if we qualify as a foreign personal holding company in the year in which such distributions were made or in the preceding taxable year. As a result, if distributions on our common shares are treated as dividend income because we have current or accumulated earnings and profits in the taxable year in which such distributions are made, U.S. shareholders who are individuals may not qualify for favorable U.S. federal income tax treatment under the new legislation.

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

Recently, several state and other governmental officials have threatened to take legislative and other actions against U.S. companies that have expatriated to specific foreign jurisdictions. For example, the California state treasurer has requested that certain pension funds eliminate from their investment portfolios all public equity and fixed income holdings of companies that have reincorporated in foreign jurisdictions. If we are included within the scope of such legislation or governmental action, it may reduce the demand for, and have a material adverse effect on the price of, our common shares.

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

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

Limited Protection of Shareholder Interests Holders of the common shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our second amended and restated memorandum and articles of association, by the Companies Law (2004 Revision) and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholder than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ourselves have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the company. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

Anti-Takeover Provisions Could Discourage or Prevent an Acquisition of Us Provisions of our articles of association and Cayman Islands corporate law may impede a takeover, which could adversely affect the value of the common shares.

Our articles of association permit our board of directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our board of directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

Unlike many jurisdictions in the United States, Cayman Islands law does not provide for mergers as that expression is understood under corporate law in the United States. While Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to in the Cayman Islands as a scheme of arrangement, the procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands exempted company must be approved at a shareholders meeting by a majority of the company s shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each class of the company s shareholders (excluding the shares owned by the parties to the scheme of arrangement) present and voting at the meeting. The Grand Court of the Cayman Islands must also sanction the convening of these meetings and the terms of the amalgamation. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect the creditors interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

the statutory provisions as to majority vote have been complied with;

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- the shareholders have been fairly represented at the meeting in question;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

Enforcement of Civil Liabilities   Holders of our common shares may have difficulty obtaining or enforcing a judgment against us because we are incorporated under the laws of the Cayman Islands.

Because we are a Cayman Islands exempted company, there is uncertainty as to whether the Grand Court of the Cayman Islands would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands against us predicated upon the securities laws of the United States or any state thereof.

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USE OF PROCEEDS

All of the common shares are being sold by our controlling shareholder, the selling shareholder identified in this prospectus or its pledgees, donees, transferees or other successors in interest. We will not receive any proceeds from the sale of the common shares. See Selling Shareholder.

DIVIDEND POLICY

Pursuant to our quarterly dividend policy, we expect to pay our shareholders a quarterly distribution of up to $0.06 per share ($0.24 annually). In the event that quarterly distributions are declared, all holders of our common shares, including New SAC, will participate ratably on a per share basis in all distributions declared by our board of directors.

We are restricted in our ability to pay distributions by the covenants contained in the indenture governing our senior notes and the credit agreement governing our senior secured credit facilities which limits annual distributions to $80 million. Our declaration of distributions is also subject to Cayman Islands law and the discretion of our board of directors. Under the terms of the Seagate Technology shareholders agreement, which was amended on September 2, 2004, at least seven members of our board of directors must approve the payment of distributions in excess of 15% of our net income in the prior fiscal year. In deciding whether or not to declare quarterly distributions, our directors will take into account such factors as general business conditions within the rigid disc drive industry, our financial results, our capital requirements, contractual and legal restrictions on the payment of distributions by our subsidiaries to us or by us to our shareholders, the impact of paying distributions on our credit ratings and such other factors as our board of directors may deem relevant.

We made quarterly cash distributions of $0.04 per share on each of August 22, 2003 and November 21, 2003 to all of our shareholders of record as of August 8, 2003 and November 7, 2003, respectively, including New SAC. We made a quarterly cash distribution of $0.06 per share on each of February 27, 2004, May 21, 2004 and August 20, 2004 to all of our shareholders of record as of February 13, 2004, May 7, 2004 and August 6, 2004, respectively, including New SAC.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for U.S. federal income tax purposes in any taxable year, the distribution will be treated as a return of capital for U.S. tax purposes, causing a reduction in your adjusted tax basis in the common shares. We did not have current or accumulated earnings and profits for U.S. federal income tax purposes for our taxable year ended July 2, 2004 and, accordingly, distributions paid on our common shares during this period were treated as a return of capital for U.S. federal income tax purposes. There can be no assurances that we will not have current or accumulated earnings and profits for U.S. federal income tax purposes in future years. To the extent that we do have current or accumulated earnings and profits for U.S. federal income tax purposes, a distribution on our common shares will not be treated as a return of capital distribution and will be treated as dividend income.

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Furthermore, we currently believe that we are a foreign personal holding company for U.S. federal income tax purposes. Under recent U.S. federal income tax legislation, U.S. shareholders who are individuals will not be eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15%) on distributions on our common shares if we qualify as a foreign personal holding company in the year in which such distributions were made or in the preceding taxable year.

DESCRIPTION OF SHARE CAPITAL

The following description of our share capital is based on our second amended and restated memorandum and articles of association as currently in effect. Throughout this description, we refer to our second amended and restated memorandum and articles of association as simply our memorandum and articles of association. Our authorized share capital consists of 1,250,000,000 common shares with a par value of $0.00001 per share and 100,000,000 undesignated preferred shares, each with a par value of $0.00001 per share. We had 463,094,963 common shares outstanding as of September 3, 2004.

We are a Cayman Islands exempted company and our affairs are governed by our memorandum and articles of association, the Companies Law (2004 Revision) and the common law of the Cayman Islands. The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. Complete copies of our memorandum and articles of association are filed as exhibits to our public filings.

Our board of directors has unanimously approved the adoption of our third amended and restated memorandum and articles of association, which will replace our second amended and restated memorandum and articles of association if approved for adoption by our shareholders at our 2004 annual general meeting of shareholders. In this event some aspects of our description of share capital will be affected. For more information regarding the material changes contained in our third amended and restated memorandum and articles of association see Proposed Third Amended and Restated Memorandum and Articles of Association below.

Common Shares

General. All the issued and outstanding common shares are fully paid and nonassessable. Certificates representing the common shares are issued in registered form. The common shares are issued when registered in the register of shareholders of Seagate Technology. The common shares are not entitled to any sinking fund or pre-emptive or redemption rights. Our shareholders may freely hold and vote their shares.

Voting Rights. Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote, including the election of directors. Voting at any meeting of shareholders is by a poll. Our articles of association do not provide for actions by written consent of shareholders.

The required quorum for a meeting of our shareholders consists of a number of shareholders present in person or by proxy and entitled to vote that represents the holders of at least a majority of our issued voting share capital. Shareholders meetings are held annually and may only be convened by our board of directors. At least ten days advanced notice is required to convene a shareholders meeting. Shareholders do not have the right to call a shareholders meeting.

Subject to the quorum requirements referred to in the paragraph above, any ordinary resolution to be made by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting of Seagate Technology, while a special resolution requires the affirmative vote of two-thirds of the votes cast attaching to the common shares. A special resolution is required for matters such as a change of name, amending our memorandum and articles of association and placing us into voluntary liquidation. Holders of common shares, which are currently the only shares carrying the right to vote at our general meetings, have the power, among other things, to elect directors, ratify the appointment of auditors and make changes in the amount of our authorized share capital. Because New SAC s ownership of our common shares is less than 66 $^{2}/3$%, New SAC will not be able to unilaterally approve corporate actions that require special resolutions.

Dividends. The holders of our common shares are entitled to receive such dividends as may be declared by our board of directors. Dividends may be paid only out of profits, which include net earnings and retained earnings undistributed in prior years, and out of share premium, a concept analogous to paid-in surplus in the United States, subject to a statutory solvency test.

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Liquidation. If we are to be liquidated, the liquidator may, with the approval of the shareholders, divide among the shareholders in cash or in kind the whole or any part of our assets, may determine how such division shall be carried out as between the shareholders or different classes of shareholders, and may vest the whole or any part of such assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the approval of the shareholders, sees fit, provided that a shareholder shall not be compelled to accept any shares or other assets which would subject the shareholder to liability.

Miscellaneous. Share certificates registered in the names of two or more persons are deliverable to any one of them named in the share register, and if two or more such persons tender a vote, the vote of the person whose name first appears in the share register will be accepted to the exclusion of any other.

Undesignated Preferred Shares

Pursuant to our articles of association, our board of directors has the authority, without further action by the shareholders, to issue up to 100,000,000 preferred shares in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common shares. Our board of directors, without shareholder approval, may issue preferred shares with voting, conversion or other rights that could adversely affect the voting power and other rights of holders of our common shares. Subject to the directors duty of acting in the best interest of Seagate Technology, preferred shares can be issued quickly with terms calculated to delay or prevent a change in control of us or make removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of the common shares, and may adversely affect the voting and other rights of the holders of common shares. No preferred shares have been issued and we have no present plans to issue any preferred shares.

Differences in Corporate Law

The Companies Law is modeled after that of England but does not follow recent United Kingdom statutory enactments and differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. Cayman Islands law does not provide for mergers as that expression is understood under U.S. corporate law. While Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to in the Cayman Islands as a scheme of arrangement, the procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders meeting by a majority of the company s shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each class of the company s shareholders (excluding the shares owned by the parties to the scheme of arrangement) present and voting at the meeting. The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect creditors interests. Furthermore, the court will only approve a scheme of arrangement if it is satisfied that:

the statutory provisions as to majority vote have been complied with;

the shareholders have been fairly represented at the meeting in question;

the scheme of arrangement is such as a businessman would reasonably approve; and the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If the scheme of arrangement is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, if a third party purchases at least 90% of our outstanding shares pursuant to an offer within a four-month period of making such an offer, the purchaser may, during the following two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of our outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

Shareholders Suits. Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we would normally be the proper plaintiff in any action brought on behalf of the company, and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

a company is acting or proposing to act illegally or outside the scope of its corporate authority;

the act complained of, although not acting outside the scope of its corporate authority, could be effected only if authorized by more than a simple majority vote;

the individual rights of the plaintiff shareholder have been infringed or are about to be infringed; or

those who control the company are perpetrating a fraud on the minority.

Indemnification

Cayman Islands law does not limit the extent to which a company s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our articles of association provide for indemnification of officers and directors for losses, damages, cost and expenses incurred in their capacities as such, except if they acted in a willfully negligent manner or defaulted in any action against them.

Inspection of Books and Records

Holders of our shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited consolidated financial statements.

Transfer Agent

Computershare Trust Company, Inc. is the transfer agent for our common shares.

Listing

Our common shares are listed on the New York Stock Exchange under the trading symbol STX .

Prohibited Sale of Securities under Cayman Islands Law

An exempted company such as us that is not listed on the Cayman Islands Stock Exchange is prohibited from making any invitations to the public in the Cayman Islands to subscribe for any of its securities.

Proposed Third Amended and Restated Memorandum and Articles of Association

Our board of directors has unanimously approved the adoption of our third amended and restated memorandum and articles of association, which are referred in the following description as our proposed amended memorandum and articles. Our proxy statement for our 2004 Annual General Meeting of shareholders, which is expected to take place on October 28, 2004, will include a proposal to shareholders to approve the adoption of our proposed amended memorandum and articles. The proposed amended memorandum and articles reflect the following substantive changes from our memorandum and articles of association as currently in effect:

- provide that any record date for determining members of the company entitled to receive notice of and to vote at general meetings or to receive dividends be fixed not more than 60 days and not less than 10 days in advance;
- require the company to hold an annual general meeting in each calendar year, with no more than one in four of such meetings to be held outside the United States;
- provide that notices of general meetings shall be given to members not more than 60 and not less than 10 days prior to the meeting;
- provide procedures by which members of the company may nominate directors to serve on the board of directors;
- provide that the number of directors may from time to time be fixed by resolution of the board of directors, within the limits specified in the amended memorandum and articles;
- require any transaction to which the company is a party and in which a director or officer has a material interest to be approved by a majority of the disinterested directors;

provide explicitly that we will require our directors and officers to agree that they owe a fiduciary duty to both the company and its members as a whole;

require all members of committees of the board of directors to be directors of the company;

require that a majority of the directors constitute a quorum for meetings of the board of directors;

provide that each director shall serve for a term of one year, until the next annual general meeting;

provide members of the company and beneficial owners of the company s shares with the right to inspect the company s Register of Members and its books and records;

provide for indemnification of directors and officers more consistent with the provisions of the Delaware General Corporation Law;

require any sale, lease or exchange of substantially all the company s assets to be approved by resolution of the company s members;

require the company to consent to the jurisdiction of the state courts of Delaware, the federal courts located in Delaware and the courts having appellate jurisdiction thereover for actions brought by or on behalf of members of the company or beneficial owners of the company s shares, or derivatively by members or beneficial owners on behalf of the company;

require the company to maintain an agent for service of process in the state of Delaware and maintain assets or insurance of no less than $50 million in the United States for the enforcement of judgments against it, in actions of the type set forth immediately above;

add provisions that make it easier for members of the company and beneficial owners of the company s shares to bring derivative actions against the company in the state of Delaware; and

eliminate the ability of directors to appoint alternates to act in their place,

and will also contain some other less substantive changes and minor technical corrections. The proposed amended memorandum and articles will come into effect and will replace our current memorandum and articles of association only if approved for adoption by our shareholders at our 2004 annual general meeting of shareholders. The foregoing summary of changes contained in the proposed amended memorandum and articles is qualified in its entirety by the provisions of those amended memorandum and articles, a copy of which will be filed as an exhibit to a Form 8-K, in the event that our shareholders approve their adoption.

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SELLING SHAREHOLDER

All of the common shares covered by this prospectus are being sold by our controlling shareholder, New SAC, or its pledges, donees, transferees or other successors in interest.

The selling shareholder may offer all or some portion of the common shares from time to time. Accordingly, no estimate can be given as to the amount or percentage of shares that will be held by the selling shareholder upon termination of any particular offering. See Plan of Distribution.

After the sale of the common shares covered by this prospectus, it is expected that affiliates of Silver Lake Partners, Texas Pacific Group, August Capital, J.P. Morgan Partners, LLC and investment partnerships affiliated with Goldman, Sachs & Co. will indirectly own 15.3%, 10.6%, 5.5%, 3.2% and 1.1%, respectively, of our outstanding common shares through their ownership of New SAC. In addition, after the sale of the common shares covered by this prospectus, it is expected that certain members of our management will indirectly own, in the aggregate, 7.7% of our outstanding common shares through their ownership of New SAC (based on the number of our common shares outstanding as of September 3, 2004). The sponsor group s and management s ownership of New SAC is the subject of a shareholders agreement and other arrangements that result in the sponsors acting as a group with respect to all matters submitted to our shareholders

The following table sets forth information as of September 3, 2004 about the common shares beneficially owned by New SAC that may be offered using this prospectus:

	Prior to the Offering			After the Offering	
Name of Selling Shareholder	**Number of Common Shares Beneficially Owned**	**Percentage of Common Shares Outstanding**	**Number of Common Shares Registered for Resale**	**Number of Common Shares Beneficially Owned**	**Percentage of Common Shares Outstanding**
New SAC c/o M&C Corporate Services Limited P.O. Box 309GT Ugland House South Church Street George Town, Grand Cayman Cayman Islands	282,500,000(1)	61.0%	60,000,000	222,500,000	48.0%

(1) Messrs. Austin, Bonderman, Coulter, Davidson, Hutchins, Luczo, Marquardt and Watkins, in their capacities as directors of New SAC, may be deemed to have shared voting or dispositive power over the 282,500,000 common shares held by New SAC. Each of them, however, disclaims this beneficial ownership.

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CERTAIN INCOME TAX CONSIDERATIONS

Cayman Islands Tax Considerations

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the common shares. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor s particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your common shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of common shares be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of common shares. However, an instrument transferring title to a common share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

We have been incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking in August 2000 from the Governor in Council of the Cayman Islands substantially that, for a period of twenty years from the date of such undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains. or appreciation shall, apply to us and no such tax and no tax in the nature, of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our common shares.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling our common shares under the laws of their country of citizenship, residence or domicile.

U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences, as of the date of this prospectus, of the ownership of our common shares by beneficial owners that hold the common shares as capital assets and that are U.S. holders. As used herein, you are a U.S. holder if you are, for U.S. federal income tax purposes:

- a citizen or resident of the U.S.;
- a corporation or partnership created or organized in or under the laws of the U.S. or any political subdivision thereof;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust that (i) is subject to the supervision of a court within the U.S. and one or more U.S. persons control all substantial decisions of the trust, or (ii) has, a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, and regulations, rulings and judicial decisions thereunder as of the date of this prospectus, and such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. This summary does not represent a detailed description of the U.S. federal income tax consequences to you in light of your particular circumstances and prospective investors should consult their own tax advisors as to the tax consequences of an investment in our common shares, including the application to their particular situations of the tax considerations discussed below and the application of state, local, foreign or other federal tax laws. In addition, it does not represent a description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;

a trader in securities if you elect to use a mark-to-market method of accounting for your securities holdings;

a financial institution;

an insurance company;

a tax-exempt organization;

a person liable for alternative minimum tax;

an investor in a pass through entity;

a person holding common shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle; or

a person whose functional currency is not the U.S. dollar.

In particular, it does not represent a description of the U.S. federal income tax consequences applicable to you if you are a person owning, actually or constructively, 10% or more of our voting stock or 10% or more of the voting stock of any of our non-U.S. subsidiaries.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares, you should consult your tax advisor.

Taxation of Dividends. The gross amount of distributions paid to you will generally be treated as dividend income to you if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Such income will be includible in your gross income on the day you actually or constructively receive it. Corporations that are U.S. holders will not be entitled to claim a dividends received deduction because we are not a U.S. corporation.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in your adjusted basis in the common shares (thereby increasing the amount of gain, or decreasing the amount of loss, you will recognize on a subsequent disposition of the shares), and the balance in excess of your adjusted basis will be taxed as capital gain recognized on a sale or exchange. We did not have current or accumulated earnings and profits for U.S. federal income tax purposes for our taxable year ended July 2, 2004. There can be no assurance that we will not have current or accumulated earnings and profits in future years.

U.S. holders who are individuals will not be eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15% on qualifying dividends) on distributions made from our current or accumulated earnings and profits if we are a foreign personal holding company in the taxable year in which such dividends are paid or in the preceding taxable year. As discussed below in Foreign Personal Holding Company, we believe we are currently a foreign personal holding company.

If we make distributions before January 1, 2009 from our current or accumulated earnings and profits in years in which we are not a foreign personal holding company and were not a foreign personal holding company in the preceding year, U.S. holders who are individuals may be eligible for reduced rates of taxation applicable to dividend income so long as our shares are readily tradable on an established securities market in the United States. We believe that our common shares, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our common shares will continue to be readily tradable on an established securities market in later years (or that our shares will be readily tradable on an established securities market in any given year). Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of the trading status of our shares. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

Foreign Personal Holding Company. A foreign corporation will be classified as a foreign personal holding company, or FPHC, if:

- at any time during the corporation s taxable year, five or fewer individuals who are U.S. citizens or residents own, directly or indirectly (or by virtue of certain ownership attribution rules), more than 50% of the corporation s stock by either voting power or value (we refer to this as the shareholder test); and

- the corporation receives at least 60% of its gross income, or 50% after the initial year of qualification, as adjusted, for the taxable year from certain passive sources (we refer to this as the income test).

A shareholder, and in certain circumstances, an indirect shareholder, of an FPHC would be required, regardless of such shareholder s percentage ownership interest, to include in income as a dividend, its pro rata share of the undistributed foreign personal holding company income of the FPHC if the shareholder owned shares on the last day of the FPHC s taxable year or, if earlier, the last day on which the FPHC satisfied the shareholder test. Foreign personal holding company income is generally equal to taxable income with certain adjustments. In determining its undistributed foreign personal holding company income, an FPHC is required to include as a deemed dividend its pro rata share of any undistributed foreign personal holding company income of a subsidiary that is also an FPHC. In addition, a shareholder of an FPHC who acquired shares from a decedent would not receive a stepped-up basis in that stock. Instead, the shareholder would have a tax basis equal to the lower of the fair market value of the shares or the decedent s basis.

Because of the application of complex ownership attribution rules, we believe we currently meet the shareholder test. In addition, because we are a holding company and do not expect to generate operating income at the holding company level, we believe that our income generally will be passive income and, thus that we will satisfy the income test for the current year and will be treated as a foreign personal holding company. However, we do not anticipate having any material amounts of undistributed foreign personal holding company income. As discussed above under Taxation of Dividends, U.S. holders who are individuals will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2009, if we are an FPHC in the taxable year in which such dividends are paid or in the preceding taxable year.

It is possible that changes in our shareholder base or changes to our holding company structure could cause us to cease to be classified as a foreign personal holding company in the future, although there can be no assurance in this regard.

Disposition of Common Shares. When you sell or otherwise dispose of your common shares in a taxable transaction you will recognize capital gain or loss in an amount equal to the difference between the amount you realize for the shares and your adjusted tax basis in them. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss.

Information Reporting and Backup Withholding. In general, unless you are an exempt recipient such as a corporation, information reporting will apply to dividends in respect of the common shares or the proceeds received on the sale, exchange or redemption of those common shares paid to you within the U.S. and, in some cases, outside of the U.S. Additionally, if you fail to provide your taxpayer identification number, or fail either to report in full dividend and interest income or to make certain certifications, you will be subject to backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the Internal Revenue Service.

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PLAN OF DISTRIBUTION

The common shares are being registered to permit public secondary trading of these securities by the holders thereof from time to time after the date of this prospectus and to facilitate the continued orderly disposition of our common shares held by New SAC. We will not receive any of the proceeds from the sale of the common shares by the selling shareholder. New SAC, as selling shareholder, will receive all of the proceeds from the sale of the common shares being offered through this prospectus. New SAC has advised us that it intends to distribute the proceeds received in this offering to its shareholders and does not intend to reinvest the proceeds in Seagate Technology.

The selling shareholder and its pledgees, assignees, donees, or other successors-in-interest who acquire their shares after the date of this prospectus, may sell the common shares directly to purchasers or through underwriters, broker-dealers or agents.

If underwriters are used in a firm commitment underwriting, we and the selling shareholder will execute an underwriting agreement with those underwriters relating to the common shares that the selling shareholder will offer. Unless otherwise set forth in a prospectus supplement, the obligations of the underwriters to purchase these common shares will be subject to conditions. The underwriters, if any, will purchase the common shares on a firm commitment basis and will be obligated to purchase all of these common shares.

The common shares subject to the underwriting agreement will be acquired by the underwriters for their own account and may be resold by them from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from the purchasers of these common shares for whom they may act as agent. Underwriters may sell these common shares to or through dealers. These dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent. Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The selling shareholder may authorize underwriters to solicit offers by institutions to purchase the common shares subject to the underwriting agreement from the selling shareholder at the public offering price stated in a prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. If the selling shareholder sells common shares pursuant to these delayed delivery contracts, the prospectus supplement will state that as well as the conditions to which these delayed delivery contracts will be subject and the commissions payable for that solicitation.

The applicable prospectus supplement will set forth whether or not underwriters may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of the common shares at levels above those that might otherwise prevail in the open market, including, for example, by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. Underwriters are not required to engage in any of these activities, or to continue such activities if commenced.

If dealers are utilized in the sale of common shares, the selling shareholder will sell such common shares to the dealers as principals. The dealers may then resell such common shares to the public at varying prices to be determined by such dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in a prospectus supplement, if required.

The selling shareholder may also sell common shares through agents designated by them from time to time. We will name any agent involved in the offer or sale of the common shares and will list commissions payable by the selling shareholder to these agents in a prospectus supplement, if required. These agents will be acting on a best efforts basis to solicit purchases for the period of its appointment, unless we state otherwise in any required prospectus supplement.

The selling shareholder may sell any of the common shares directly to purchasers. In this case, the selling shareholder may not engage underwriters or agents in the offer and sale of these common shares.

We and the selling shareholder may indemnify underwriters, dealers or agents who participate in the distribution of securities against certain liabilities, including liabilities under the Securities Act and agree to contribute to payments which these underwriters, dealers or agents may be required to make.

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The common shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. Sales may be effected in transactions, which may involve block transactions or crosses:

- on any national securities exchange or quotation service on which the common shares may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on exchanges or quotation services or in the over-the-counter market;
- through the exercise of purchased or written options; or
- through any other method permitted under applicable law.

In connection with sales of the common shares or otherwise, the selling shareholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the common shares in the course of hedging the positions they assume. The selling shareholder may also sell short the common shares and deliver the common shares to close out short positions, or loan or pledge the common shares to broker-dealers that in turn may sell the common shares.

The aggregate proceeds to the selling shareholder from the sale of the common shares offered by the selling shareholder hereby will be the purchase price of the common shares less discounts and commissions, if any. The selling shareholder reserves the right to accept and, together with its agents from time to time, to reject, in whole or in part, any proposed purchase of common shares to be made directly or through agents.

In order to comply with the securities laws of some states, if applicable, the common shares may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common shares may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling shareholder and any underwriters, broker-dealers or agents that participate in the sale of the common shares may be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the common shares may be underwriting discounts and commissions under the Securities Act. Any selling shareholder who is an underwriter within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The selling shareholder has acknowledged that it understands its obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M.

We are not aware of any plans, arrangements or understandings between the selling shareholder and any underwriter, broker-dealer or agent regarding the sale of the common shares by the selling shareholder. We do not assure you that the selling shareholder will sell any or all of the common shares offered by it pursuant to this prospectus. In addition, we do not assure you that the selling shareholder will not transfer, devise or gift the common shares by other means not described in this prospectus. Moreover, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 of the Securities Act may be sold under Rule 144 rather than pursuant to this prospectus.

Our common shares are listed on the New York Stock Exchange under the trading symbol STX .

Pursuant to a shareholders agreement with New SAC, we granted New SAC certain registration rights pertaining to common shares held by it. The agreement provides for cross-indemnification of the selling shareholder and us and its and our respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the common shares, including liabilities under the Securities Act. We have agreed, among other things, to bear all expenses payable by us (other than underwriting discounts and selling commissions) in connection with the registration and sale of the common shares covered by this prospectus, except in specified circumstances. We estimate that the expenses for which we will be responsible in connection with filing this registration statement will be approximately $240,000.00.

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LEGAL MATTERS

The validity of the common shares to be sold in this offering will be passed upon by Maples and Calder, Cayman Islands.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, have audited our consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended July 2, 2004, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our consolidated financial statements are incorporated by reference in reliance on Ernst & Young LLP s report, given on their authority as experts in accounting and auditing.

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PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution.***

The following table lists the expenses expected to be incurred in connection with the preparation and filing of the registration statement, including amendments thereto, all of which will be paid by the registrant. All amounts listed below, other than the SEC registration fee, are estimates:

Registration fee	$ 95,177.04
Printing and engraving expenses	$ 5,000.00
Accounting fees and expenses	$ 35,000.00
Legal fees and expenses	$ 100,000.00
Miscellaneous expenses	$ 4,822.96
Total	$ 240,000.00

Item 15. ***Indemnification of Directors and Officers.***

The articles of association of the registrant provide for the indemnification of its directors and officers. Specifically, under the indemnification provisions, the registrant will indemnify its directors and officers to the fullest extent permitted by law against liabilities that are incurred by the directors or officers while executing the duties of their respective offices. The directors and officers, however, will not be entitled to the indemnification if they incurred the liabilities through their own willful neglect or default.

The registrant is an exempted company with limited liability incorporated in the Cayman Islands. As such, it is subject to and governed by the laws of the Cayman Islands with respect to the indemnification provisions. Although the Companies Law (2004 Revision) of the Cayman Islands does not specifically restrict a Cayman Islands company s ability to indemnify its directors or officers, it does not expressly provide for such indemnification either. Certain English case law (which is likely to be persuasive in the Cayman Islands), however, indicate that the indemnification is generally permissible, unless there had been fraud, willful default or reckless disregard on the part of the director or officer in question.

The registrant has entered into indemnification agreements with its directors and officers, whereby the registrant agreed to indemnify its directors and officers to the fullest extent permitted by law, including indemnification against expenses and liabilities incurred in legal proceedings to which the director or officer was, or is threatened to be made, a party by reason of the fact that such director or officer is or was a director, officer, employee or agent of the registrant, provided that such director or officer acted in good faith and in a manner that the director or officer reasonably believed to be in, or not opposed to, the best interest of the registrant. At present, there is no pending litigation or proceeding involving a director or officer of the registrant regarding which indemnification is sought, nor is the registrant aware of any threatened litigation that may result in claims for indemnification.

The registrant maintains insurance policies that indemnify its directors and officers against various liabilities arising under the Securities Act of 1933 and the Securities Exchange Act of 1934 that might be incurred by any director or officer in his capacity as such.

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Item 16. ***Exhibits***.

See Exhibit Index.

Item 17. ***Undertakings.***

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 462(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, *however*, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, that are incorporated by reference in this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of Seagate Technology s annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions set forth in response to Item 15, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Scotts Valley, State of California, on the 15th day of September, 2004.

SEAGATE TECHNOLOGY

By: *

Name: William D. Watkins
Title: Chief Executive Officer and President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in their capacities and on the dates indicated:

Signature	Title	Date
* William D. Watkins	Chief Executive Officer, President and Director (Principal Executive Officer)	September 15, 2004
* Charles C. Pope	Chief Financial Officer (Principal Financial Officer	September 15, 2004
* Karen M. Rogge	Vice President, Corporate Finance and Treasurer (Principal Accounting Officer)	September 15, 2004
* William W. Bradley	Director	September 15, 2004
* James G. Coulter	Director	September 15, 2004
* James A. Davidson	Director	September 15, 2004
* Glenn H. Hutchins	Director	September 15, 2004

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*	Director	September 15, 2004
Donald E. Kiernan		
*	Chairman of the Board of Directors	September 15, 2004
Stephen J. Luczo		
*	Director	September 15, 2004
David F. Marquardt		
*	Director	September 15, 2004
Lydia Marshall		
*	Director	September 15, 2004
Gregorio Reyes		
*	Director	September 15, 2004
John W. Thompson		
*	Director	September 15, 2004
Edward J. Zander		
*	Seagate Technology (US) Holdings, Inc. (Authorized U.S. Representative)	September 15, 2004
William D. Watkins, on behalf of Seagate Technology (US) Holdings, Inc.		

*By: /s/ WILLIAM L. HUDSON
William L. Hudson

Attorney-in-Fact

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INDEX TO EXHIBITS

Exhibit	Description
2.1	Stock Purchase Agreement, dated as of March 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc. and Seagate Software Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.2	Agreement and Plan of Merger and Reorganization, dated as of March 29, 2000, by and among VERITAS Software Corporation, Victory Merger Sub, Inc. and Seagate Technology, Inc. (incorporated by reference to Exhibit 2.2 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.3	Indemnification Agreement, dated as of March 29, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and Suez Acquisition Company (Cayman) Limited (incorporated by reference to Exhibit 2.3 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.4	Joinder Agreement to the Indemnification Agreement, dated as of November 22, 2000, by and among VERITAS Software Corporation, Seagate Technology, Inc. and the SAC Indemnitors listed therein (incorporated by reference to Exhibit 2.4 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.5	Consolidated Amendment to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of August 29, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.5 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.6	Consolidated Amendment No. 2 to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization, and Indemnification Agreement, and Consent, dated as of October 18, 2000, by and among Suez Acquisition Company (Cayman) Limited, Seagate Technology, Inc., Seagate Software Holdings, Inc., VERITAS Software Corporation and Victory Merger Sub, Inc. (incorporated by reference to Exhibit 2.6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.7	Letter Agreement, dated as of March 29, 2000, by and between VERITAS Software Corporation and Suez Acquisition Company (Cayman) Limited (incorporated by reference to Exhibit 2.7 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
2.8	Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOtech Corporation (incorporated by reference to Exhibit 2.8 to amendment no. 6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)
2.9	Amendment No. 1, dated as of October 31, 2002, to the Stock Purchase Agreement, dated as of October 28, 2002, by and among Oak Investment Partners X, Limited Partnership, Oak X Affiliates Fund, L.P., Oak Investment Partners IX, Limited Partnership, Oak IX Affiliates Fund, L.P., Oak IX Affiliates Fund-A, L.P., Seagate Technology Holdings, Seagate Technology SAN Holdings and XIOtech Corporation (incorporated by reference to Exhibit 2.9 to amendment no. 6 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on November 8, 2002)

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4.1	Form of 8% Senior Notes due 2009 (incorporated by reference to Exhibit 4.1 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.2	Indenture, dated as of May 13, 2002, by and among Seagate Technology HDD Holdings, Seagate Technology Holdings and U.S. Bank, N.A. (incorporated by reference to Exhibit 4.2 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.3	Registration Rights Agreement, dated as of May 13, 2002, by and among Seagate Technology HDD Holdings, Seagate Technology Holdings, Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Smith Barney Inc. (incorporated by reference to Exhibit 4.3 to the registrant s registration statement on Form S-4 (reg. no. 333-88388) filed with the SEC on May 16, 2002)
4.4	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.4 to Amendment No. 1 to the registrant s registration statement on Form S-1 (reg. no. 333-100513) filed with the SEC on November 8, 2002)
4.5	Shareholders Agreement by and among Seagate Technology Holdings, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners, L.L.C., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the Shareholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.5 to the registrant s quarterly report on Form 10-Q (file no. 001-31560) filed with the SEC on February 10, 2003)
4.6	Amendment, dated as of April 23, 2004, to the Shareholders Agreement dated as of December 6, 2002, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto (incorporated by reference to Exhibit 4.6 to the registrant s registration statement on Form S-3 (reg. no. 333-117517) filed with the SEC on July 20, 2004)
4.7	Second Amendment, dated as of September 2, 2004, to the Shareholders Agreement dated as of December 6, 2002, as amended by the first Amendment to the Shareholders Agreement dated as of April 23, 2004, among Seagate Technology, New SAC, Silver Lake Technology Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Partners Cayman, L.P., SAC Investments, L.P., August Capital III, L.P., J.P. Morgan Partners (BHCA), L.P., GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs GmbH, Stone Street Fund 2000 L.P., Bridge Street Special Opportunities Fund 2000, L.P., Staenberg Venture Partners II, L.P., Staenberg Seagate Partners, LLC, Integral Capital Partners V, L.P., Integral Capital Partners V Side Fund, L.P. and the individuals listed on the signature pages thereto (incorporated by reference to Exhibit 4.7 to the registrant s annual report on Form 10-K/A (file no. 001-31560) filed with the SEC on September 3, 2004)
5.1	Legal Opinion of Maples and Calder
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.2	Consent of Maples and Calder (included in Exhibit 5.1)
24.1*	Powers of Attorney
24.2	Power of Attorney of Karen M. Rogge

* Previously filed.

onal funds. If the average market price of the common stock over the term of the transaction was below the pre-determined price, the Company would receive additional shares of the Company. The prepayment was recorded as treasury stock on the Company s balance sheet at payment date. Shares were excluded from the number of shares outstanding as of the date of each delivery of shares. The transaction was completed during the three months ended July 31, 2007.

During the three and nine months ended July 31, 2007, the Company purchased 2.2 million shares at an average price of $27.05 per share, and 5.3 million shares at an average price of $26.70 per share, respectively. During the three and nine months ended July 31, 2006, the Company purchased 3.7 million shares at an average price of $19.01 per share, and 8.4 million shares at an average price of $20.14 per share, respectively. The aggregate purchase prices were $140.8 million and $169.5 million in the nine months ended July 31, 2007 and 2006, respectively. During the three and nine months ended July 31, 2007, approximately 1.1 million and 8.3 million shares were reissued respectively, for employee share-based compensation requirements. During the three and nine months ended July 31, 2006, approximately 0.3 million and 2.7 million shares were reissued, respectively, for employee share-based compensation requirements. On March 22, 2007 the Board replenished the stock repurchase program to $500.0 million. As of July 31, 2007, $440.6 million remained available for future purchases under the program.

Note 5. Business Combinations

The Company does not consider the following acquisitions to be material to its results of operations and is therefore not presenting proforma statements of operations for the nine months ended July 31, 2007. The unaudited condensed consolidated financial statements include the operating results of each business from the date of acquisition. The acquisitions were accounted for in accordance with SFAS 141.

ArchPro Design Automation, Inc. (ArchPro)

The Company acquired ArchPro on June 14, 2007.

ArchPro s technologies enable engineers to address power management challenges in multi-voltage designs from chip architecture to Register Transfer Language (RTL) and gate-level design. These technologies allow verification of modern power management techniques such as power gating, substrate biasing, dynamic voltage and frequency scaling. The Company believes that this acquisition will help the Company enhance its power management verification technologies.

The Company paid $12.9 million in cash on June 14, 2007 for the outstanding shares of ArchPro. The total purchase consideration consisted of:

	(in thousands)	
Cash paid	$	12,921
Acquisition-related costs	1,651	
Total purchase price	$	14,572

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Acquisition-related costs of $1.7 million consist primarily of legal, tax and accounting fees, estimated facilities closure costs and employee termination costs. As of July 31, 2007, the Company had paid $0.3 million of the acquisition-related costs and has a remaining balance of $1.4 million.

Under the agreement, the Company agreed to pay up to an additional $4.0 million over three years to the former ArchPro shareholders based upon achievement of certain booking and product milestones. This contingent consideration is considered to be additional purchase price.

Assets Acquired. The Company has performed a preliminary valuation and allocated the total purchase consideration to the assets and liabilities acquired including identifiable intangible assets based on their respective fair values on the acquisition date. The Company acquired $1.8 million of intangible assets consisting of $1.4 million in existing technology, $0.2 million in customer relationships and $0.2 million in backlog to be amortized over two to five years. Additionally, the Company acquired tangible assets of $1.2 million and assumed liabilities of $0.6 million.

The in-process research and development (IPRD) expense related to the ArchPro acquisition was $2.1 million. ArchPro had several projects in process at the time of acquisition which will be completed over a period of approximately two years.

Goodwill, representing the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired in the merger was $8.9 million and will not be amortized and is not deductible for tax purposes. Goodwill primarily resulted from Synopsys expectation of synergies from the integration of ArchPro s technology with the Company s technology and operations.

The Company also recorded a net deferred tax asset of $1.9 million and an income tax payable contingency of $0.7 million from this transaction.

Mosaid Technologies, Inc. (Mosaid)

The Company acquired certain assets and intellectual property of Mosaid on July 30, 2007.

Mosaid is a developer and licensor of semiconductor Intellectual Property (IP). The integration of Mosaid s double data rate memory controller and its semiconductor IP products into the Company s DesignWare IP portfolio will further expand the breadth of the Company s standards-based connectivity IP solutions.

The Company paid $13.3 million in cash on July 30, 2007. The Company retained $2.0 million to be paid within a year, per the holdback agreement. The total purchase consideration consisted of:

	(in thousands)
Cash paid	$ 13,310
Holdback payable	2,000
Acquisition-related costs	252
Total purchase price	$ 15,562

Acquisition-related costs of $0.3 million consist primarily of legal, tax and accounting fees.

Assets Acquired. The Company has performed a preliminary valuation and allocated the total purchase consideration to the tangible assets acquired based on their respective fair values on the acquisition date and allocated the remaining amount to goodwill of $14.6 million. The tangible assets acquired were accounts receivable of $1.4 million and deferred revenue of $0.4 million. The Company intends to complete the valuation during the fourth quarter and place a value on the intangible assets acquired and amortize such assets over the determined useful life.

Goodwill, representing the excess of the purchase price over the fair value of tangible assets acquired in the merger was $14.6 million and will not be amortized and is deductible for tax purposes. Goodwill will be adjusted for the value of intangible assets acquired. Goodwill primarily resulted from the Company s expectation of synergies from the integration of Mosaid s technology with the Company s technology and operations.

Note 6. Goodwill and Intangible Assets

Goodwill as of July 31, 2007 consisted of the following:

	(in thousands)
Balance at October 31, 2006	$ 735,643
ArchPro acquisition	8,851
Mosaid acquisition	14,553
Adjustments(1)	(6,092)
Balance at July 31, 2007	$ 752,955

(1) Includes income tax related adjustments of $5.3 million and adjustments due to a reduction of merger costs of $0.8 million, all relating to prior acquisitions.

Intangible assets as of July 31, 2007 consisted of the following:

	Gross Assets	Accumulated Amortization (in thousands)	Net Assets
Customer relationships	$ 142,250	$ 112,290	$ 29,960
Core/developed technology	104,855	62,087	42,768
Contract rights intangible	6,300	4,608	1,692
Other intangibles	8,383	7,796	587
Covenants not to compete	3,390	2,792	598
Trademarks and trade names	200	40	160
Capitalized software development costs	16,864	12,822	4,042
Total	$ 282,242	$ 202,435	$ 79,807

Intangible assets as of October 31, 2006 consisted of the following:

	Gross Assets	Accumulated Amortization (in thousands)	Net Assets
Customer relationships	$ 142,050	$ 93,880	$ 48,170
Core/developed technology	94,455	47,769	46,686
Contract rights intangible	6,100	3,042	3,058
Other intangibles	8,383	5,576	2,807
Covenants not to compete	3,390	1,944	1,446
Trademarks and trade names	200	10	190
Capitalized software development costs	14,113	10,326	3,787
Total	$ 268,691	$ 162,547	$ 106,144

Total amortization expense related to intangible assets consisted of the following:

	Three Months Ended July 31, 2007	2006	Nine months Ended July 31, 2007	2006
	(in thousands)			
Customer relationships	$ 6,141	$ 6,039	$ 18,410	$ 18,011
Core/developed technology	4,479	5,585	14,318	18,533
Contract rights intangible	533	519	1,566	1,967
Other intangibles	740	740	2,220	2,285
Covenants not to compete	283	472	848	2,141
Trademarks and trade names	10		30	42
Capitalized software development costs(1)	855	769	2,496	2,221
Total	$ 13,041	$ 14,124	$ 39,888	$ 45,200

(1) Amortization of capitalized software development costs is included in cost of license in the condensed consolidated statements of operations.

The following table presents the estimated future amortization of intangible assets:

	(in thousands)
Fiscal Years:	
Remainder of 2007	$ 13,111
2008	37,437
2009	19,582
2010	7,143
2011	1,994
Thereafter	540
Total	$ 79,807

Note 7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	July 31, 2007	October 31, 2006
	(in thousands)	
Payroll and related benefits	$ 160,135	$ 159,823
Acquisition related costs	4,275	2,388
Other accrued liabilities	59,301	56,933
Accounts payable	8,303	15,005
Total	$ 232,014	$ 234,149

Note 8. Credit Facility

On October 20, 2006, the Company entered into a five-year, $300.0 million senior unsecured revolving credit facility providing for loans to the Company and certain of its foreign subsidiaries. The amount of the facility may be increased by up to an additional $150.0 million through the fourth year of the facility. The facility contains financial covenants requiring the Company to maintain a minimum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 20, 2011. Borrowings under the facility bear interest at the greater of the administrative agent s prime rate or the federal funds rate plus 0.50%; however, the Company has the option to pay interest based on the outstanding amount at Eurodollar rates plus a spread between 0.50% and 0.70% based on a pricing grid tied to a financial covenant. In addition, commitment fees are payable on the facility at rates between 0.125% and 0.175% per year based on a pricing grid tied to a financial covenant. As of July 31, 2007, the Company had no outstanding borrowings under this credit facility and was in compliance with all the covenants.

Note 9. Comprehensive Income

The following table sets forth the components of comprehensive income, net of tax:

	Three Months Ended July 31,		Nine months Ended July 31,	
	2007	2006	2007	2006
	(in thousands)			
Net income	$ 24,855	$ 7,550	$ 89,477	$ 14,622
Unrealized gains (losses) on investments, net of tax of ($1,000) and ($1,049), for three and nine months ended July 31, 2007, respectively, and of $125 and $96 for each of the same periods in fiscal 2006, respectively.	1,516	199	1,589	(143)
Deferred (losses) gains on cash flow hedges, net of tax of $144 and ($363), for three and nine months ended July 31, 2007, respectively, and of $353 and $524 for each of the same periods in fiscal 2006, respectively.	(1,185)	(663)	1,298	(967)
Reclassification adjustment on deferred losses (gains) on cash flow hedges, net of tax of ($184) and ($349), for three and nine months ended July 31, 2007, respectively, and of ($61) and ($334) for each of the same periods in fiscal 2006, respectively.	338	86	633	380
Foreign currency translation adjustment	1,447	2,949	5,247	4,032
Total	$ 26,971	$ 10,121	$ 98,244	$ 17,924

Note 10. Net Income per Share

In accordance with SFAS No. 128, *Earnings per Share* (SFAS 128), the Company computes basic income per share by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding unvested restricted stock units and awards. Diluted net income per share reflects the dilution of potential common shares outstanding such as stock options and unvested restricted stock units and awards during the period using the treasury stock method.

Diluted net income per share excludes 6.1 million and 27.5 million of anti-dilutive options and unvested restricted stock units and awards for the three months ended July 31, 2007 and 2006, respectively; and 6.1 million and 24.1 million of anti-dilutive options and unvested restricted stock units and awards for the nine months ended July 31, 2007 and 2006, respectively. While these options and unvested restricted stock units and awards were anti-dilutive for the respective periods, they could be dilutive in the future.

The table below reconciles the weighted-average common shares used to calculate basic net income per share with the weighted-average common shares used to calculate diluted net income per share.

	Three Months Ended July 31,		Nine months Ended July 31,	
	2007	2006	2007	2006
	(in thousands)			
Weighted-average common shares for basic net income per share	143,820	142,538	143,626	143,629
Dilutive effect of common share equivalents from equity-based compensation	5,889	1,426	5,657	2,033
Weighted-average common shares for diluted net income per share	149,709	143,964	149,283	145,662

Note 11. Segment Disclosure

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. SFAS 131 reporting is based upon the management approach, i.e., how management organizes the Company s operating segments for which separate financial information is available and evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys CODMs are the Company s Chief Executive Officer and Chief Operating Officer.

The Company provides software products and consulting services in the electronic design automation software industry. The Company operates in a single segment. In making operating decisions, the CODMs primarily consider consolidated financial information, accompanied by disaggregated information about revenues by geographic region. Specifically, the CODMs consider where individual seats or licenses to the

Company s products are used in allocating

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revenue to particular geographic areas. Revenue is defined as revenues from external customers. Goodwill is not allocated since the Company operates in one reportable operating segment.

Revenue related to operations in the United States and other geographic areas were:

	Three Months Ended July 31, 2007 (in thousands)	2006	Nine months Ended July 31, 2007	2006
Revenue:				
United States	$ 151,576	$ 138,841	$ 447,377	$ 412,000
Europe	47,688	46,493	140,969	130,187
Japan	48,596	45,058	145,186	136,007
Asia-Pacific and other	56,238	46,816	163,704	133,982
Total	$ 304,098	$ 277,208	$ 897,236	$ 812,176

Geographic revenue data for multi-region, multi-product transactions reflect internal allocations and is therefore subject to certain assumptions and to the Company s methodology.

For management reporting purposes, the Company organizes its products and services into five distinct groups: Galaxy Design Platform, Discovery Verification Platform, Intellectual Property, Design for Manufacturing, and Professional Services and Other. The Company includes revenue from companies or products the Company has acquired during a period from the acquisition date through the end of the relevant periods. The following table summarizes the revenue attributable to these groups:

	Three Months Ended July 31, 2007 (in thousands)	2006	Nine Months Ended July 31, 2007	2006
Revenue:				
Galaxy Design Platform	$ 144,716	$ 142,757	$ 439,202	$ 426,932
Discovery Verification Platform	80,997	72,316	235,321	197,794
Intellectual Property	25,046	22,187	73,384	59,894
Design for Manufacturing	38,526	28,697	105,522	89,582
Professional Services & Other	14,813	11,251	43,807	37,974
Total	$ 304,098	$ 277,208	897,236	$ 812,176

One customer accounted for more than ten percent of the Company s total revenue in the three and nine months ended July 31, 2007 and 2006.

Note 12. Other Income, Net

The following table presents the components of other income, net:

	Three Months Ended July 31, 2007 (in thousands)	2006	Nine months Ended July 31, 2007	2006
Interest income, net	$ 6,708	$ 3,687	$ 17,514	$ 10,031
Income (loss) on assets related to executive deferred compensation plan	3,279	(978)	7,913	2,992
Other (1)	842	(288)	13,004	(3,278)
Total	$ 10,829	$ 2,421	$ 38,431	$ 9,745

(1) Includes litigation settlement of $12.5 million in the nine months ended July 31, 2007 from Magma Design Automation, Inc.

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Note 13. Taxes

Effective Tax Rate

The Company estimates its annual effective tax rate at the end of each quarterly period. The Company s estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and the Company s interpretations of tax laws and possible outcomes of audits.

The following table presents the provision for income taxes and the effective tax rates for the three months and nine months ended July 31, 2007 and 2006:

	Three Months Ended July 31, 2007	2006	Nine months Ended July 31, 2007	2006
	(dollars in thousands)			
Income before income taxes	$ 33,827	$ 15,574	$ 118,599	$ 27,743
Provision for income tax	8,972	8,024	29,122	13,121
Effective tax rate	26.5 %	51.5 %	24.6 %	47.3 %

The Company s effective tax rate for the three and nine months ended July 31, 2007 is lower than the statutory federal income tax rate of 35% primarily due to the tax impact of non-U.S. operations, which are taxed at lower rates, and research and development credits, partially offset by state taxes and non-deductible stock option compensation expense recorded under SFAS 123(R). The effective tax rate decreased in the three and nine months ended July 31, 2007, as compared to the same periods in fiscal 2006, primarily due to a reduction in foreign withholding tax liabilities, the benefit of a new exception to current U.S. taxation of certain foreign intercompany income and the extension of the federal research and development tax credit. The 2007 third quarter provision includes the effect of certain state tax audit settlements and additional tax provisions on foreign earnings, partially offset by an increase in the Company s federal and state research and development tax credits for 2006.

IRS Revenue Agent s Report. On June 8, 2005, the Company received a Revenue Agent s Report (RAR) in which the Internal Revenue Service (IRS) proposed to assess a net tax deficiency for fiscal years 2000 and 2001 of approximately $476.8 million, plus interest. This proposed adjustment primarily relates to transfer pricing transactions between the Company and a wholly-owned foreign subsidiary. The Company strongly believes the proposed IRS adjustment and resulting proposed deficiency are inconsistent with applicable tax laws, and that the Company thus has meritorious defenses to this proposed IRS adjustment.

On July 13, 2005, the Company filed a protest to the proposed deficiency with the IRS, which caused the matter to be referred to the Appeals Office of the IRS. The appeals process began during the second quarter of fiscal 2007 and continues with an objective to reach a final resolution of the matter at the Appeals level. The Company believes it is probable that it will be required to make some additional payments in order to resolve this matter, but believes it has already adequately provided for this matter. If the Company reaches a final written settlement with the Appeals division and thereby determines that the provision for this matter is overstated or understated and thus requires adjustment, the Company s results of operations and financial condition could be materially affected. Final resolution of this matter could take considerable time.

In the third quarter of fiscal year 2006, the IRS started an examination of the Company s federal income tax returns for the fiscal years 2002 through 2004. As of July 31, 2007, the examination is still in progress and no adjustments have been proposed by the IRS which would require an adjustment to the tax provision.

Note 14. Contingencies

See the disclosure in Note 13 above regarding the IRS Revenue Agent s Report.

Other Proceedings

The Company is also subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of its business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on the

Company s financial position and results of operations.

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Note 15. Effect of New Accounting Pronouncements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, (SAB 108). SAB 108 addresses the process and diversity in practice of quantifying misstatements and provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes that registrants should quantify errors using both a balance sheet (iron curtain) and an income statement (rollover) approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. In the year of adoption, SAB 108 allows a one-time cumulative effect transition adjustment for errors that were not previously deemed material, but are material under the guidance in SAB 108. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Company will be required to adopt the provisions of SAB 108 by the end of fiscal 2007. The Company is currently evaluating the requirements of SAB 108 and the potential impact upon adoption. Historically, the Company has evaluated uncorrected differences utilizing the rollover approach. Although the Company believes its prior period assessments of uncorrected differences utilizing the rollover approach and the conclusions reached regarding its quantitative and qualitative assessments of such uncorrected differences were appropriate, the Company expects that, due to the analysis required in SAB 108, certain historical uncorrected differences during fiscal 1999 through fiscal 2004 related to share-based compensation and fixed assets, will be corrected upon adoption.

The Company will adopt SAB 108 in the fourth quarter of fiscal 2007. It estimates that the historical uncorrected differences related to fiscal 1999 through fiscal 2004 will be approximately $11 to $15 million. However, the Company is continuing to evaluate the impact of adopting SAB 108 and, as a result, the actual adjustment could be higher or lower than the estimate as a result of quantification of known immaterial errors or identification of additional immaterial errors.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to evaluate the tax position for recognition by determining whether it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. In May 2007, the FASB issued Staff Position No. FIN 48-1 (FSP FIN 48-1), *Definition of Settlement in FASB Interpretation No. 48,* which amended FIN 48 to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under FSP FIN 48-1, a tax position could be effectively settled on completion of an examination by a taxing authority if certain other conditions are satisfied. The provisions are effective for the Company beginning in the first quarter of fiscal year 2008. The Company has not determined the impact this interpretation will have on the Company s consolidated financial position and results of operations in fiscal year 2008.

In February 2007, the Financial Accounting Standards Board issued Statement No. 159, *the Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 expands the use of fair value measurement to report all financial instruments at fair value. Its objective is to improve financial reporting by allowing entities to use fair value measurement for financial instruments in periods subsequent to adoption without using the complex hedging-accounting provisions. Under SFAS 159, entities may measure specified financial instruments at fair value on an instrument-by-instrument basis, with changes in fair value recognized in earnings at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The requirements are effective for the Company beginning in the first quarter of fiscal 2009. The Company is currently evaluating the impact, if any, SFAS 159 may have on the Company s consolidated financial position and results of operations.

For the effect of the recent accounting pronouncements, references are made to Note 14 of *Notes To Consolidated Financial Statements* contained in Part II, Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2006.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this report. This discussion contains forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, risks and uncertainties, including the risk factors set forth in Part II, Item 1A below.

Overview

Business Environment

We generate substantially all of our revenue from customers in the semiconductor and electronics industries. Our customers typically fund purchases of our software and services largely out of their research and development (R&D) budgets and, to a lesser extent, their manufacturing and capital budgets. As a result, our customers business outlook and willingness to invest in new and increasingly complex chip designs heavily influence our business.

Since the 2000 through 2002 semiconductor downturn and subsequent recovery, our customers have focused significantly on expense reductions, including in their R&D budgets. This expense outlook has affected us in a number of ways. First, some customers have reduced their EDA expenditures by decreasing their level of EDA tool purchases, using older generations of EDA products or by not renewing maintenance services. Second, customers bargain more intensely on pricing and payment terms, which has affected revenues industry-wide. For example, customers desire to conserve cash by paying for licenses over time resulted in a shift of our license mix to an almost completely ratable model in the fourth quarter of fiscal 2004, in which substantially more revenue is recognized over time rather than at the time of shipment. This shift adversely affected our total revenue in fiscal 2004, 2005 and 2006. Third, some customers are consolidating their EDA purchases with fewer suppliers in order to lower their overall cost of ownership while at the same time meeting new technology challenges. This has increased competition among EDA vendors.

Recognizing that our customers will continue to spend cautiously and will work to aggressively contain costs, we are intensely focused on improving our customers overall economics of design by providing more fully integrated design solutions and offering customers the opportunity to consolidate their EDA spending with us. Over the long term, we believe EDA industry spending growth will continue to depend on growth in semiconductor R&D spending and on continued growth in the overall semiconductor market. The Semiconductor Industry Association has forecasted modest growth in semiconductor revenues during 2007 and we believe semiconductor R&D spending will grow as well. However, we cannot currently predict whether this outlook will contribute to higher EDA industry spending.

Financial Performance for the Three Months Ended July 31, 2007

- Total revenue was $304.1 million, up 10% from $277.2 million in the third quarter of fiscal 2006. This increase is attributable to increased bookings of ratable license orders in prior periods which increase time-based revenue recognized in later periods, reflecting the shift of the license model in the fourth quarter of fiscal 2004.

- Time-based licenses revenue of $251.4 million, up 12% from $224.8 million in the third quarter of fiscal 2006, is attributable to increased bookings of ratable license orders in prior periods which increase time-based revenue recognized in later periods.

- Upfront license revenue of $19.0 million, up 32% from $14.4 million in the third quarter of fiscal 2006, reflects fluctuation in customer license type requirements.

- We derived approximately 93% of our revenue from time-based licenses and maintenance and service and 7% from upfront licenses in the current quarter versus 94% and 6%, respectively, in the same quarter of last year. This reflects our highly ratable license model.

- Maintenance revenue was $16.8 million, down 33% from $25.1 million in the third quarter of fiscal 2006. This decrease is primarily attributable to the transition of our ratable license model (which reduces new

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maintenance orders as maintenance is included with time-based licenses and thus not billed separately). The decline is also attributable, to a lesser extent, by the non-renewal of maintenance by some of our existing perpetual license customers. Professional services and other revenue of $16.9 million in the third quarter of fiscal 2007 increased 31% from $12.9 million in the same period of fiscal 2006 primarily from the timing of customer acceptance of services performed under ongoing contracts.

- Net income was $24.9 million compared to $7.6 million in the third quarter of fiscal 2006. The increase is primarily due to increased bookings of ratable license orders in prior periods, which increased revenue in the current period, and cost control efforts.

- We repurchased approximately 2.2 million shares of our common stock at an average price of $27.05 per share for approximately $59.4 million.

- Net cash provided by operations increased 145% to $260.3 million in the nine months ended July 31, 2007 from $106.1 million in the nine months ended July 31, 2006. This increase is attributable mainly to higher net income, increased collections, a litigation settlement of $12.5 million received from Magma during the second quarter of fiscal 2007, and decreased commission payments and payments to vendors due to timing of payments.

Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our unaudited condensed consolidated financial statements, which we prepare in accordance with U.S. generally accepted accounting principles. In preparing these financial statements, we must make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions we believe are reasonable under the circumstances. Our actual results may differ from these estimates.

The accounting policies that most frequently require us to make estimates and judgments, and therefore are critical to understanding our results of operations, are:

- Revenue recognition;
- Valuation of share-based compensation;
- Valuation of intangible assets; and
- Income taxes.

We describe our revenue recognition and share-based compensation policies below. Our remaining critical accounting policies and estimates are discussed in Part II, Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, filed with the SEC on January 11, 2007.

Revenue Recognition. We recognize revenue from software licenses and maintenance and service revenue. Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional service fees.

We have designed and implemented revenue recognition policies in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions.*

With respect to software licenses, we utilize three license types:

- *Technology Subscription Licenses (TSLs)*, are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. We bundle and do not charge separately for post-contract customer support (maintenance) for the term of the license.

- *Term Licenses,* are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.

- *Perpetual Licenses,* continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

For the three software license types, we recognize revenue as follows:

- *TSLs.* We typically recognize revenue from TSL fees (which include bundled maintenance) ratably over the term of the license period, or as customer installments become due and payable, whichever is later. Revenue attributable to TSLs is reported as time-based license revenue in the statement of operations.

- *Term Licenses.* We recognize the term license fee in full upon shipment of the software if payment terms require the customer to pay at least 75% of the term license fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these term licenses is reported as upfront license revenue in the statement of operations. For term licenses in which less than 75% of the term license fee is due within one year from shipment, we recognize revenue as customer installments become due and payable. This revenue is reported as time-based license revenue in the statement of operations.

- *Perpetual Licenses.* We recognize the perpetual license fee in full upon shipment of the software if payment terms require the customer to pay at least 75% of the perpetual license fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these perpetual licenses is reported as upfront license revenue in the statement of operations. For perpetual licenses in which less than 75% of the license fee is payable within one year from shipment, we recognize the revenue as customer installments become due and payable. Revenue attributable to these perpetual licenses is reported as time-based license revenue in the statement of operations.

In addition, we recognize revenue from maintenance fees associated with term and perpetual licenses ratably over the maintenance period and recognize revenue from professional service and training fees as these services are performed and accepted by the customer. Revenue attributable to maintenance, professional services and training is reported as maintenance and service revenue in the statement of operations.

Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence (VSOE). VSOE for each element is based on the price charged when the element is sold separately.

We have analyzed all of the elements included in our multiple-element software arrangements and have determined that we have sufficient VSOE to allocate revenue to the maintenance components of our perpetual and term license products and to professional services. Accordingly, if all other revenue recognition criteria are met, we recognize license revenue from perpetual and term licenses upon delivery using the residual method, we recognize revenue from maintenance ratably over the maintenance term, and we recognize revenue from professional services as the related services are performed and accepted. We recognize revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

We make significant judgments related to revenue recognition. Specifically, in connection with each transaction involving our products, we must evaluate whether: (1) persuasive evidence of an arrangement exists, (2) delivery of software or services has occurred, (3) the fee for the software or services is fixed or determinable, and (4) collectibility of the full license or service fee is probable. All four of these criteria must be met in order for us to recognize revenue with respect to a particular arrangement. We apply these revenue recognition criteria as follows:

- *Persuasive Evidence of an Arrangement Exists.* Prior to recognizing revenue on an arrangement, our customary policy is to have a written contract, signed by both the customer and us or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or purchase agreement.

- *Delivery Has Occurred.* We deliver software to our customers physically or electronically. For physical deliveries, the standard transfer terms are typically FOB shipping point. For electronic deliveries, delivery occurs when we provide the customer access codes, or license keys, that allow the customer to take immediate possession of the software by downloading it to the customer s hardware. We generally ship our software products or license keys promptly after acceptance of customer orders. However, a number of factors can affect the timing of product shipments and, as a result, timing of revenue recognition, including future delivery dates as reflected in the agreements and our operational capacity to fulfill software license orders at the end of a quarter.

- *The Fee is Fixed or Determinable.* Our determination that an arrangement fee is fixed or determinable depends principally on the arrangement s payment terms. Our standard payment terms require 75% or more of the arrangement fee to be paid within one year. If the arrangement includes these terms, we regard the fee as fixed or determinable, and recognize all license revenue under the arrangement in full upon delivery (assuming all other revenue recognition criteria are met). If the arrangement does not include these terms, we do not consider the fee to be fixed or determinable and generally recognize revenue when customer installments are due and payable. In the case of a TSL, we recognize revenue ratably even if the fee is fixed or determinable, due to the fact that VSOE for maintenance services does not exist for a TSL and due to revenue recognition criteria relating to arrangements that include rights to exchange products or receive unspecified future technology.

- *Collectibility is Probable.* We judge collectibility of the arrangement fees on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments to us, we evaluate the customer s financial position and ability to pay and typically assign a credit limit based on that review. We increase the credit limit only after we have established a successful collection history with the customer. If we determine at any time that collectibility is not probable under a particular arrangement based upon our credit review process or the customer s payment history, we recognize revenue under that arrangement as customer payments are actually received.

Valuation of Share-Based Compensation. Effective November 1, 2005, we adopted the provisions of SFAS 123(R) using the modified prospective method. SFAS 123(R) establishes standards for accounting for transactions in which an entity exchanges its equity instruments, such as stock options, stock purchase rights, restricted stock or restricted stock units, for goods or services, such as the services of the entity s employees. SFAS 123(R) also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally requires instead that these transactions be accounted for using a fair-value based method. Accordingly, we measure share-based compensation cost at the grant date, based on the fair value of the award, and recognize the expense over the employee s requisite service period using the straight-line attribution method. The measurement of share-based compensation cost is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk-free interest rate and award cancellation rate. These input factors are subjective and are determined using management s judgment. If a difference arises between the assumptions used in determining share-based compensation cost and the actual factors which become known over time, we may change the input factors used in determining future share-based compensation costs. Any of these changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter.

Results of Operations

Revenue Background

We generate our revenue from the sale of software licenses, maintenance and professional services. Under current accounting rules and policies applicable to different kinds of license arrangements, we recognize revenue from orders we receive for software licenses and services at varying times. In general, we recognize revenue on a time-based software license order over the license term and on an upfront term or perpetual software license order at the time the license is shipped. Substantially all of our current time-based licenses are technology subscription licenses, or TSLs, with an average license term of approximately three years, but can vary quarter-to-quarter depending on the license mix. Maintenance orders generally generate revenue ratably over the maintenance period (generally one year). Professional services orders generally generate revenue upon completion and customer acceptance of contractually agreed milestones. A more complete description of our revenue recognition policy can be found above under *Critical Accounting Policies and Estimates*.

Our revenue in any fiscal quarter is equal to the sum of our time-based license, upfront license, maintenance and professional service revenue for the period. We derive time-based license revenue in any quarter largely from TSL orders received and delivered in prior quarters. We derive upfront license revenue directly from upfront license orders booked and shipped during the quarter. We derive maintenance revenue in any quarter largely from maintenance orders received in prior quarters since our maintenance orders generally yield revenue ratably over a term of one year. We also derive professional services revenue almost entirely from orders received in prior quarters, since we recognize revenue from professional services when those services are delivered and accepted, not when they are ordered.

Our license revenue is sensitive to the mix of time-based and upfront licenses delivered during the quarter. A TSL order typically yields lower current quarter revenue but contributes to revenue in future periods. For example, a $120,000 order for a three-year TSL shipped on the last day of a quarter typically generates no revenue in that quarter, but $10,000 in each of the twelve succeeding quarters. Conversely, upfront licenses generate higher current quarter revenue but no future revenue (e.g., a $120,000 order for an upfront license generates $120,000 in revenue in the quarter the product is shipped, but no future revenue). TSLs also result in a shift of maintenance revenue to time-based license revenue since maintenance is included in TSLs, while maintenance on upfront orders is charged and reported separately.

Total Revenue

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 304.1	$ 277.2	$ 26.9	10 %
Nine months ended	$ 897.2	$ 812.2	$ 85.0	10 %

Time-Based License Revenue

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 251.4	$ 224.8	$ 26.6	12 %
Percentage of total revenue	83 %	81 %		
Nine months ended	$ 746.1	$ 645.3	$ 100.8	16 %
Percentage of total revenue	83 %	79 %		

The increase in total revenue and time-based revenue for the three and nine months ended July 31, 2007 compared to the same periods of fiscal 2006 was primarily due to (1) increasing bookings of time-based licenses, which are normally greater than one year, in prior periods which increased time-based revenue recognized in later periods, (2) the shift in the fourth quarter of fiscal 2004 in our license model to a highly ratable model under which ratable license orders in prior periods continue to contribute to time-based license revenue in later periods, and (3) with respect to the nine-month period, the fact that the first quarter of fiscal 2007 had 14 weeks compared to 13 weeks in the same quarter of fiscal 2006, resulting in one week s additional ratable revenue being recognized in the nine month period (the fourth quarter of fiscal 2007 is a 13 week quarter). As we reach maturity of our license model change to a model with substantially more ratable revenue, we expect that the model change itself will no longer contribute to the increases in total revenue or time-based revenue.

Upfront License Revenue

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 19.0	$ 14.4	$ 4.6	32 %
Percentage of total revenue	6 %	5 %		
Nine months ended	$ 47.1	$ 48.7	$ (1.6)	(3)%
Percentage of total revenue	5 %	6 %		

The increase in the third quarter upfront license revenue was primarily due to changes in customer license type requirements in the quarter. For the nine months ended July 31, 2007, upfront license revenue did not change significantly which is consistent with our shift to our highly ratable model.

Maintenance and Services Revenue

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended				
Maintenance revenue	$ 16.8	$ 25.1	$ (8.3)	(33)%
Professional services and other revenue	16.9	12.9	4.0	31 %
Total maintenance and services revenue	$ 33.7	$ 38.0	$ (4.3)	(11)%
Percentage of total revenue	11 %	14 %		
Nine months ended				
Maintenance revenue	$ 54.7	$ 80.8	$ (26.1)	(32)%
Professional services and other revenue	49.3	37.3	12.0	32 %
Total maintenance and services revenue	$ 104.0	$ 118.1	$ (14.1)	(12)%
Percentage of total revenue	12 %	15 %		

Our maintenance revenue has declined primarily due to our continued shift towards TSLs, which include maintenance with the license fee and thus generate no separately recognized maintenance revenue, and non-renewal of maintenance by certain customers on perpetual or other upfront licenses. In addition, some customers may choose in the future not to renew maintenance on upfront licenses for economic or other factors, which would also adversely affect future maintenance revenue.

Professional services and other revenue increased in the three and nine months ended July 31, 2007 compared to the same periods in fiscal 2006 due primarily to timing of customer acceptance of services performed under ongoing contracts.

Events Affecting Cost of Revenues and Operating Expenses

Temporary Shutdown of Operations. During the nine months ended July 31, 2007 and 2006, respectively, we temporarily shut down our operations in North America for three days as a cost-saving measure, resulting in savings as follows (there were no shutdowns during the three months ended July 31, 2007 or 2006):

	Nine months Ended July 31, 2007	2006
	(in thousands)	
Cost of revenue	$ 708	$ 705
Research and development	1,529	1,508
Sales and marketing	877	890
General and administrative	382	430
Total	$ 3,496	$ 3,533

Functional Allocation of Operating Expenses. We allocate certain human resource programs, information technology and facility expenses among our functional income statement categories based on headcount within each

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functional area. Quarterly, or upon a significant change in headcount (such as a workforce reduction, realignment or acquisition) or other factors, management reviews the allocation methodology and the expenses included in the allocation pool.

53 Week Fiscal Year. Fiscal 2007 is a 53 week fiscal year. The nine months ended July 31, 2007 had 40 weeks, increasing cost of revenues and operating expenses in the period compared to a typical 39 week period.

Cost of Revenue

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended				
Cost of license revenue	$ 37.1	$ 32.7	$ 4.4	13 %
Cost of maintenance and service revenue	15.8	16.2	(0.4)	(2)%
Amortization of intangible assets	5.5	6.5	(1.0)	(15)%
Total	$ 58.4	$ 55.4	$ 3.0	5 %
Percentage of total revenue	19 %	20 %		
Nine months ended				
Cost of license revenue	$ 107.3	$ 95.3	$ 12.0	13 %
Cost of maintenance and service revenue	47.5	49.7	(2.2)	(4)%
Amortization of intangible assets	17.4	21.7	(4.3)	(20)%
Total	$ 172.2	$ 166.7	$ 5.5	3 %
Percentage of total revenue	19 %	21 %		

We divide cost of revenue into three categories: cost of license revenue; cost of maintenance and service revenue; and amortization of intangible assets. We segregate expenses directly associated with providing consulting and training from costs of revenue associated with internal functions which provide license delivery and post-customer contract support services. Management then allocates these consulting and training costs between cost of license revenue and cost of maintenance and service revenue based on license and service revenue reported during the quarter.

Cost of license revenue. Cost of license revenue includes costs associated with the sale and licensing of our software products, both time-based and upfront. Further, cost of license revenue includes the allocated cost of employee salary and benefits for providing software delivery, including software production costs, product packaging, and amortization of capitalized software development costs related to Synopsys products, documentation and royalties payable to third party vendors.

Cost of maintenance and service revenue. Cost of maintenance and service revenue includes employee salary and benefits for consulting professionals and associated costs to maintain the related infrastructure necessary to operate our services and training organization. Further, cost of maintenance and service revenue includes allocated costs of employee salary and benefits for providing customer services, such as hotline and on-site support, production services and documentation of maintenance updates.

Amortization of intangible assets. See *Amortization of Intangible Assets* below for information regarding the amount of amortization charged to cost of revenue for the relevant periods.

The increase in total cost of revenue for the three months ended July 31, 2007 is primarily due to an increase of $2.8 million in compensation and employee benefits due to increased personnel costs as a result of the acquisitions of ArchPro during the third quarter of fiscal 2007, partially offset by a decrease of $1.0 million in amortization of intangible assets as a result of intangible assets acquired in prior years becoming fully amortized. Additionally, there were increases in (1) royalty and other direct costs as a result of increased shipments, (2) share-based compensation expense, and (3) travel expenses due to increased support activities.

The increase in total cost of revenue for the nine months ended July 31, 2007 is primarily due to (1) an increase of $8.5 million in compensation and employee benefits due to our increased personnel costs including the acquisition of ArchPro during the third quarter of fiscal 2007, (2) an increase of $2.1 million in royalty and other direct costs as a result of increased shipments during fiscal 2007 as compared to the same period in fiscal 2006, and (3) the first quarter

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of fiscal 2007 having 14 weeks compared to 13 weeks in the same quarter of fiscal 2006. This increase was partially offset by a decrease of $4.3 million in amortization of intangible assets as a result of intangible assets acquired in prior years becoming fully amortized. Additionally, there was also a reduction in human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006 as a result of decreased corporate-wide allocable expenses.

Operating Expenses

Research and Development

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 94.4	$ 94.0	$ 0.4	<1 %
Percentage of total revenue	31 %	34 %		
Nine months ended	$ 282.2	$ 275.1	$ 7.1	3 %
Percentage of total revenue	31 %	34 %		

For the three months ended July 31, 2007, the increase was primarily due to an increase of $3.4 million in research and development personnel and related costs due to our increased investment in personnel and as a result of the acquisitions in fiscal 2007 and late fiscal 2006, partially offset by a decrease of $1.4 million in travel, entertainment and communications expenses. Additionally, there were decreases in expenses related to share-based compensation, facilities and depreciation, as well as human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006 as a result of decreased corporate-wide allocable expenses.

For the nine months ended July 31, 2007, the increase was primarily due to an increase of $17.9 million in research and development personnel and related costs due to our increased investment in personnel and as a result of acquisitions in fiscal 2007 and fiscal 2006, and as a result of the first quarter of fiscal 2007 having 14 weeks compared to 13 weeks in the same quarter of fiscal 2006. This increase was partially offset by (1) a decrease of $4.7 million in share-based compensation expense, (2) a decrease of $2.7 million in expenses for travel, entertainment and communications, (3) a reduction of $1.4 million in depreciation expense, and (4) a reduction of $2.0 million in human resources, information technology and facilities costs allocated to this line item compared to the same period in fiscal 2006 as a result of decreased corporate-wide allocable expenses.

Sales and Marketing

	July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 95.4	$ 81.2	$ 14.2	17 %
Percentage of total revenue	31 %	29 %		
Nine months ended	$ 264.2	$ 245.5	$ 18.8	8 %
Percentage of total revenue	29 %	30 %		

For the three months ended July 31, 2007, the increase was primarily due to (1) an increase of $14.2 million in variable compensation as a result of increased orders shipped, and (2) an increase of $2.1 million in overall sales and marketing personnel related costs compared to the same period of fiscal 2006; partially offset by a reduction of $1.0 million in human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006 as a result of decreased corporate-wide allocable expenses and reductions in communications, membership and subscription expenses due to lower spending.

For the nine months ended July 31, 2007, the increase was primarily due to (1) an increase of $14.4 million in variable compensation as a result of increased orders shipped as compared to the same period in fiscal 2006, (2) an increase of $8.4 million in sales and marketing personnel related costs primarily as a result of the first quarter of fiscal 2007 having 14 weeks compared to 13 weeks in the same quarter of fiscal 2006, and (3) an increase of $1.3 million for costs related to sales meetings. This increase was partially offset by (1) a reduction of $1.5 million for expenses related to communications, professional services, membership and subscriptions, and (2) a reduction of $3.3 million in human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006 as a result of decreased corporate-wide allocable expenses. Additionally there were decreases in expenses related

to marketing and communications and consultants for the nine months ended July 31, 2007 as compared to the same period in fiscal 2006.

General and Administrative

	July 31, 2007 (dollars in millions)	2006	Dollar Change	% Change
Three months ended	$ 24.2	$ 26.7	$ (2.5)	(9)%
Percentage of total revenue	8 %	10 %		
Nine months ended	$ 76.4	$ 84.8	$ (8.4)	(10)%
Percentage of total revenue	8 %	10 %		

For the three months ended July 31, 2007, the decrease was primarily due to (1) a decrease of $4.6 million in expenses related to professional services for litigation, Sarbanes-Oxley compliance, tax and audit matters, and (2) a decrease of $1.2 million in depreciation expense as a result of older equipment being fully depreciated. This decrease was partially offset by (1) an increase of $1.1 million in expenses related to facilities, and (2) a net increase of $1.4 million in human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006.

For the nine months ended July 31, 2007, the decrease was primarily due to (1) a decrease of $5.5 million in expenses related to professional services for litigation, Sarbanes-Oxley compliance, tax and audit matters, (2) a decrease of $2.6 million in depreciation expense as a result of older equipment being fully depreciated, (3) a decrease of $1.6 million in telecommunication and networking expenses, (4) a decrease of $1.8 million in employee training, recruiting and other related costs, (5) a decrease of $1.3 million in general and administrative personnel related costs, and (6) a gain of $4.3 million, net of related expenses, for a land sale completed during the current quarter recorded as an offset to expense under this line. These decreases were offset by (1) an increase of $1.2 million in share-based compensation expense, (2) an increase of $1.3 million in expense related to facilities, and (3) a net increase of $5.8 million in human resources, information technology and facilities costs, allocated to this line item compared to the same period in fiscal 2006.

Amortization of Intangible Assets

Amortization of intangible assets includes the amortization of the contract rights associated with certain executory contracts and the amortization of core/developed technology, trademarks, trade names, customer relationships, covenants not to compete and other intangibles related to acquisitions completed in prior years and in the three months ended July 31, 2007. Amortization expense is included in the unaudited condensed consolidated statements of operations as follows:

	July 31, 2007 (dollars in millions)	2006	Dollar Change	% Change
Three months ended				
Cost of revenue	$ 5.5	$ 6.5	$ (1.0)	(15)%
Operating expenses	6.7	6.8	(0.1)	(1)%
Total	$ 12.2	$ 13.3	$ (1.1)	(8)%
Percentage of total revenue	4 %	5 %		
Nine months ended				
Cost of revenue	$ 17.4	$ 21.7	$ (4.3)	(20)%
Operating expenses	19.9	21.2	(1.3)	(6)%
Total	$ 37.3	$ 42.9	$ (5.6)	(13)%
Percentage of total revenue	4 %	5 %		

For the three and nine months ended July 31, 2007, the decrease in amortization of intangible assets is primarily due to some of the intangible assets acquired in prior years becoming fully amortized in fiscal year 2006. See Note 6 to *Notes to Unaudited Condensed Consolidated Financial Statements* for a schedule of future amortization amounts.

In-Process Research and Development. We recorded a $2.1 million IPRD charge related to our acquisition of ArchPro during the three and nine months ended July 31, 2007. We recorded a $0.8 million IPRD charge related to our acquisition of HPL Technologies, Inc. in the nine months ended July 31, 2006. At the acquisition date, the projects associated with these IPRD efforts had not yet reached technological feasibility and had no alternative future use. Accordingly, the amounts were expensed on the acquisition date. These projects will be completed over a period of approximately two years.

Other Income, Net

	July 31, 2007 (dollars in millions)	2006	Dollar Change	% Change
Three months ended				
Interest income, net	$ 6.7	$ 3.7	$ 3.0	81 %
Income (loss) on assets related to executive deferred compensation plan	3.3	(1.0)	4.3	430 %
Other	0.8	(0.3)	1.1	366 %
Total	$ 10.8	$ 2.4	$ 8.4	350 %
Nine months ended				
Interest income, net	$ 17.5	$ 10.0	$ 7.5	75 %
Income (loss) on assets related to executive deferred compensation plan	7.9	3.0	4.9	163 %
Other	13.0	(3.3)	16.3	494 %
Total	$ 38.4	$ 9.7	$ 28.7	296 %

Other income, net increased $8.4 million during the three months ended July 31, 2007 compared to the same period in fiscal 2006, primarily due to increases in interest income and deferred compensation plan income. Other income, net increased $28.7 million during the nine months ended July 31, 2007 compared to the same periods in fiscal 2006, primarily due to a $12.5 million litigation settlement payment from Magma Design Automation, Inc.

Income Tax Rate

Effective Tax Rate

We estimate our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income (loss), the geographic mix of pre-tax income (loss) and our interpretations of tax laws and possible outcomes of audits.

The following table presents the provision for income taxes and the effective tax rates for the three and nine months ended July 31, 2007 and 2006:

	Three Months Ended July 31, 2007 (dollars in millions)	2006	Nine months Ended July 31, 2007	2006
Income before income taxes	$ 33.8	$ 15.6	$ 118.6	$ 27.7
Provision for income tax	$ 9.0	$ 8.0	$ 29.1	$ 13.1
Effective tax rate	26.5 %	51.5 %	24.6 %	47.3 %

The effective tax rate for the three and nine months ended July 31, 2007 is lower than the statutory federal income tax rate of 35% primarily due to the tax impact of non-U.S. operations, which are taxed at lower rates, and research and development credits, partially offset by state taxes and non-deductible stock option compensation expense recorded under SFAS 123(R). The effective tax rate decreased in the three and nine months ended July 31, 2007, as compared to the same periods in fiscal 2006, primarily due to a reduction in foreign withholding tax liabilities, the benefit of a new exception to current U.S. taxation of certain foreign intercompany income and the extension of the federal research and development tax credit. The 2007 third quarter provision includes the effect of certain state tax audit settlements and

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additional tax provisions on foreign earnings, partially offset by an increase in our federal and state research and development tax credits for 2006.

IRS Revenue Agent s Report. On June 8, 2005, we received a Revenue Agent s Report (RAR) in which the Internal Revenue Service (IRS) proposed to assess a net tax deficiency for fiscal years 2000 and 2001 of approximately $476.8 million, plus interest. This proposed adjustment primarily relates to transfer pricing transactions between Synopsys and a wholly-owned foreign subsidiary. We strongly believe the proposed IRS adjustment and resulting proposed deficiency are inconsistent with applicable tax laws, and that we thus have meritorious defenses to this proposed IRS adjustment.

On July 13, 2005, we filed a protest to the proposed deficiency with the IRS, which caused the matter to be referred to the Appeals Office of the IRS. The appeals process began during the second quarter of fiscal 2007 and continues with an objective to reach a final resolution of the matter at the Appeals level. We believe it is probable that we will be required to make some additional payments in order to resolve this matter, but we believe we have already adequately provided for this matter. If we reach a final written settlement with the Appeals division and thereby determine that the provision for this matter is overstated or understated and thus requires adjustment, our results of operations and financial condition could be materially affected. Final resolution of this matter could take considerable time.

In the third quarter of 2006, the IRS started an examination of our federal income tax returns for the years 2002 through 2004. As of July 31, 2007, the examination is still in progress, and no adjustments had been proposed by the IRS which would require an adjustment to the tax provision.

Effect of New Accounting Pronouncements

Please see Note 15 of *Notes to Unaudited Condensed Consolidated Financial Statements* for a description of the effect of new accounting pronouncements on Synopsys.

Liquidity and Capital Resources

Our sources of cash, cash equivalents and short-term investments are funds generated from our business operations and funds that may be drawn down under our credit facility.

The following sections discuss changes in our balance sheet and cash flows, and other commitments on our liquidity and capital resources during fiscal 2007.

Cash and Cash Equivalents and Short-Term Investments

	July 31, 2007 (dollars in millions)	October 31, 2006	Dollar Change	% Change
Cash and cash equivalents	$ 435.8	$ 330.7	$ 105.1	32 %
Short-term investments	358.4	242.0	116.4	48 %
Total	$ 794.2	$ 572.7	$ 221.5	39 %

During the nine months ended July 31, 2007, our primary sources and uses of cash consisted of (1) cash provided by operating activities of $260.3 million, (2) proceeds from issuance of common stock to employees of $151.7 million, (3) proceeds from sales and maturities of short-term investments of $209.2 million, (4) proceeds from sale of land of $26.3 million, (5) repurchases of common stock of $140.8 million, (6) purchases of investments of $333.0 million, (7) purchases of property and equipment of $36.4 million, and (8) cash paid for acquisitions and intangible assets of $34.1 million.

Cash Flows

	Nine months Ended July 31, 2007	2006	Dollar Change	% Change
	(dollars in millions)			
Cash provided by operations	$ 260.3	$ 106.1	$ 154.2	145 %
Cash used in investing activities	$ (170.2)	$ (118.4)	$ (51.8)	(44)%
Cash provided by (used in) financing activities	$ 10.9	$ (126.4)	$ 137.3	109 %

Cash provided by operating activities. Cash provided by operations is dependent primarily upon the payment terms of our license agreements. For an upfront license, we require that 75% of the license fee be paid within the first year. Conversely, payment terms for time-based licenses are generally extended and the license fee is typically paid either quarterly or annually in even increments over the term of the license. Accordingly, we generally receive cash from upfront licenses much sooner than for time-based licenses.

Cash provided by operating activities increased primarily due to increased collections, a litigation settlement of $12.5 million received from Magma during the second quarter of fiscal 2007, and decreased commission payments and payments to vendors due to timing of payments compared to the same period in 2006.

Cash used in investing activities. The increase in cash used primarily relates to acquisitions, the timing of purchases and maturities of marketable securities, and our capital expenditures to support our growth, partially offset by cash received for the sale of land in San Jose for $26.3 million, net of related fees.

Cash provided by (used in) financing activities. The increase in cash provided primarily relates to a higher amount of option exercises by employees and reduced stock repurchases under our stock repurchase program compared to the same period in fiscal 2006. See Note 4 of *Notes to Unaudited Condensed Consolidated Financial Statements* for details of the stock repurchase program.

We hold our cash, cash equivalents and short-term investments in the United States and in foreign accounts, primarily in Ireland, Bermuda, and Japan. As of July 31, 2007, we held an aggregate of $584.9 million in cash, cash equivalents and short-term investments in the United States and an aggregate of $209.3 million in foreign accounts.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in the timing of our billings and collections, our operating results, the timing and amount of tax and other liability payments and cash used in any future acquisitions.

Accounts Receivable, net

July 31, 2007 (dollars in millions)		October 31, 2006		Dollar Change		% Change	
$	204.8	$	122.6	$	82.2	67	%

Our accounts receivable and Days Sales Outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 61 days at July 31, 2007 and 39 days at October 31, 2006. The increase in accounts receivable and DSO primarily relates to a large billing to one customer that occurred late in the third quarter with subsequent payment terms.

Net Working Capital

Working capital is comprised of current assets less current liabilities, as shown on our unaudited condensed consolidated balance sheets. As of July 31, 2007, our net working capital was $217.5 million, compared to $23.4 million as of October 31, 2006. The increase of $194.1 million was primarily due to (1) an increase of $105.1 million in cash and cash equivalents including proceeds from sale of land and the Magma litigation settlement, (2) an increase in short-term investments of $116.4 million, (3) an increase in accounts receivable of $82.2 million, (4) an increase in income taxes receivable and deferred taxes of $1.2 million, (5) an increase in prepaid and other of $7.0 million, (6) a decrease in income taxes payable of $3.2 million, and (7) a decrease of $2.1 million in accounts payable and other liabilities. This increase was partially offset by an increase in deferred revenue of $123.2 million.

Other Sources of Liquidity and Commitments Revolving Credit Facility

We have cash available through a $300.0 million credit facility. As of July 31, 2007, we had no outstanding borrowings under this credit facility and were in compliance with all covenants. See Note 8 of *Notes to Unaudited Condensed Consolidated Financial Statements* for a description of our revolving credit facility.

Contractual Obligations.

For contractual obligations, reference is made to the section in Item 7 in Part II in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, entitled *Contractual Obligations And Off-Balance Sheet Arrangements.* Our obligations have not changed materially since the date set forth in Item 7 of the Form 10-K.

We believe that our current cash, cash equivalents, short-term investments, cash generated from operations, and available credit under our credit facility will satisfy our business requirements for at least the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A *Quantitative and Qualitative Disclosure About Market Risk* contained in Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2006. Our exposure to market risk has not changed materially since the dates set forth in Item 7A of the Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* As of July 31, 2007 (the Evaluation Date), Synopsys carried out an evaluation under the supervision and with the participation of Synopsys management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Synopsys disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Nonetheless, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 31, 2007, (1) Synopsys disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) Synopsys disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Synopsys files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Synopsys management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

(b) *Changes in Internal Controls.* There were no changes in Synopsys internal control over financial reporting during the three months ended July 31, 2007 that have materially affected, or are reasonably likely to materially affect, Synopsys internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

IRS Revenue Agent s Report

On June 8, 2005, we received a Revenue Agent s Report (RAR) in which the Internal Revenue Service (IRS) proposed to assess a net tax deficiency for fiscal years 2000 and 2001 of approximately $476.8 million, plus interest. This proposed adjustment primarily relates to transfer pricing transactions between Synopsys and a wholly-owned foreign subsidiary. We strongly believe the proposed IRS adjustment and resulting proposed deficiency are inconsistent with applicable tax laws, and that we thus have meritorious defenses to this proposed IRS adjustment.

On July 13, 2005, we filed a protest to the proposed deficiency with the IRS, which caused the matter to be referred to the Appeals Office of the IRS. The appeals process began during the second quarter of fiscal 2007 and continues with an objective to reach a final resolution of the matter at the Appeals level. We believe it is probable that we will be required to make some additional payments in order to resolve this matter, but we believe we have already adequately provided for this matter. If we reach a final written settlement with the Appeals division and thereby determine that the provision for this matter is overstated or understated and thus requires adjustment, our results of operations and financial condition could be materially affected. Final resolution of this matter could take considerable time. We reported on this matter in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, as well as in our first two Quarterly Reports on Form 10-Q for fiscal 2007.

Other Proceedings

We are also subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on Synopsys because of the defense costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, which have not materially changed other than as set forth below. Those risks, which could materially affect our business, financial condition or future results, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Changes in, or interpretations of, accounting principles could result in unfavorable accounting charges or effects, including changes to our prior financial statements, which could cause our stock price to decline.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles, or in our interpretations of these principles, can have a significant effect on our reported results and may retroactively affect previously reported results.

For example, in September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 addresses the process and diversity in practice of quantifying misstatements and provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes that registrants should quantify errors using both a balance sheet (iron curtain) and an income statement (rollover) approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. In the year of adoption, SAB 108 allows a one-time cumulative effect transition adjustment for errors that were not previously deemed material, but are material under the guidance in SAB 108. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. Synopsys will be required to adopt the provisions of SAB 108 by the end of fiscal 2007. Synopsys is currently evaluating the requirements of SAB 108 and the potential impact upon adoption. Historically, Synopsys has evaluated uncorrected differences utilizing the rollover approach. Although Synopsys believes its prior period assessments of uncorrected differences utilizing the rollover approach and the conclusions reached regarding its quantitative and qualitative assessments of such uncorrected differences were appropriate, Synopsys expects that, due to the analysis required in SAB 108, certain historical uncorrected differences during fiscal 1999 through fiscal 2003 related to share-based compensation and fixed assets, will be corrected upon adoption.

We will adopt SAB 108 in the fourth quarter of fiscal 2007. We estimate that the historical uncorrected differences related to fiscal 1999 through fiscal 2004 will be approximately $11 to $15 million. However, we are continuing to evaluate the impact of adopting SAB 108 and, as a result, the actual adjustment could be higher or lower than the estimate as a result of quantification of known immaterial errors or identification of additional immaterial errors.

We received a letter dated February 5, 2007 from the Staff of the Division of Corporation Finance of the Securities and Exchange Commission with respect to our Annual Report on Form 10-K filed for the fiscal year ended October 31, 2006, and a follow-up letter on April 11, 2007. The SEC Staff letters related to our planned adoption of Staff Accounting Bulletin No. 108 and our expected correction of historical non-material uncorrected differences related to share-based compensation upon adoption of SAB 108. We responded to both of these letters and, on June 12, 2007, we received a letter from the SEC Staff stating that they have completed their review of our Form 10-K and related filings and have no further comments at this time.

We have received a *Revenue Agent s Report* from the Internal Revenue Service claiming a significant increase in our U.S. taxable income and the IRS started an examination of Synopsys federal income tax returns for fiscal years 2002 through 2004. An adverse outcome, or an adjustment of our tax provisions generally, could have a material effect on our results of operations and financial condition.

On June 8, 2005, we received a Revenue Agent s Report (RAR) in which the Internal Revenue Service (IRS) proposed to assess a net tax deficiency for fiscal years 2000 and 2001 of approximately $476.8 million, plus interest. This proposed adjustment primarily relates to transfer pricing transactions between Synopsys and a wholly-owned foreign subsidiary. We strongly believe the proposed IRS adjustment and resulting proposed deficiency are inconsistent with applicable tax laws, and that we thus have meritorious defenses to this proposed IRS adjustment. On July 13, 2005, we filed a protest to the proposed deficiency with the IRS, which caused the matter to be referred to the Appeals Office of the IRS. The appeals process began during the second quarter of fiscal 2007 and continues with an objective to reach a final resolution of the matter at the Appeals level. We believe it is probable that we will be required to make some additional payments in order to resolve this matter, but we believe we have already adequately provided for this matter. If we reach a final written settlement with the Appeals division and thereby determine that the provision for this matter is overstated or understated and thus requires adjustment, our results of operations and financial condition could be materially affected. Final resolution of this matter could take considerable time.

In the third quarter of fiscal year 2006, the IRS started an examination of our federal income tax returns for the fiscal years 2002 through 2004. As of July 31, 2007, the examination is still in progress and no adjustments have been proposed by the IRS which would require an adjustment to the tax provision. If, based upon the status of this pending examination, we determine that we are required to pay a significant amount of U.S. taxes and applicable interest, our results of operations and financial condition could be materially affected.

From time to time we are subject to claims that our products infringe on third party intellectual property rights.

Under our customer agreements and other license agreements, we agree in many cases to indemnify our customers if our products infringe on a third party s intellectual property rights. As a result, we are from time to time subject to claims that our products infringe on these third party rights. For example, we recently settled a matter with Magma Design, Inc. in which both parties claimed patent infringement. As part of the settlement, Magma paid us an aggregate of $12.5 million. However, we are also currently defending some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. We believe this claim is without merit and will continue to vigorously defend against it.

These types of claims can, however, result in costly and time-consuming litigation, require us to enter into royalty arrangements, subject us to damages or injunctions restricting our sale of products, require us to refund license fees to our customers or to forgo future payments or require us to redesign certain of our products, any one of which could materially and adversely affect our business, results of operations and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchases of Synopsys common stock by Synopsys during the three months ended July 31, 2007.

Period (1)	**TOTAL NUMBER OF SHARES PURCHASED**	**AVERAGE PRICE PAID PER SHARE**	**TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAMS**	**MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAMS**
Month #1				
May 8, 2007 through June 9, 2007	1,926,874	$ 27.08637	1,926,874	$ 447,807,969.07
Month #2				
June 10, 2007 through July 7, 2007	182,717	$ 26.91173	182,717	$ 442,890,738.01
Month #3				
July 8 through August 4, 2007	86,400	$ 26.44845	86,400	$ 440,605,591.93
Total	2,195,991	$ 27.04674	2,195,991	$ 440,605,591.93

(1) All months shown are Synopsys fiscal months.

All shares were purchased pursuant to a $500 million stock repurchase program approved by Synopsys Board of Directors and announced on December 1, 2004 which was replenished to $500 million on March 22, 2007 and announced on March 27, 2007. Funds are available until expended or until the program is suspended by the Chief Financial Officer or the Board of Directors.

ITEM 6. EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of Synopsys, Inc. (1)
3.2	Restated Bylaws of Synopsys, Inc. (2)
4.1	Reference is made to Exhibit 3.1 and 3.2.
10.41	Form of Fiscal 2006 Executive Incentive Plan, as amended
31.1	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code.

(1) Incorporated by reference to exhibit to Synopsys Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2003.

(2) Incorporated by reference to exhibit to Synopsys Current Report on Form 8-K filed with the Commission on September 12, 2006.

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SIGNATURES

Pursuant to the requirements 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.

SYNOPSYS, INC.

By: /s/ Brian M. Beattie
Brian M. Beattie
Chief Financial Officer
(Principal Financial Officer)

Date: September 12, 2007

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