KNOT Offshore Partners LP
Form F-3
May 15, 2014
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As filed with the Securities and Exchange Commission on May 15, 2014

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM F-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KNOT Offshore Partners LP

(Exact name of registrant as specified in its charter)

Republic of the Marshall Islands	**98-1098373**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

2 Queen s Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom, +44 1224 618420

(Address and telephone number of Registrant s principal executive offices)

Watson, Farley & Williams LLP

1133 Avenue of the Americas

New York, New York 10036

(212) 922-2200

(Name, address, and telephone number of agent for service)

Copies to:

Catherine S. Gallagher

Adorys Velazquez

Vinson & Elkins L.L.P.

2200 Pennsylvania Avenue NW

Suite 500 West

Washington, DC 20037

Tel (202) 639-6500

Fax (202) 639-6604

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

If 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, 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 this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered[(1)]**	**Proposed maximum aggregate price per unit[(2)]**	**Proposed maximum aggregate offering price[(1)(2)]**	**Amount of registration fee**
Common units representing limited partner interests				
Other classes of units representing limited partner interests				
Debt securities[(3)]				
Total	(1)	(2)	$750,000,000[(4)]	$96,600[(5)]

(1) There are being registered hereunder such presently indeterminate number of common units representing limited partner interests, other classes of units representing limited partner interests, and debt securities of KNOT Offshore Partners LP, which may be offered and sold, on a primary basis, in such amount as shall result in an aggregate offering price not to exceed $750 million. This registration statement also covers an indeterminate amount of common units representing limited partner interests as may be issued upon conversion of the debt securities or other classes of units registered hereunder.

(2) The proposed maximum aggregate offering price for each class of securities to be registered is not specified pursuant to General Instruction II.C. of Form F-3.

(3) If any debt securities are issued at an original issue discount, then the offering price of such debt securities shall be in such amount as shall result in an aggregate initial offering price not to exceed $750 million, less the dollar amount of any registered securities of KNOT Offshore Partners LP previously issued.

(4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933 (the Securities Act). In no event will the aggregate initial offering price of all securities offered from time to time pursuant to this registration statement exceed $750 million.

(5) Calculated in accordance with Rule 457(o) under the Securities Act.

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 or until the registration statement shall become effective on such date as the 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. We 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 it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 15, 2014

PROSPECTUS

KNOT Offshore Partners LP

Common Units Representing Limited Partnership Interests

Other Classes of Units Representing Limited Partnership Interests

Debt Securities

We may from time to time, in one or more offerings, offer and sell common units and other units representing limited partner interests in KNOT Offshore Partners LP and the debt securities described in this prospectus. We refer to the common units and other units representing limited partner interests in KNOT Offshore Partners LP and the debt securities collectively as the securities. The aggregate initial offering price of all securities sold by us under this prospectus will not exceed $750 million.

We may offer and sell these securities in amounts, at prices and on terms to be determined by market conditions and other factors at the time of the offering. This prospectus describes only the general terms of these securities and the general manner in which we will offer the securities. The specific terms of any securities we offer will be included in a supplement to this prospectus. The prospectus supplement will describe the specific manner in which we will offer the securities and also may add, update or change information contained in this prospectus. The names of any underwriters and the specific terms of a plan of distribution will be stated in the prospectus supplement.

Our common units are traded on the New York Stock Exchange (the NYSE), under the symbol KNOP. We will provide information in the related prospectus supplement for the trading market, if any, for any securities that may be offered.

Investing in our securities involves risks. You should carefully consider the risk factors described under "Risk Factors" on page 6 of this prospectus before you make an investment in our securities.

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

The date of this prospectus is , 2014.

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In making your investment decision, you should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference in this prospectus. We have not authorized anyone else to give you different information. We are not offering these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the Securities and Exchange Commission (the SEC), incorporated by reference in this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using a shelf registration process. Under this shelf registration process, we may over time, in one or more offerings, offer and sell up to $750 million in total aggregate offering price of any combination of the securities described in this prospectus.

This prospectus provides you with a general description of KNOT Offshore Partners LP and the securities that are registered hereunder that may be offered by us. Each time we sell any securities offered by this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities being offered. Any prospectus supplement may also add, update or change information contained in this prospectus. To the extent information in this prospectus is inconsistent with the information contained in a prospectus supplement, you should rely on the information in the prospectus supplement.

The information in this prospectus is accurate as of its date. Additional information, including our financial statements and the notes thereto, is incorporated in this prospectus by reference to our reports filed with the SEC. Before you invest in our securities, you should carefully read this prospectus, including the Risk Factors, any prospectus supplement, the information incorporated by reference in this prospectus and any prospectus supplement (including the documents described under the heading Where You Can Find More Information in both this prospectus and any prospectus supplement) and any additional information you may need to make your investment decision.

Unless the context otherwise requires, references in this prospectus to KNOT Offshore Partners LP, KNOT Offshore Partners, the Partnership, we, our, us or similar terms refer to KNOT Offshore Partners LP, a Marshall Islands lim partnership, or any one or more of its subsidiaries. References in this prospectus to our general partner refer to KNOT Offshore Partners GP LLC, the general partner of the Partnership. References in this prospectus to KNOT refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-3 regarding the securities covered by this prospectus. This prospectus does not contain all of the information found in the registration statement. For further information regarding us and the securities offered in this prospectus, you may wish to review the full registration statement, including its exhibits. The registration statement, including the exhibits, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of this material can also be obtained upon written request from the Public Reference Section of the SEC at that address, at prescribed rates, or from the SEC s website at www.sec.gov free of charge. Please call the SEC at 1-800-SEC-0330 for further information on public reference rooms. You may also obtain information about us at the offices of the NYSE at 20 Broad Street, New York, NY, 10005, or on our website at www.knotoffshorepartners.com. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus unless specifically so designated and filed with the SEC.

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, in accordance therewith, we are required to file with the SEC annual reports on Form 20-F within four months of our fiscal year-end, and provide to the SEC other material information on Form 6-K. These reports and other information may be inspected and copied at the public reference facilities maintained by the SEC or obtained from the SEC s website as provided above. Our website, also provided above, will make our annual reports on Form 20-F and our periodic reports filed with the SEC available, free of charge, through our website as soon as reasonably practicable after those reports are electronically filed with the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, certain rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal unitholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the

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Exchange Act, including the filing of quarterly reports or current reports on Form 8-K. However, we intend to make available quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each fiscal year.

The SEC allows us to incorporate by reference into this prospectus information that we file with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed to be filed with the SEC, automatically will update information previously filed with the SEC, and may replace information in this prospectus.

We incorporate by reference into this prospectus the documents listed below:

- our annual report on Form 20-F for the fiscal year ended December 31, 2013 filed on April 15, 2014, as amended by Form 20-F/A, filed on May 5, 2014 (our 2013 Annual Report);

- our report on Form 6-K filed on May 15, 2014;

- all subsequent annual reports on Form 20-F filed prior to the termination of this offering;

- all subsequent current reports on Form 6-K furnished prior to the termination of this offering that we identify in such current reports as being incorporated by reference into the registration statement of which this prospectus is a part; and

- the description of our common units contained in our Registration Statement on Form 8-A filed on April 5, 2013, including any subsequent amendments or reports filed for the purpose of updating such description.

These reports contain important information about us, our financial condition and our results of operations.

You may obtain any of the documents incorporated by reference in this prospectus from the SEC through its public reference facilities or its website at the addresses provided above. You also may request a copy of any document incorporated by reference in this prospectus (excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document), at no cost, by visiting our website at www.knotoffshorepartners.com, or by writing or calling us at the following address:

KNOT Offshore Partners LP

2 Queen s Cross

Aberdeen, Aberdeenshire AB15 4YB

United Kingdom

+44 1224 618420

You should rely only on the information contained in or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with any information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than its respective date.

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FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference contain certain forward-looking statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, intend, forecast, believe, estimate, predict, propose, potential, continue or the negative of other comparable terminology. These forward-looking statements reflect management s current views only as of the date of this prospectus and are not intended to give any assurance as to future results. As a result, unitholders are cautioned not to rely on any forward-looking statements.

Forward-looking statements appear in a number of places in this prospectus and include statements with respect to, among other things:

- statements about market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;
- statements about KNOT s and KNOT Offshore Partners ability to build and retrofit shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- KNOT Offshore Partners ability to make cash distributions on its units or any increases in cash distributions;
- KNOT Offshore Partners ability to integrate and realize the expected benefits from acquisitions;
- KNOT Offshore Partners anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- general market conditions, including fluctuations in hire rates and vessel values;

changes in KNOT Offshore Partners operating expenses, including drydocking and insurance costs and bunker prices;

KNOT Offshore Partners future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

KNOT Offshore Partners ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

KNOT Offshore Partners ability to maintain long-term relationships with major users of shuttle tonnage;

KNOT Offshore Partners ability to leverage KNOT s relationships and reputation in the shipping industry;

KNOT Offshore Partners ability to purchase vessels from KNOT in the future;

KNOT Offshore Partners continued ability to enter into long-term charters, which we define as charters of five years or more;

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KNOT Offshore Partners ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuilds and secondhand vessels;

KNOT Offshore Partners ability to compete successfully for future chartering and newbuild opportunities;

acceptance of a vessel by its charterer;

termination dates and extensions of charters;

the expected cost of, and KNOT Offshore Partners ability to comply with, governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners business;

availability of skilled labor, vessel crews and management;

KNOT Offshore Partners general and administrative expenses and its fees and expenses payable under the fleet management agreements and the management and administrative services agreement;

the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners unitholders;

estimated future maintenance and replacement capital expenditures;

KNOT Offshore Partners ability to retain key employees;

customers increasing emphasis on environmental and safety concerns;

potential liability from any pending or future litigation;

potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;

- future sales of KNOT Offshore Partners securities in the public market;

- KNOT Offshore Partners business strategy and other plans and objectives for future operations; and

- other factors listed from time to time in the reports and other documents that KNOT Offshore Partners files with the SEC.

Forward-looking statements in this prospectus are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in Risk Factors and those risks discussed in reports we file with the SEC. The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

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ABOUT KNOT OFFSHORE PARTNERS LP

We are a publicly traded limited partnership formed on February 21, 2013 to own and operate shuttle tankers under long-term charters. Our fleet currently consists of five shuttle tankers.

On April 15, 2013, we completed our initial public offering (our IPO). In connection with our IPO, we sold 8,567,500 common units to the public and issued to Knutsen NYK Offshore Tankers AS (KNOT) 8,567,500 subordinated units and all of our incentive distribution rights. In addition, KNOT owns, through its ownership of our general partner, a 2.0% general partner interest in us, represented by 349,694 general partner units.

We were formed under the laws of the Marshall Islands and maintain our principal place of business at 2 Queen s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420.

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RISK FACTORS

An investment in our securities involves a significant degree of risk. You should carefully consider the risk factors and all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference into this prospectus and any prospectus supplement, including those in Item 3. Key Information Risk Factors in our 2013 Annual Report, as updated by annual, quarterly and other reports and documents we file with the SEC after the date of this prospectus and that are incorporated by reference herein, in evaluating an investment in the securities. If any of these risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.

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USE OF PROCEEDS

Except as otherwise provided in an applicable prospectus supplement, we will use the net proceeds we receive from the sale of the securities covered by this prospectus for customary partnership purposes, including repayment of debt (including debt owed to KNOT), acquisitions, capital expenditures and additions to working capital.

The actual application of proceeds we receive from any particular offering of securities using this prospectus will be described in the applicable prospectus supplement relating to such offering.

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CAPITALIZATION

The following table shows our historical cash and capitalization as of December 31, 2013. This table is derived from our consolidated and combined carve-out financial statements, including accompanying notes, incorporated by reference in this prospectus. You should read this table in conjunction with the section entitled Operating and Financial Review and Prospects and our consolidated and combined carve-out financial statements and the related notes thereto, which are incorporated by reference herein from our 2013 Annual Report.

	As of December 31, 2013 (In thousands)
Cash and cash equivalents	$ 28,836
Restricted cash	458
Total cash and cash equivalents and restricted cash	$ 29,294
Debt:	
Seller s credit	$ 10,349
Current portion of long-term debt	29,269
Long-term debt, excluding seller s credit and current portion	310,359
Total debt	$ 349,977
Equity:	
Total partners capital	$ 281,977
Total equity	$ 281,977
Total capitalization	$ 631,954

Each prospectus supplement will include updated information on our capitalization.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of consolidated earnings to fixed charges for the periods presented:

	Year Ended December 31,		
	2013	2012	2011
Ratio of earnings to fixed charges[1]	2.74x	1.21x	(0.56)x

(1) For periods prior to our IPO, represents data for our predecessor in respect of the four vessels, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Bodil Knutsen* and the *Windsor Knutsen* in our initial fleet for periods prior to our IPO in April 2013.

For purposes of calculating the ratio of earnings to fixed charges:

fixed charges means the sum of the following: (a) interest expensed and capitalized and (b) amortized capitalized expenses related to indebtedness; and

earnings is the amount resulting (a) from adding (i) pre-tax income from continuing operation before adjustment for non-controlling interest, (ii) fixed charges and (iii) amortization of capitalized interest and (b) from subtracting interest capitalized.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of May 14, 2014, there were 8,567,500 common units outstanding, all of which are held by the public. Our common units were first offered on the NYSE on April 9, 2013 at an initial price of $21.00 per unit. Our common units are traded on the NYSE under the symbol KNOP.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units, as reported on the NYSE, and quarterly cash distributions declared per common unit. The last reported sale price of our common units on the NYSE on May 14, 2014 was $27.00 per unit.

	High	Low	Cash Distributions per Unit[1]
Year ended December 31, 2013[2]	$ 29.39	$ 20.68	
Second quarter 2014[3]	29.15	26.44	
First quarter 2014	29.58	23.50	$ 0.4350
Fourth quarter 2013	29.39	23.77	0.4350
Third quarter 2013	26.17	21.51	0.4350
Second quarter 2013[4]	24.71	20.68	0.3173[5]
Month ended May 1, 2014[6]	27.85	26.44	
Month ended April 30, 2014	29.15	26.54	
Month ended March 31, 2014	29.58	26.53	
Month ended February 28, 2014	29.52	25.77	
Month ended January 31, 2014	28.50	23.50	
Month ended December 31, 2013	29.39	25.01	
Month ended November 30, 2013	28.42	25.18	
Month ended October 31, 2013	26.09	23.77	

(1) Represents cash distributions attributable to the quarter.
(2) For the period from April 9, 2013 through December 31, 2013.
(3) For the period from April 1, 2014 through May 14, 2014.
(4) For the period from April 9, 2013 through June 30, 2013.
(5) For the period from April 9, 2013 through June 30, 2013, we paid unitholders a distribution of $0.3173 per unit. This distribution was the prorated portion of the minimum quarterly distribution of $0.375 per unit.
(6) For the period from May 1, 2014 through May 14, 2014.

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DESCRIPTION OF THE COMMON UNITS

Our common units and subordinated units represent limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement. For a description of the relative rights and privileges of holders of common units and subordinated units in and to partnership distributions, together with a description of the circumstances under which subordinated units convert into common units, please read this section and Our Cash Distribution Policy and Restrictions on Distributions.

Number of Units

We currently have 8,567,500 common units outstanding, all of which are held by the public. We also have 8,567,500 subordinated units outstanding, for which there is no established public trading market, all of which are held by KNOT. The common units and the subordinated units represent an aggregate 98.0% limited partner interest, and the general partner interest represents a 2.0% general partner interest in us.

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC serves as registrar and transfer agent for the common units.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units will be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
- gives the consents and approvals contained in our partnership agreement, such as the approval of all transactions and agreements we entered into in connection with our formation and our IPO.

A transferee will become a substituted limited partner of the Partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner in the

Partnership for the transferred common units.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as oth activity on a large U.S. government project in the ISG business segment, as well as higher employee utilization rates for ISG. Also, services margin improved approximately 11% due to a weaker U.S. dollar in 2004. Significant fluctuations in services revenues and margins from period to period are not unusual and can be caused by new or completed large orders, delayed progress on existing projects, and employee utilization rates.

Operating Expenses

Operating expenses, including restructuring charges of $826,000, were $58.9 million for first quarter 2004, up 12% from the comparable prior-year period.

Product Development Expenses: Product development expenses were $14.6 million for first quarter 2004, up 22.7% from the first quarter 2003 level. This increase was primarily the result of the $1.4 million increase in shipbuilding product development costs in the PPO business segment, combined with the $938,000 decrease in software development costs qualifying for capitalization in the IMGS business segment.

Sales and Marketing Expenses: Sales and marketing expenses were $26.1 million for first quarter 2004, up 5.7% from the first quarter 2003 level. This increase was primarily due to the estimated $1.8 million unfavorable currency impact, combined with the approximately $600,000 increase resulting from expanding headcount in the IPS business segment in an effort to grow orders and increase future revenues. These increases were partially offset by the approximately $400,000 decrease due to increased billable activity in the PPO business segment, and the approximately $300,000 decrease from trade show related activities in IMGS.

General and Administrative Expenses: General and administrative expenses were $17.5 million, up 10.4% from the first quarter 2003 level. This increase was primarily the result of the approximately $900,000 increase in legal fees, an estimated $702,000 unfavorable currency impact, and an $842,000 increase in allowance for doubtful accounts, partially offset by $640,000 of expense reductions related to fourth quarter 2003 restructuring.

Restructuring Charges: In first quarter 2004, the Company recorded $826,000 in restructuring charges primarily in its PPO business segment in an effort to realign costs with revenues. In fourth quarter 2003, the Company recorded $4 million in restructuring charges in an effort to realign costs with revenues in the Corporate and IMGS business segments. In fourth quarter 2002, the Company recorded $2.1 million in restructuring charges as a result of combining the Utilities and Communications business with the IMGS division. For a complete discussion of restructuring charges, see the Company's 2003 Annual Report and Note 10 of Notes to Consolidated Financial Statements contained in this Form 10-Q.

Non-Operating Income and Expense

Intellectual Property: "Intellectual property income, net" in the consolidated statements of income consists of income resulting from settlements and licensing of the Company's intellectual property, net of legal fees and other expenses associated with maintaining and defending the Company's intellectual property. Income and expenses associated with the intellectual property division, including related legal expenses, are classified and reported in this section of the consolidated statements of income in order to more clearly show the operating results of the Company's business units.

In first quarter 2004, net intellectual property income of $203.1 million included $225 million in income from the Company's settlement with Intel and Dell, offset by $21.9 million in legal fees and other related expenses associated with patent litigation. In first quarter 2003, net intellectual property income of $5.3 million included $10 million in income from a cross-licensing agreement with IBM that also resolved all outstanding patent infringement claims between IBM and the Company, offset by $4.7 million in legal fees and other related expenses. See Notes 11 and 16 of Notes to Consolidated Financial Statements contained in this Form 10-Q and the Company's 2003 Annual Report for complete details of these transactions.

Gain on Sale of Assets: In first quarter 2003, IMGS reported a gain of $1.2 million from the March 2003 sale of its aeronautical intellectual property assets to Ingegneria Dei Sistemi S.p.A. in Rome, Italy.

Interest Income: Interest income was $881,000 in first quarter 2004 and $1.9 million in first quarter 2003. Interest income decreased during 2004 due to declines in investments as a result of the Company's fourth quarter 2003 modified Dutch auction tender offer and lower interest rates.

Other: "Other income (expense), net" in the consolidated statements of income consists of interest expense, foreign exchange gains and losses, and other miscellaneous items of non-operating income and expense. In first quarter 2004, net other income of $1.1 million included a $733,000 foreign exchange gain. In first quarter 2003, net other expense of $43,000 included a $371,000 foreign exchange loss.

Income Taxes

Income tax expenses for the first quarters of 2004 and 2003 are attributable to taxes on intellectual property income, U.S. operations, and individually profitable majority-owned subsidiaries. See the Company's 2003 Annual Report for details of the Company's tax position, including its net operating loss carryforwards.

Results by Operating Segment

In first quarter 2004, PPO earned operating income of $3.3 million on revenues of $33.7 million, compared to first quarter 2003 operating income of $4.2 million on revenues of $30.5 million. The decrease in operating income despite increased revenues resulted primarily from restructuring charges of $823,000, combined with higher product development and sales and marketing expenses. The increase in revenue was due primarily to shipbuilding maintenance revenue associated with the Global Research and Development ("GRAD") shipbuilding contract signed in April 2003 and increasing services and maintenance revenue from new products.

In first quarter 2004, IMGS earned operating income of $3.7 million on revenues of $52.0 million, compared to first quarter 2003 operating income of $186,000 on revenues of $46.8 million. The significant increase in operating income is primarily the result of the delivery of a large photogrammetric and mapping software order that drove higher gross margins, as well as increased product and services revenue volume on certain large projects. The revenue and margin improvements were partially offset by higher operating expenses, primarily as a result of fewer product development projects qualifying for capitalization.

In first quarter 2004, ISG earned operating income of $3.8 million on revenues of $30.1 million, compared to first quarter 2003 operating income of $1.1 million on revenues of $27.5 million. The significant increase in operating income is primarily due to higher gross margins attributable to increased billable hours on the U.S. Air Force Enhanced Technical Information Management System ("ETIMS") contract required to meet customer schedule requirements, higher utilization rates as labor resources transitioned from unbillable to billable work, and reduced sales and marketing expenses.

In first quarter 2004, IPS earned operating income of $2.1 million on revenues of $16.9 million, compared to first quarter 2003 operating income of $3.5 million on revenues of $16.5 million. Operating income decreased primarily due to increased sales and marketing and research and development expenses resulting from headcount additions in an effort to increase orders and future revenues combined with increased general and administrative expenses resulting from higher allowance for doubtful accounts.

In first quarter 2004, Corporate reported an operating loss of $4.7 million on revenues of $2.8 million, compared to a first quarter 2003 operating loss of $4.7 million on revenues of $3.5 million. Revenues are primarily associated with hardware repair, logistics, and international hardware maintenance services. Operating expenses include costs associated with worldwide corporate oversight functions, including those related to being a publicly held company, and management of residual hardware functions.

See Note 13 of Notes to Consolidated Financial Statements contained in this Form 10-Q for further explanation of the Company's segment reporting.

Litigation

As further described in the Company's 2003 Annual Report, the Company continues to protect its intellectual property portfolio by engaging in both licensing discussions and patent infringement litigation. Litigation is subject to known and unknown risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" in MD&A. See Note 16 of Notes to Consolidated Financial Statements contained in this Form 10-Q for a discussion of the 2004 developments for patent and other litigation.

Remainder of the Year

The Company expects that the markets in which it competes will continue to be characterized by intense competition, rapidly changing technologies, and shorter product cycles. Further improvement in the Company's annual operating results will depend on accurately anticipating customer requirements and technological trends, and rapidly and continuously developing and delivering new products that are competitively priced, offer enhanced performance, and meet customers' requirements for standardization and interoperability. Better annual operating results will also depend on global political events and worldwide economic improvement in the markets served. To increase operating profitability, the Company must achieve revenue growth and continue to align operating expenses with the projected level of revenue. The Company continues to work on its forward business planning process. As the Company continues to evaluate its markets and operating performance, it may determine that there are other actions needed to seek improved performance. In addition, the Company continues to face legal expenses of unknown duration and amount as it licenses its intellectual property and otherwise asserts its intellectual property rights and defends related countersuits. The ultimate impact of these initiatives is subject to known and unknown risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" in MD&A.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004, cash and cash equivalents totaled $250.5 million compared to $265.8 million at December 31, 2003. The Company had no debt at March 31, 2004, or December 31, 2003. Non-operating events that may require the use of cash include the Company's patent litigation and enforcement program, including defending related countersuits, and its stock repurchase program.

During first quarter 2004, the Company did not purchase any of its common stock under its stock repurchase program. As of March 31, 2004, the Company had repurchased approximately 16.3 million shares (including 10 million shares in a modified Dutch auction in December 2003) at a cost of $378 million since the program was initiated in late 2001. The Company has a $250 million open market repurchase plan with $135 million remaining that can be used to repurchase stock in the future. The termination date for the current stock repurchase program is December 31, 2005.

In September 2002, in order to reduce the cost of issuing letters of credit, the Company established a $12.5 million credit line with Wells Fargo Bank to cover its outstanding letters of credit secured by $15 million of interest-bearing securities. This credit line was reduced on January 20, 2004, to $6 million secured by $8.2 million of interest-bearing securities. Under this arrangement, the Company earns interest on the securities and withdrawal of securities is allowed, but the Company is required to maintain a level of securities sufficient to cover total outstanding letters of credit (which totaled $4.9 million at March 31, 2004, and December 31, 2003).

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management use judgments to make estimates and assumptions that affect the amounts reported in the financial statements. As a result, there is some risk that reported financial results could have been materially different had different methods, assumptions, and estimates been used. The Company believes that of its significant accounting policies, those related to revenue recognition, capitalized software, deferred taxes, bad debt reserves, and inventory may involve a higher degree of judgment and complexity as used in the preparation of its consolidated financial statements.

Management believes there have been no significant changes during the three months ended March 31, 2004, to the items disclosed as "Critical Accounting Policies" in MD&A in the Company's 2003 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has experienced no material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in the Company's 2003 Annual Report.

Impact of Currency Fluctuations and Currency Risk Management

Fluctuations in the value of the U.S. dollar in international markets can have a significant impact on the Company's results of operations. For first quarter 2004, approximately 49% of the Company's revenues were derived from customers outside the United States, primarily through subsidiary operations, compared to 48% for first quarter 2003. Most subsidiaries sell to customers and incur and pay operating expenses in local currencies. These local currency revenues and expenses are translated into U.S. dollars for reporting purposes. A weaker U.S. dollar increases the level of reported U.S. dollar orders and revenues, increases the dollar gross margin, and increases reported dollar operating expenses of the international subsidiaries. The Company estimates that the weakening of the U.S. dollar in its international markets, primarily in Europe, improved its first quarter 2004 results of operations by approximately $0.05 per share (diluted) in comparison to first quarter 2003.

The Company conducts business in all major markets outside the United States, but the most significant of these operations with respect to currency risk are located in Europe and Asia. Local currencies are the functional currencies for the Company's Canadian subsidiaries, a Japanese subsidiary, and all but one of the Company's European subsidiaries. The U.S. dollar is the functional currency for all other international subsidiaries. The Company had no forward contracts outstanding at March 31, 2004, or December 31, 2003, and does not currently hedge any of its foreign currency risks.

Impact of Interest Rates on Investment Earnings

The Company's cash and cash equivalents are generally invested in short-term, highly liquid, interest-bearing securities which may include short-term municipal bonds, time deposits, money market funds, commercial paper, and U.S. government securities. The Company limits the amount of credit exposure from any single issuer of securities. The Company is subject to earnings fluctuations due to market changes in interest rates. The Company estimates that pre-tax earnings could be affected by approximately $0.03 per share (diluted) on an annualized basis, should interest rates of invested funds change by 0.5%.

ITEM 4. CONTROLS AND PROCEDURES

The Company, under the direction of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosures.

The CEO and the CFO have reviewed and evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on, and as of the effective date of, that review and evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures are effectively serving the stated purposes.

In addition, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As further described in the Company's 2003 Annual Report, the Company continues to protect its intellectual property portfolio by engaging in both licensing discussions and patent infringement litigation. The following is a discussion of the 2004 developments for patent and other litigation. Litigation is subject to known and unknown risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" in MD&A for further discussion of these risks and uncertainties.

Intel Litigation: On July 29, 2001, the Company filed a patent infringement case against Intel in the U.S. District Court for the Eastern District of Texas (the "Texas case"). The Texas case pertained to the Company's parallel instruction computing ("PIC") patents and went to trial on July 2, 2002.

On March 29, 2004, the Company resolved its dispute with Intel regarding its PIC patents, and both parties agreed to dismiss all outstanding patent infringement claims and lawsuits against each other. Per the terms of the settlement agreement, Intel paid the Company $125 million on April 5, 2004, and will pay an additional $100 million in four quarterly installments over the following year. In addition, the Company will grant Dell certain licenses to its patents and has agreed to dismiss its separate pending litigation against Dell in the OEM case.

OEM Litigation: On December 16, 2002, the Company filed a patent infringement action against Dell, Gateway Inc.™ ("Gateway") and Hewlett-Packard Co.™/Compaq ("HP") in the U.S. District Court for the Eastern District of Texas. The Company's complaint alleges that products from the three computer vendors infringe U.S. Patent Numbers 4,899,275 and 4,933,835 and 5,091,846. These computer system-level patents relate to memory management technology. The OEM action seeks an unspecified amount of damages for past infringement from the OEM defendants. The OEMs have asserted various defenses, pre-trial motions and countersuits against the Company.

Per the terms of the March 29, 2004 settlement agreement with Intel, the Company dismissed Dell and all related claims from the pending OEM litigation. Additionally, pursuant to the parties' court-ordered mediation, on May 10, 2004, the Company concluded a mediated settlement with Gateway. The court-ordered mediation with HP concluded without a settlement.

Under the terms of the settlement, Gateway will take a license to the Company's Clipper System Patents and pay $5 million within 10 days of the execution of the settlement agreement and pay an additional $2.5 million on July 1, 2004, and on October 1, 2004. Additionally, Gateway will pay a royalty of $1.25 per unit for all U.S. sales of

Gateway computer systems manufactured or sold through the expiration of the Clipper patents in February 2009. Under the terms of the settlement, Gateway also obtained a license to the Clipper patents for eMachines and agreed to pay royalties to Intergraph in the amount of $1.25 per unit for all U.S. sales of eMachines computer systems through February 2009. As a result, Gateway and all related claims will be dismissed from the OEM litigation.

The Markman hearing was held on May 7, 2004 and the current scheduling order has the trial scheduled to begin on August 2, 2004.

In addition to asserting affirmative defenses in the Texas Court, HP filed a patent countersuit against the Company in the Northern District of California on May 28, 2003. HP also asked the Texas court to transfer the OEM case to the Northern District of California for consolidation with HP's countersuit. The Texas court denied HP's motion to transfer the Texas OEM case to California. HP's California countersuit alleges that a variety of Intergraph products, including SmartPlant 3D, IntelliShip™, SmartPlant, SmartSketch®, I/Mobile TC, and IntelliWhere™, infringe four separate HP patents. The Company filed a motion to have HP's California countersuit transferred to the Northern District of Alabama, which was subsequently denied.

HP has also filed an amended answer and counterclaim in the Texas case, which alleges that Intergraph's patent assertions are a violation of the Sherman Antitrust Act. The Company has filed a motion to dismiss HP's antitrust counterclaims as a matter of law. The Texas court has not yet ruled on Intergraph's motion to dismiss. The Company believes HP's antitrust counterclaim to be without merit, and will vigorously defend against the same.

On April 1, 2004, HP filed a patent countersuit against the Company in Mannheim, Germany. HP's German suit accuses the Company's SmartPlant 3D products of infringing two foreign patents related to the automated dimensioning technology asserted in HP's California countersuit.

On April 19, 2004, HP filed three separate legal actions against the Company. HP filed a patent infringement action in Delaware and in the Eastern District of Texas. The Delaware action accuses the Company's ZI Imaging® digital camera of infringing a patent related to scanning technology. The new Texas case accuses the Company's SmartPlant 3D, IntelliShip™, SmartPlant Offshore and SmartSketch® products of infringing a patent related to dimensional conversions in computer-aided design software. HP also filed an action in the German patent office seeking to invalidate one of the foreign Clipper patents.

The Company is evaluating HP's latest filings, but plans to vigorously defend against the same. The Company has not determined what impact, if any, HP's countersuits may have on the Company's operations and cash flows.

On May 7, 2004, the Company filed a patent infringement action against HP in the Eastern District of Texas, which alleges that certain HP server and chipset products infringe U.S. Patent Number 6,374,329. The Company's High Availability Super Server ("HASS") patent pertains to interoperability and coherency technology used in clustered server systems. The Company's complaint alleges that its HASS technology is employed in HP's "DNA Memory Subsystem Technology™", including HP's SX1000 chipset, and Superdome, HP9000, 8400 and 7410 families of servers.

Advanced Micro Devices Litigation: On January 15, 2004, Advanced Micro Devices ("AMD") filed a Declaratory Judgment Act patent action against the Company in the Northern District of California. AMD asserted that the Company's family of "Clipper" patents (U.S. Patent Nos. 4,860,192, 4,884,197, 4,899,275, 4,933,835 and 5,091,846) are either invalid, or not infringed by AMD's microprocessor products. On April 12, 2004, AMD agreed to settle its patent lawsuit against the Company and to take a license to the Company's Clipper patents. Under the terms of this license, AMD will pay the Company $10 million by May 7, 2004, and will make additional cash payments equal to 2% of the AMD Computation Product Group's pre-tax operating profits, if any, for the 2005 through 2007 calendar years, subject to a limit of $5 million per year. The Company received the $10 million payment prior to the filing of this report.

Other Litigation: The Company has other ongoing litigation, none of which is considered to represent a material contingency for the Company at this time; however, any unanticipated adverse developments in any of these proceedings could materially adversely affect the Company's results of operations, financial condition, or cash flows.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by R. Halsey Wise
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Larry J. Laster
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by R. Halsey Wise
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Larry J. Laster

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(b) Reports on Form 8-K

Form 8-K dated January 29, 2004, reporting the Company's 2003 earnings

Form 8-K dated March 30, 2004, furnished pursuant to Item 9, reporting a patent settlement with Intel Corporation and resolution of patent infringement claims against Dell Inc.™*

Form 8-K dated March 30, 2004, filed pursuant to Item 5, reporting the settlement agreement between Intergraph Corporation and Intel Corporation and license to Dell Inc.™

* Information in a Form 8-K furnished pursuant to Item 9 is not deemed to be "filed" for the purposes of Section 18 of the Exchange Act of 1934.

INTERGRAPH CORPORATION AND SUBSIDIARIES

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.

INTERGRAPH CORPORATION
(Registrant)

By:	/s/ R. Halsey Wise R. Halsey Wise President and Chief Executive Officer	By:	/s/ Larry J. Laster Larry J. Laster Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	May 24, 2004	Date:	May 24, 2004
By:	/s/ Larry T. Miles Larry T. Miles Vice President and Corporate Controller (Chief Accounting Officer)		
Date:	May 24, 2004		