

Deal takes Seagate private

Scotts Valley disk-drive maker acquired in \$17.5 billion transaction

The key players

■ In a complex deal announced Wednesday, valued at \$17.5 billion, Seagate Technology will fall into the private hands of an investor group, with certain securities going to publicly traded Veritas Software.

Seagate

- **Business:** No. 1 maker of computer disk drives
- **Employees:** 65,000 worldwide
- **Locations:** Headquarters in Scotts Valley; plants in Colorado, Scotland, China, Indonesia, Malaysia and Singapore
- **Sale compensations:** Shareholders will receive 0.467 share of Veritas and about \$5 in cash for each share of Seagate
- **Stock closing:** \$62.75

Investment group

- **Partners:** Silver Lake Partners, Texas Pacific Group, August Capital, Integral Capital Partners, Chase Capital Partners, Goldman Sachs & Co., Seagate management

Veritas

- **Business:** Maker of disk drive management software
- **Locations:** Headquarters in Mountain View; office in New York
- **Stock closing:** \$142.50

By JENNIFER PITTMAN
Sentinel staff writer

SCOTTS VALLEY — In a complex \$17.5 billion-plus deal that puts its destiny outside the public glare of Wall Street, Seagate Technology will again become a privately owned company.

Principals in the stunning deal that was announced Wednesday say it will strip the computer operation of distracting subsidiaries and investments in other companies.

Seagate is to be acquired by a high-



Luczo
Seagate CEO

powered consortium of investment groups and Veritas Software Corp., a Mountain View-based disk drive software maker, announced Steve Luczo, Seagate chief executive officer and president. Luczo made the surprise announcement after the close of markets Wednesday.

"We are creating the largest private company in Silicon Valley by this transaction," Luczo said. "This is a significant event for Seagate."

In a telephone interview, Luczo called the new Seagate "the largest start-up now in Santa Cruz."

It will put the company in a better position for recruiting and retention, he said.

The investment group led by Silver Lake Partners, Seagate executives and

the Texas Pacific Group will take over the business' core disk drive operations, and Veritas Software will buy back one third of its own shares, which are now owned by Seagate. Veritas also will acquire four subsidiary companies owned by Seagate and receive \$1 billion in cash.

The deal should be completed in the third quarter after a vote by shareholders of Veritas and Seagate, clearance by the U.S. Securities and Exchange Commission, and scrutiny under antitrust laws.

Luczo said there are no plans to change the path of Seagate's operating strategies as a result of the privatization.

The company's Scotts Valley headquarters, where about 750 employees

work, will remain intact, Luczo said. No significant changes in executive management or staff are expected. The company employs about 65,000 people worldwide.

As a private company, Seagate should be able to invest more aggressively because it won't have to respond to the concerns of public shareholders every quarter, company officials said.

"It allows us to focus on the core business," Luczo said. "It also allows us to focus on the longer term."

Luczo said the company plans to increase its investments in research and development, activities that are largely conducted at its other U.S. facilities.

The newly private company will be

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called Seagate Technology.

"I'm amazed at how lucky I am to have the best job in the valley and be able to do it without the constant pressure of being a public company," Luczo said. "I'm pretty excited about it."

Seagate, which has struggled in recent years along with other data-storage companies, has spent the last year restructuring and trying to cut its time to market.

As detailed Wednesday, Seagate shareholders will receive about \$15.5 billion in cash and Veritas stock. Each share of Seagate stock would be exchanged for about \$71.55 worth of Veritas stock and about \$5 cash.

Seagate shares, traded as SEG on the New York Stock Exchange, closed Wednesday at \$62.75, but climbed to \$74 in after-hours trading.

Veritas shares had dropped \$12.44 by the close of the Nasdaq market Wednesday to \$142.50. Veritas stock, traded as VRTS, climbed in after-hours trading to \$159.

The companies said the transaction has been structured so the issuance of the Veritas shares should be tax-free

to Seagate stockholders.

The companies valued the total transaction at \$20 billion. Based on Wednesday's closing price of Veritas stock and Seagate's 215.9 million shares outstanding, it would be valued at about \$17.5 billion in cash and stock.

In the deal, Veritas will buy back 128 million shares of its common stock from Seagate in addition to acquiring four companies — Gadzoox Networks, SanDisk, CVC, and Dragon Systems — held by Seagate. Veritas will increase its value by issuing about 12.5 million fewer shares.

In recent months, Veritas stock has jumped nearly sixfold. As a result, those shares were worth about \$18 billion Wednesday, more than Seagate's total value of about \$15 billion.

The investor group, meanwhile, will acquire Seagate's disk-drive operations, liabilities and assets for \$2 billion in cash.

Silver Lake Partners and Texas Pacific Group are the largest investors in the new operation.

Silver Lake Partners, with offices in Menlo Park and New York, is a leading private equity investment firm focused on technology companies.

The Texas Pacific Group is a private equity investment firm with more than \$7 billion in equity capital.

Other investors include August Capital, Integral Capital Partners, Chase Capital Partners and Goldman Sachs & Co.

"People are kind of amazed that we were able to structure this," Luczo said.

Another major Santa Cruz-area tech firm, Plantronics, also went from public to private ownership more than a decade ago, but it returned to stock ownership five years later.

In 1988, the telephone headset manufacturer was taken private in a takeover led by its top management and Wall Street-financed PI Holdings. Boggled down by a huge debt load, however, Plantronics returned to the stock market, raising \$47 million in a new public offering. The company then grew dramatically, jumping from \$95 million in annual sales to nearly \$300 million by the end of 1999.

Seagate was founded in 1979 by Al

Shugart, who was closely involved in the development of the first disk drive — for mainframe computers — at IBM during the 1950s and 1960s.

Shugart and several associates created Seagate to build small disk drives for the new class of personal computers. After weathering years of severe cost cutting, the company became a key supplier of IBM as the PC market boomed in the mid-1990s.

After its acquisition of Conner Peripherals, the company became the world's biggest disk-drive maker.

In the late 1990s, the company once again battled competition, inventory gluts and pricing pressures in the highly competitive industry. In July 1998, the company's board forced Shugart out as chief executive.

Shugart could not be reached to comment Wednesday about the latest development.

Morgan Stanley Dean Witter acted as financial advisor to Seagate's board for the deal, while Credit Suisse First Boston acted as financial advisor to the Veritas board.