

VERITAS SOFTWARE CORP /DE/

Form 10-K/A

March 17, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/ A
Amendment No. 1

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 0-26247

VERITAS SOFTWARE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0507675
(I.R.S. Employer
Identification No.)

350 Ellis Street
Mountain View, California
(Address of Principal Executive Offices)

94043
(Zip Code)

Registrant's Telephone Number, including Area Code: (650) 527-8000

Securities to be registered pursuant to Section 12(b) of the Act: None

Securities to be registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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As of February 28, 2002, 406,738,273 shares of the Registrant's common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the Registrant as of February 28, 2002 was approximately \$14.4 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive proxy statement, delivered to stockholders in connection with the Registrant's Annual Meeting of Stockholders held on May 14, 2002, are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

On January 17, 2003, VERITAS Software Corporation (the Company) announced that it would restate its accounting for transactions with AOL Time Warner (AOL) entered into in September 2000. The transactions involved a software and services purchase by AOL at a stated value of \$50.0 million and the purchase by the Company of advertising services from AOL at a stated value of \$20.0 million. The Company originally recorded \$36.9 million of revenue in 2000 and has been recognizing the remaining \$13.1 million in revenue over a three-year support period. The purchase of advertising services at a stated value of \$20.0 million was recorded as an expense as the services were provided in 2000 and 2001.

The Company has conducted an internal review of the AOL transactions and other contemporaneous customer-vendor transactions to determine if the fair value of goods and services purchased and sold could be reasonably determined. The Company has determined that the fair value of the goods and services purchased and sold in the AOL transactions could not be reasonably determined and has accordingly restated its financial results to reflect a reduction in revenues and expenses of \$20.0 million. The Company is also restating two additional contemporaneous transactions involving software licenses and the purchase of on-line advertising services entered into in 2000 to reflect an additional reduction in revenues and expenses of \$977,000. The periods affected by the restatement include fiscal years ended December 31, 2000 and 2001. In fiscal year 2000, the restatement reduces revenue by \$19.9 million and increases net loss and net loss per share by \$8.6 million and \$0.02, respectively. In fiscal year 2001, the restatement reduces revenue by \$0.4 million and decreases net loss and net loss per share by \$9.0 million and \$0.02, respectively. Additionally, as of December 31, 2001, the deferred revenue balance was reduced by \$0.7 million. The restated financial results for 2000 and 2001 are contained in this Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The Company has determined that the restatement described above does not affect the Company's previously filed quarterly reports on Form 10-Q for quarters ended March 31, 2002 through September 30, 2002.

This report is being filed to amend and restate the following items contained in our Annual Report on Form 10-K originally filed with the Securities and Exchange Commission on March 28, 2002:

Item 6 (Selected Financial Data),

Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations),

Item 8 (Financial Statements and Supplementary Data), and

Item 14 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

In order to preserve the nature and character of the disclosures set forth in such Items as originally filed, this report continues to speak as of the date of the original filing, and the Company has not updated the disclosures in this report to speak as of a later date. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report on Form 10-K.

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Item 6. Selected Financial Data

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. As described in Note 20 to our consolidated financial statements, we have restated our consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

Years Ended December 31,

	2001	2000	1999	1998	1997
	(As restated)(1)	(As restated)(1)			
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Total net revenue	\$ 1,491,928	\$ 1,187,441	\$ 596,112	\$ 210,865	\$ 121,125
Amortization of developed technology	63,086	62,054	35,659		
Amortization of goodwill and other intangibles	886,651	879,032	510,943		
Stock-based compensation	8,949				
Acquisition and restructuring costs (reversals)	(5,000)	(4,260)	11,000		8,490
In-process research and development			104,200	600	
Income (loss) from operations	(548,053)	(567,100)	(475,237)	53,668	20,076
Net income (loss)	(642,329)	(628,385)	(502,958)	51,648	22,749
Net income (loss) per share basic	\$ (1.61)	\$ (1.57)	\$ (1.59)	\$ 0.24	\$ 0.11
Net income (loss) per share diluted	\$ (1.61)	\$ (1.57)	\$ (1.59)	\$ 0.22	\$ 0.10
Number of shares used in computing per share amounts basic	399,016	400,034	316,892	211,558	205,300
Number of shares used in computing per share amounts diluted	399,016	400,034	316,892	232,519	222,716

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	December 31,				
	2001	2000	1999	1998	1997
	(As restated)(1)	(As restated)(1)	(In thousands, except per share data)		
Consolidated Balance Sheet Data:					
Working capital	\$ 1,545,276	\$ 916,084	\$ 630,440	\$ 198,069	\$ 187,667
Total assets	3,798,376	4,073,278	4,233,277	349,117	241,880
Long-term obligations	444,408	429,176	451,044	100,000	100,000
Accumulated deficit	(1,803,088)	(1,160,759)	(532,374)	(29,416)	(81,064)
Stockholders equity	2,723,893	2,973,978	3,393,061	169,854	104,193

(1) See Note 20 to the consolidated financial statements.

In 1999, we acquired the Network & Storage Management Group business of Seagate Software, Inc., TeleBackup Systems, Inc. and NuView, Inc. Because we accounted for these three acquisitions using the purchase method of accounting, we recorded developed technology, goodwill and other intangible assets of approximately \$3,754.9 million in total. Until December 31, 2001, these assets were being amortized over their estimated useful life of four years, and resulted in amortization charges of approximately \$234.8 million per quarter. In 1999, we recorded one-time non-cash charges of \$104.2 million related to the write-off of in-process research and development, and we also recorded a one-time restructuring charge of \$11.0 million related primarily to costs for our duplicative facilities that we planned to vacate, of which \$4.3 million was reversed in 2000 as a result of lower actual exit costs than originally estimated with respect to our duplicative facilities. In 2001, we recorded a stock-based compensation charge of \$8.9 million mainly related to the acceleration of certain stock options held by our former chief executive officer and we reversed \$5.0 million of net attorneys' fees originally accrued in relation to the Delaware lawsuit captioned *In Re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This annual report on Form 10-K, including the following sections, contains forward-looking statements that involve numerous risks and uncertainties, including effects of business combinations and acquisitions, new and critical accounting policies, products and services revenue, revenue mix, products and services gross margin, expense and amortization estimates, liquidity, and commitments under leases. In some cases, forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may and similar expressions. In addition, these forward-looking statements include statements regarding our expectations, beliefs, plans, intentions or strategies regarding the future. All these forward-looking statements are based on information available to us at this time, and we assume no obligation to update any of these statements. The actual results that we achieve may differ materially from those anticipated by any forward-looking statement due to risks and uncertainties including those described below under Factors That May Affect Future Results.

As described in Note 20 to our consolidated financial statements, we have restated our consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

Overview

VERITAS is a leading independent supplier of storage software products and services. Storage software includes storage management and data protection software as well as clustering, replication and storage area networking software. We develop and sell products for most popular operating systems, including various versions of UNIX (including Linux) and Windows. We also develop and sell products that support a wide variety of servers, storage devices, databases and network solutions. Customers use our software solutions in a wide variety of industries, and include many leading global corporations and e-commerce businesses. We also provide a full range of services to assist our customers in assessing, architecting and implementing their storage software solutions.

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We derive user license fee revenue from shipments of our software products to end-user customers through a combination of original equipment manufacturers, direct sales channels and indirect sales channels such as resellers, value-added resellers, hardware distributors, application software vendors and systems integrators. Some original equipment manufacturers incorporate our products into their products, some bundle our products with their products and some license our products to third parties as optional products. In general, we receive a user license fee for each sublicense of our products granted by an original equipment manufacturer licenses to its customer.

Our services revenue consists of fees derived from maintenance, technical support, consulting and training services. Original equipment manufacturer maintenance agreements covering our products provide for technical and emergency support and minor unspecified product upgrades for a fixed annual fee. Maintenance agreements covering products that are licensed through channels other than original equipment manufacturers provide for technical support and unspecified product upgrades for an annual fee based on the number of user licenses purchased and the level of service subscribed.

International sales and operations

Our international sales are generated primarily through our international sales subsidiaries. International revenue, most of which is collectible in foreign currencies, accounted for approximately 29% of our total revenue in 2001, 25% of our total revenue in 2000 and 24% of our total revenue in 1999. Our international revenue increased 46% to \$430.2 million in 2001 from \$294.4 million in 2000, and 103% in 2000 from \$144.9 million in 1999.

We believe that our success depends upon continued expansion of our international operations. We currently have sales and service offices and resellers located in North America, Europe, Asia-Pacific, South America and the Middle East, and a development center in India. International expansion will require us to establish additional foreign offices, hire additional personnel and recruit new international resellers, resulting in the diversion of significant management attention and the expenditure of financial resources. To the extent that we are unable to meet these additional requirements, growth in international sales will be limited, which would have an adverse effect on our business, operating results and financial condition.

Seagate Technology transaction

On November 22, 2000, we completed a multi-party transaction with Seagate Technology, which we refer to as Seagate, and Suez Acquisition Company (Cayman) Limited, which we refer to as SAC, a company formed by a group of private equity firms led by Silver Lake Partners. The transaction was structured as a leveraged buyout of Seagate pursuant to which Seagate sold all of its operating assets to SAC, and SAC assumed and indemnified Seagate and us for substantially all liabilities arising in connection with those operating assets. We did not acquire Seagate's disc drive business or any other Seagate operating business. At the closing, and after the operating assets and liabilities of Seagate had been transferred to SAC, a wholly-owned subsidiary of ours merged with and into Seagate, following which Seagate became our wholly-owned subsidiary and was renamed VERITAS Software Technology Corporation.

We issued approximately 109.4 million shares of our common stock to the Seagate stockholders in exchange for approximately 128.1 million shares of our common stock and certain non-operating assets and liabilities held by Seagate. The transaction resulted in a decrease of approximately 18.7 million shares of our outstanding common stock. At the closing of the transaction, we recorded the non-operating assets and liabilities assumed from Seagate at their fair values. In addition, we accrued \$40.0 million of direct transaction costs.

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Acquisition-related costs are summarized below (in millions):

	Direct Transaction Costs
Provision accrued at transaction date	\$ 40.0
Cash payments	(8.6)
Balance at December 31, 2000	31.4
Cash payments	(26.0)
Reversals	(5.0)
Balance at December 31, 2001	\$ 0.4

In 2001, we reversed \$5.0 million of net attorneys' fees originally accrued in relation to the Delaware lawsuit captioned *In re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit and the subsequent distribution of \$50.0 million of additional consideration to the former Seagate stockholders that was paid by SAC. We anticipate that the remaining \$0.4 million of accrued acquisition-related costs will be utilized in 2002.

For the year ended December 31, 2000, the transaction had no impact on our consolidated statement of operations. For the year ended December 31, 2001, the transaction had the following significant impacts on our consolidated statement of operations:

reversal of acquisition and restructuring costs of \$5.0 million; and

additional provision for income taxes of \$30.1 million.

Considering the impacts on our consolidated statement of operations, net of tax, and the impacts of the decrease of approximately 18.7 million shares of our common stock outstanding on the number of shares used in computing the net loss per share, the transaction resulted in incremental net losses per share of \$0.13 the year ended December 31, 2001 and \$0.01 for the year ended 2000. We expect the transaction to be accretive when we reach profitability.

As of December 31, 2000 and 2001, the transaction had impacts on our consolidated balance sheet. The impacts on our assets and liabilities were:

As of December 31, 2000

other non-current assets included \$70.0 million of indemnification receivable from SAC and \$4.0 million for our ownership in Gadzoox Networks, Inc.;

accrued acquisition and restructuring costs included \$31.4 million of direct transaction costs; and

deferred and other income taxes included an additional \$132.0 million, which was net of a deferred tax asset of \$3.0 million related to our ownership in Gadzoox Networks, Inc.

As of December 31, 2001

other current assets included \$21.3 million of indemnification receivable from SAC;

other non-current assets included \$18.0 million of indemnification receivable from SAC;

accrued acquisition and restructuring costs included \$0.4 million of direct transaction costs;

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income taxes payable included an additional \$21.3 million; and

deferred and other income taxes included an additional \$113.1 million.

As of December 31, 2001 and 2000, deferred and other income taxes payable recorded in connection with the Seagate transaction totaled \$134.4 million and \$135.0 million, respectively, and related to certain tax

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liabilities that we expect to pay after the merger. Certain of Seagate's federal and state tax returns for various fiscal years are under examination by tax authorities. In 2001, we recorded a reduction of \$30.7 million in tax liabilities and indemnification receivable from SAC due to certain settlements entered into with tax authorities. Also, we recorded a provision for income taxes of \$30.1 million due to changes in estimates of the amount and timing of other tax liabilities for years under examination. We believe that adequate amounts for tax liabilities have been provided for any final assessments that may result from these examinations.

Business combinations*NSMG acquisition*

On May 28, 1999, we acquired the Network & Storage Management Group business of Seagate Software, Inc., which we refer to as NSMG. The NSMG business developed and marketed software products and provided related services enabling information technology professionals to manage distributed network resources and to secure and protect enterprise data. We accounted for the NSMG acquisition using the purchase method of accounting, and have been incurring charges of \$221.5 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total NSMG purchase price was \$3,464.5 million and included \$3,151.4 million for the issuance of 155.6 million shares of our common stock, \$269.7 million for the exchange of options to purchase 15.6 million shares of our common stock and \$43.4 million of acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$3,015.8 million, distribution channels of \$233.8 million, original equipment manufacturer agreements of \$23.4 million, developed technology of \$233.7 million, assembled workforce of \$12.8 million, trademarks of \$22.8 million, in-process research and development of \$101.2 million, net deferred tax liabilities of \$179.5 million, other intangibles of \$1.5 million and tangible net liabilities assumed of \$1.0 million. For each of 2001 and 2000, we recorded \$827.6 million for the amortization of goodwill and other intangibles, and \$58.4 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$482.5 million for the amortization of goodwill and other intangibles, and \$34.1 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

Acquisition-related costs consisted of direct transaction costs of \$20.0 million, operating lease commitments on duplicative facilities of \$8.2 million and involuntary termination benefits of \$15.2 million. Non-cash charges included in the acquisition-related costs approximated \$11.7 million.

Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Operating lease commitments on duplicative facilities	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 20.0	\$ 8.2	\$ 15.2	\$ 43.4
Cash payments	(17.4)	(0.3)	(1.8)	(19.5)
Non-cash charges	—	—	(11.7)	(11.7)
Balance at December 31, 1999.	2.6	7.9	1.7	12.2
Cash payments	(1.9)	(1.9)	(0.9)	(4.7)
Balance at December 31, 2000.	0.7	6.0	0.8	7.5
Cash payments	(0.7)	(0.2)	(0.3)	(1.2)
Balance at December 31, 2001.	\$ —	\$ 5.8	\$ 0.5	\$ 6.3

The remaining acquisition-related costs accrual of \$6.3 million is anticipated to be utilized primarily for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2013.

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In addition, we recorded a restructuring charge of \$11.0 million in 1999 as a result of the NSMG acquisition. This restructuring charge related to exit costs with respect to duplicative facilities that we planned to vacate, which include \$0.9 million of write-off of redundant equipment and leasehold improvements, and involuntary termination benefits. Involuntary termination benefits relate to the salary and fringe benefit expense for terminated employees in research and development. The involuntarily terminated employees represented 2% of the global workforce. In the fourth quarter of 2000, as a result of lower actual exit costs than originally estimated with respect to duplicative facilities, we reversed \$4.3 million of the restructuring charge.

Restructuring costs are summarized below (in millions):

	Cancellation of facilities leases and other contracts	Involuntary termination benefits	Write off of redundant equipment and leasehold improvements	Total
Provision accrued at acquisition date	\$ 8.8	\$ 1.3	\$ 0.9	\$ 11.0
Cash payments		(0.9)		(0.9)
Non-cash charges			(0.9)	(0.9)
	—	—	—	—
Balance at December 31, 1999	8.8	0.4		9.2
Cash payments	(0.2)			(0.2)
Reversal	(3.9)	(0.4)		(4.3)
	—	—	—	—
Balance at December 31, 2000	\$ 4.7	\$	\$	\$ 4.7
Cash payments				
	—	—	—	—
Balance at December 31, 2001	\$ 4.7	\$	\$	\$ 4.7

The remaining restructuring charge accrual of \$4.7 million is anticipated to be utilized for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2012.

TeleBackup acquisition

On June 1, 1999, we acquired TeleBackup Systems, Inc., which we refer to as TeleBackup. TeleBackup designed, developed and marketed software products for local and remote backup and recovery of electronic information stored on networked, remote and mobile personal computers. We accounted for the TeleBackup acquisition using the purchase method of accounting, and we have been incurring charges of \$9.0 million per quarter, primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total purchase price for TeleBackup was \$143.1 million and included \$134.1 million related to the issuance of 6.8 million shares of our common stock, \$2.8 million for the issuance of options to purchase 0.2 million shares of our common stock and \$6.2 million in acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$133.1 million, distribution channels of \$1.0 million, original equipment manufacturer agreements of \$2.1 million, developed technology of \$6.6 million, assembled workforce of \$0.3 million, trademarks of \$1.3 million, in-process research and development of \$1.9 million, net deferred tax liabilities of \$3.0 million and tangible net liabilities assumed of \$0.2 million. For each of 2001 and 2000, we recorded \$34.5 million for amortization of goodwill and other intangibles, and \$1.7 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$20.1 million for amortization of goodwill and other intangibles, and \$1.0 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

The acquisition costs of \$6.2 million consist primarily of direct transaction costs and involuntary termination benefits.

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Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 5.6	\$ 0.6	\$ 6.2
Cash payments	(5.1)	(0.2)	(5.3)
	<u>0.5</u>	<u>0.4</u>	<u>0.9</u>
Balance at December 31, 1999			
Cash payments	(0.2)	(0.4)	(0.6)
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Balance at December 31, 2000			
Cash payments	(0.3)		(0.3)
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance at December 31, 2001			

NuView acquisition

On August 10, 1999, we acquired certain assets of NuView, Inc., which we refer to as NuView, for a total cost of approximately \$67.9 million. We accounted for the acquisition using the purchase method of accounting, and we have been incurring charges of \$4.3 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The purchase price included \$47.7 million related to the issuance of our common stock, \$0.8 million for the issuance of options to purchase our common stock, \$0.2 million in acquisition-related costs and \$19.2 million paid in cash. The purchase price was allocated, based on an independent valuation, to goodwill of \$62.6 million, developed technology of \$2.4 million, assembled workforce of \$0.6 million, trademarks of \$0.3 million, covenant-not-to-compete of \$0.9 million and in-process research and development of \$1.1 million. For each of 2001 and 2000, we recorded \$16.5 million for amortization of goodwill and other intangibles, and \$0.6 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$8.1 million for amortization of goodwill and other intangibles, and \$0.3 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

Other acquisitions

In 2001, we completed three acquisitions of privately held companies for a total cost of approximately \$78.2 million. We accounted for these acquisitions using the purchase method of accounting. The purchase price included \$76.3 million payable in cash, of which \$64.7 was paid as of December 31, 2001, and \$1.9 million in acquisition-related costs, of which \$1.1 million was paid at December 31, 2001. The remaining cash payments of \$11.6 million will be made throughout March 2003 and the remaining acquisition-related costs accrual of \$0.8 million in direct transaction costs is anticipated to be paid by the end of 2002. The purchase price was allocated to goodwill of \$65.9 million, developed technology of \$12.7 million, other intangibles of \$1.7 million, and net of tangible liabilities assumed of \$2.1 million. For 2001, we recorded \$7.5 million for the amortization of goodwill and other intangibles, and \$1.0 million for the amortization of developed technology. The identifiable intangible assets are amortized over their estimated useful lives of two to four years. The results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition.

Accounting pronouncements affecting the accounting treatment of previous business combinations

For the years ended December 31, 2001, 2000 and 1999 we incurred net losses due to the amortization of developed technology, goodwill and other intangibles mainly related to the acquisitions of the NSMG business, TeleBackup and NuView. From all of our acquisitions, we incurred charges of \$949.7 million in 2001, \$941.1 million in 2000 and \$546.6 million in 1999 related to the amortization of developed technology, goodwill and other intangibles. On January 1, 2002, upon adoption of newly issued Statement of Financial Accounting Standards, or SFAS, 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible*

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Assets, the total quarterly charges related to the amortization of developed technology, goodwill and other intangibles has changed. Because of this change, we expect to become profitable in 2002. Refer to the *New Accounting Pronouncements* section for a discussion on the impacts of the adoption of SFAS 141 and SFAS 142 on our financial statements.

Critical Accounting Policies

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and other significant areas that involve management's judgments and estimates. These significant accounting policies are:

Revenue recognition;

Impairment of long-lived assets;

Accounting for income taxes; and

Impairment of strategic investments.

These policies, and our procedures related to these policies, are described in detail below and under specific areas within the discussion and analysis of our financial condition and result of operations. In addition, please refer to Note 1 of the notes to the consolidated financial statements for further discussion of our accounting policies.

Revenue Recognition.

We derive revenue from primarily two sources: software licenses and services. Service revenue includes contracts for software maintenance and technical support, consulting and training.

We apply the provisions of Statement of Position (SOP) 97-2, *Software Revenue Recognition* (as amended by SOP 98-4 and SOP 98-9) and related interpretations to all transactions to recognize revenue.

For software arrangements involving multiple elements, we allocate and defer revenue for the undelivered elements based on their relative fair value and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For the maintenance and technical support elements, we use historical renewal rates to determine the price when sold separately.

A typical arrangement includes software licenses, software media, and maintenance. Some arrangements include training and consulting. Software licenses are sold as site licenses or on a per copy basis. Site licenses give the customer the right to copy the software on a limited or unlimited basis during a specified term.

Maintenance includes updates (unspecified products upgrades and enhancements) on a when-and-if-available basis, telephone support, and bug fixes or patches. Maintenance revenue is recognized ratably over the maintenance term. Training consists of courses taught by our instructors at our facility or at the customer's site. Various courses are offered specific to the license products. Training fees are based on a per course basis and revenue is recognized when the customer has completed the course. Consulting consists primarily of product installation, which does not involve customization of the software. Installation services provided by us are not mandatory. Installation can be performed by us, the customer or a third party. Consulting fees are based on a daily rate.

We have analyzed all of the elements included in our multiple-element arrangements and determined that we have fair value to allocate revenue to the maintenance, training and consulting. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery of the software license and media using the residual method in accordance with SOP 98-9. Revenue from maintenance is recognized ratably over the maintenance term. Revenue for consulting and training is recognized as the services are performed.

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We define revenue recognition criteria as follows:

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

Delivery Has Occurred. Our software is physically delivered to our customers, with standard transfer terms as FOB shipping point. If undelivered products or services exist that are essential to the functionality of the delivered product in an arrangement, delivery is not considered to have occurred.

The Vendor's Fee is Fixed or Determinable. The fee our customers pay for the products is negotiated at the outset of an arrangement, and is generally based on the specific volume of product to be delivered. Therefore, except in cases where we grant extended payment terms to a specific customer, the fees are considered to be fixed or determinable at the inception of the arrangement. Arrangements with payment terms extending beyond 90 days from the invoice date are not considered to be fixed or determinable. Revenue from such arrangements is recognized as the fees become due and payable.

Collection is Probable. Probability of collection is assessed on a customer-by-customer basis. We typically sell to customers where we have a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. If it is determined from the outset of an arrangement that collection is not probable based upon our review process, revenue is recognized on a cash-collected basis.

Additionally, we generally recognize revenue from licensing of software products through our indirect sales channel when the reseller, value added reseller, hardware distributor, application software vendor or system integrator sells the software products to its customers. For licensing of our software to original equipment manufacturers, royalty revenue is recognized when the original equipment manufacturer reports to us the sale of software to an end user customer. In addition to license royalties, some original equipment manufacturers pay an annual flat fee and/or support royalties for the right to sell maintenance to the end user. We recognize revenue from original equipment manufacturer support royalties/fees ratably over the term of the support agreement.

Our arrangements do not generally include acceptance clauses. However, if an arrangement includes an acceptance provision, we defer the revenue and recognize it upon acceptance, except for government contracts, as acceptance terms are standard. Acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

Impairment of long-lived assets.

We review our long-lived assets, including property and equipment, goodwill and other intangibles, for impairment when events or changes in facts and circumstances indicate that their carrying amount may not be recoverable. Events or changes in facts and circumstances that we consider as impairment indicators include the following:

Significant underperformance of our corporation relative to expected operating results;

Our net book value compared to our market capitalization;

Significant adverse economic and industry trends;

Significant decrease in the market value of the asset;

The extent that we use an asset or changes in the manner that we use it; and

Significant changes to the asset since we acquired it.

When we determine that one or more impairment indicators are present for our long-lived assets, excluding enterprise level goodwill, we compare the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate. If the carrying amount of the asset is greater than the net

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future undiscounted cash flows that the asset is expected to generate, we would recognize an impairment loss. The impairment loss would be the excess of the carrying amount of the asset over its fair value.

When we determine that one or more impairment indicators are present for our enterprise level goodwill, we compare our net book value to our market capitalization. If our net book value was greater than our market capitalization, we would recognize an impairment loss. The impairment loss would be, at a minimum, the excess of our net book value over our market capitalization and could affect goodwill and other long-lived assets.

As of December 31, 2001, we had not recorded an impairment loss on our long-lived assets. We do not expect to record an impairment loss on our long-lived assets in the near future.

Accounting for income taxes.

We are required to estimate our income taxes in each federal, state and international jurisdiction in which we operate. This process requires that we estimate the current tax exposure as well as assess temporary differences between the accounting and tax treatment of assets and liabilities, including items such as reserves and accruals not currently deductible for tax purposes. The income tax effects of the differences we identify are classified as current or long-term deferred tax assets and liabilities in our consolidated balance sheets. We must also assess the likelihood that deferred tax assets will be realized from future taxable income and, based on this assessment, establish a valuation allowance if required. In 2001, we determined the valuation allowance to be \$71.4 million based on uncertainties related to our ability to recover two main components of our deferred tax assets. These two components are tax benefits of certain assets acquired in the NSMG acquisition and tax benefits from employee stock option activity.

Future results may vary from these estimates, and at this time it is not practicable to determine if we will need to establish an additional valuation allowance and if it will have a material impact on our financial statements.

Impairment of Strategic Investments.

We hold investments in common and preferred stock of publicly traded and privately-held companies. We make investments in development-stage companies that we believe provide us with strategic opportunities, access to new technologies and emerging markets, and create opportunities for additional sales of our products and services. We review our strategic investments quarterly to determine if there is a decline in their fair value that is other than temporary. Elements we consider in our review include the following:

Actual or up-coming rounds of financing of the investee, subsequent to our investment date;

Cash position of the investee and its cash burn rate;

Investee's ability to obtain additional financing;

Investee's actual operating results compared to its forecasted results;

Status of the investee's product development and its competitive position;

Investee's management experience and employee headcount growths or reductions;

Current industry and economic trends relevant to the business of the investee;

If privately-held, the market value of common stock of the investee's publicly-traded competitors; and

If publicly traded, the market value of the investee's common stock.

In the third quarter of 2001, we recognized impairment losses of \$16.1 million on our strategic investments when we determined that there had been a decline in the fair value of our investments that was other than temporary.

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The following table sets forth, for the periods indicated, selected items in our statements of operations expressed as a percentage of total revenue.

	Years Ended December 31,		
	2001	2000	1999
	(As restated)(1)	(As restated)(1)	
Net revenue:			
User license fees	74%	81%	84%
Services	26	19	16
	—	—	—
Total net revenue	100	100	100
Cost of revenue:			
User license fees	3	4	4
Services	9	7	6
Amortization of developed technology	4	5	6
	—	—	—
Total cost of revenue	16	16	16
	—	—	—
Gross profit	84	84	84
Operating expenses:			
Selling and marketing	37	37	37
Research and development	16	15	16
General and administrative	8	6	6
Amortization of goodwill and other intangibles	59	74	86
Stock-based compensation	1		
Acquisition and restructuring costs (reversals)			2
In-process research and development			17
	—	—	—
Total operating expenses	121	132	164
	—	—	—
Loss from operations	(37)	(48)	(80)
Interest and other income, net	4	5	4
Interest expense	(2)	(2)	(2)
Loss on strategic investments	(1)		
	—	—	—
Loss before income taxes	(36)	(45)	(78)
Provision for income taxes	7	8	6
	—	—	—
Net loss	(43)%	(53)%	(84)%
	—	—	—

(1) See Note 20 to the consolidated financial statements.

Net Revenue

Net revenue increased 26% to \$1,491.9 million in 2001 from \$1,187.4 million in 2000, when it increased 99% from \$596.1 million in 1999. In 2001, our total net revenue increased more slowly than expected because of a reduction in capital spending by our customers due to weaker general economic and industry conditions and due to the events of September 11, 2001. This reduction in capital spending may stagnate or reduce the demand for our user licenses and services until the economic and industry conditions improve significantly. While we believe that the percentage increase in total revenue achieved in these periods is not necessarily indicative of future results, we expect total net revenue to

continue to increase in 2002. Our revenue is comprised of user license fees and service revenue.

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User License Fees. User license fees increased 15% to \$1,110.1 million in 2001 from \$967.6 million in 2000, when it increased 94% from \$498.0 million in 1999. These increases in 2001 and 2000 were primarily the result of continued growth in market acceptance of our software products, a greater volume of large end-user transactions, and increased revenue from original equipment manufacturers during the first half of 2001. The increase in 2000 was also attributable to the introduction of new products and to the acquisition of NSMG in May 1999.

We market and distribute our software products both as individual software products and as integrated products suites, also referred to as application solutions. We derive our user license fees from the sale of our core technologies, including data protection and file system and volume management products, from our emerging technologies, including cluster and replication and SAN products and from our application solutions, which include technologies from both our core and emerging technologies. The user license fees from our core technologies increased 14% to \$951.1 million in 2001 from \$830.7 million in 2000, when it increased 87% from \$443.5 million in 1999. The user license fees from our core technologies accounted for 86% of user license fees in 2001, 86% in 2000 and 89% in 1999. The user license fees from our emerging technologies increased 16% to \$159.0 million in 2001 from \$136.9 million in 2000, when it increased 151% from \$54.5 million in 1999. The user license fees from our emerging technologies accounted for 14% of user license fees in 2001, 14% in 2000 and 11% in 1999.

As a result of our research and development efforts to create additional integrated products suites and of our sales and marketing efforts to market and sell these integrated products suites, we expect the user license fees from our application solutions to increase in dollars and as a percentage of total user license fees. The user license fees from our application solutions decreased 3% to \$228.1 million in 2001 from \$236.1 million in 2000, when it increased 120% from \$107.1 million in 1999. The user license fees generated by application solutions are allocated between core technology and emerging technology products. Most of our application solutions include a major component of emerging technologies. We also expect the user license fees from our emerging technology products to increase in dollars and as a percentage of total user license fees.

In 2001 and 2000, we recorded a greater volume of large end-user transactions. For end-user transactions valued at \$250,000 or more, our user license fees increased 19% to \$233.5 million in 2001 from \$196.5 million in 2000, when it increased 248% from \$56.4 million in 1999.

Our user license fees from original equipment manufacturers increased 8% to \$181.9 million from \$169.1 million in 2000, when it increased 76% from \$95.9 million in 1999. The user license fees from original equipment manufacturers accounted for 16% of user license fees in 2001, 17% in 2000 and 19% in 1999.

Service Revenue. We derive our service revenue primarily from contracts for software maintenance and technical support and, to a lesser extent, consulting and training services. Service revenue increased 74% to \$381.8 million in 2001 from \$219.9 million in 2000, when it increased 124% from \$98.1 million in 1999. These increases were due primarily to increased sales of service and support contracts on new licenses, renewal of service and support contracts on existing licenses and, to a lesser extent, an increase in demand for consulting and training services. Nevertheless, our service revenue was adversely affected during the third and fourth quarters of 2001 by the events of September 11, 2001, which caused air travel delays or cancellations and caused many companies to impose air travel restrictions, all of which resulted in our inability to visit customer sites and in our customers' inability to visit our offices. The increase in 2000 was also attributable to the acquisition of NSMG. Service revenue represented 26% of total revenue in 2001. We expect our service revenue to increase in absolute dollars and as a percentage of net revenue.

Cost of Revenue

Cost of revenue increased 28% to \$242.4 million in 2001 from \$188.8 million in 2000, when it increased 100% from \$94.6 million in 1999. Gross margin on user license fees, excluding amortization of developed technology, is substantially higher than gross margin on service revenue, reflecting the low materials, packaging and other costs of software products compared with the relatively high personnel costs associated with providing maintenance, technical support, consulting and training services. Cost of service revenue varies depending upon the mix of maintenance, technical support, consulting and training services. We expect gross

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margin to fluctuate in the future, reflecting this mix and the timing differences between increasing our organizational investments and the recognition of revenue that we expect as a result of these investments.

Cost of User License Fees (including amortization of developed technology). Cost of user license fees consists primarily of amortization of developed technology, royalties, media, manuals and distribution costs. The amortization of developed technology is related primarily to the acquisitions of NSMG, TeleBackup and NuView in 1999. Cost of user license fees increased slightly to \$104.0 million in 2001 from \$102.8 million in 2000, and increased 82% in 2000 from \$56.4 million in 1999. The increase in 2000 was primarily the result of the amortization of developed technology. Gross margin on user license fees was 91% in 2001, 89% in 2000, and 89% in 1999. The increase in gross margin on user license fees in 2001 was due to the stability of the amortization of developed technology. If we excluded the amortization of developed technology from the cost of user license fees, the gross margin on user license fees would have consistently been 96% in 2001, 2000 and 1999. The gross margin on user license fees may vary from period to period based on the license revenue mix, because some products carry higher royalty rates than others. We do not expect gross margin on user license fees to increase significantly in the future.

Cost of Service Revenue. Cost of service revenue consists primarily of personnel-related costs in providing maintenance, technical support, consulting and training to customers. Cost of service revenue increased 61% to \$138.4 million in 2001 from \$86.0 million in 2000, and increased 125% in 2000 from \$38.2 million in 1999. Gross margin on service revenue was 64% in 2001, 61% in 2000 and 61% in 1999. The gross margin improvement in 2001 was the result of our increased productivity and higher service revenue growth due to support fees from a larger installed customer base. We expect the cost of service revenue to continue to increase in absolute dollars in future periods and we expect the gross margin on service revenue to remain stable as a percentage.

Amortization of Developed Technology. Amortization of developed technology was \$63.1 million in 2001, \$62.1 million in 2000 and \$35.7 million in 1999. These amounts mainly represent the amortization of the developed technology recorded upon the acquisition of NSMG, TeleBackup and NuView in 1999. The useful life of the developed technology acquired is two to four years and we expect the amortization to be approximately \$16.9 million per quarter.

Operating Expenses

Total operating expenses increased 15% to \$1,797.6 million in 2001 from \$1,565.7 million in 2000, and increased 60% in 2000 from \$976.8 million in 1999. The 2001 and 2000 increases are explained in more details below. The significant increase in 2000 is due largely to the acquisitions of NSMG and TeleBackup in 1999. Because 2000 was the first full year that both acquisitions were reflected in our results and due to the integration that has taken place, it is not possible to quantify the portion of the increase in 2000 that is related directly to these acquisitions. We believe that the percentage increase in total operating expenses in these periods is not necessarily indicative of future results. Our operating expenses include selling and marketing expenses, research and development expenses, general and administrative expenses, and amortization of goodwill and other intangibles.

Selling and Marketing. Selling and marketing expenses consist primarily of salaries, related benefits, commissions, consultant fees and other costs associated with our sales and marketing efforts. Selling and marketing expenses increased 26% to \$549.0 million in 2001 from \$437.2 million in 2000, and increased 97% in 2000 from \$222.0 million in 1999. As a percentage of net revenue, selling and marketing expenses remained consistent at 37% in 2001, 2000 and 1999. We intend to continue to expand our global sales and marketing infrastructure, and accordingly, we expect our selling and marketing expenses to increase in absolute dollars but to decrease slightly as a percentage of net revenue.

Research and Development. Research and development expenses consist primarily of salaries, related benefits, third-party consultant fees and other engineering related costs. Research and development expenses increased 37% to \$241.2 million in 2001 from \$175.9 million in 2000, and increased 86% in 2000 from \$94.5 million in 1999. The 2001 and 2000 increases in absolute dollars were due primarily to increased staffing levels associated with new hires and, to a lesser extent, costs associated with depreciation and amortization of

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new equipment purchased for expansion and development efforts for new technology. As a percentage of net revenue, research and development expenses were 16% in 2001, 15% in 2000 and 16% in 1999. We believe that a significant level of research and development investment is required to remain competitive, and expect these expenses will continue to increase in absolute dollars in future periods and will increase slightly as a percentage of net revenue. We expect research and development expenses to fluctuate from time to time to the extent that we make periodic incremental investments in research and development.

General and Administrative. General and administrative expenses consist primarily of salaries, related benefits and fees for professional services, such as legal and accounting services. General and administrative expenses increased 50% to \$116.8 million in 2001 from \$77.9 million in 2000, and increased 128% in 2000 from \$34.2 million in 1999. As a percentage of net revenue, general and administrative expenses were 8% in 2001, and 6% in both 2000 and 1999. The 2001 increase in absolute dollars was due primarily to increased staffing levels, and to a lesser extent, costs associated with fees for outside professional services. The 2000 increase in absolute dollars was due to additional personnel costs, including additional personnel related to the acquisitions in the second quarter of 1999, and, to a lesser extent, to an increase in other expenses associated with enhancing our infrastructure to support expansion of our operations. We expect general and administrative expenses to increase in absolute dollars and to increase slightly as a percentage of net revenue in the next few quarters.

Amortization of Goodwill and Other Intangibles. Amortization of goodwill and other intangibles increased 1% to \$886.7 million in 2001 from \$879.0 million in 2000, and increased 72% from \$510.9 million in 1999. These amounts mainly represent amortization of goodwill, distribution channels, trademarks and other intangible assets recorded upon the acquisitions of NSMG, TeleBackup and NuView in 1999. The estimated useful life of the goodwill and the other intangibles is four years. Refer to the *New Accounting Pronouncements* section for a discussion on the impacts of the adoption of SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets* on our financial statements.

Stock Based Compensation. In 2001, we recorded \$8.9 million related to stock based compensation. This charge relates primarily to the acceleration of certain stock options held by our former chief executive officer and chairman of the board, upon his resignation in 2001, and, to a lesser extent, to options issued in a 2001 business acquisition.

Acquisition and Restructuring Costs (Reversals). In 2000, in connection with the Seagate Technology transaction, we accrued \$40.0 million of acquisition related costs. In 2001, we reversed \$5.0 million of net attorneys' fees originally accrued in relation with the Delaware lawsuit captioned *In Re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit and the subsequent distribution of \$50.0 million of additional consideration to the former Seagate Technology stockholders originally paid by SAC. In 1999, in connection with the NSMG acquisition, we recorded a one-time charge to acquisition and restructuring costs of \$11.0 million. In 2000, mainly as a result of lower actual exit costs than originally estimated with respect to duplicative facilities, we reversed \$4.3 million of the restructuring charge.

In-Process Research and Development. Upon the acquisition of NSMG, TeleBackup and NuView in 1999, we recorded one-time charges to in-process research and development totaling \$104.2 million. We obtained outside valuations for these acquisitions, and values were assigned to developed technology, in-process research and development and other intangibles. The fair value of the in-process research and development for each of the acquisitions was determined using the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the characteristics and applications of the technology; the complexity, cost and time to complete the remaining development efforts; any alternative future use or current technological feasibility; and the stage of completion. The projected future cash flows from the projects under development were based on management's estimates of revenues and operating profits related to the projects. Revenues on the projects related to in-process research and development were estimated to begin in 1999 through 2003, with the majority of the revenues occurring between 2000 and 2002. The risk-adjusted discount rate applied to after-tax cash flows was 20%, compared to an estimated weighted-average cost of capital of 15%. We believe the

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amounts determined for in-process research and development are representative of fair value and do not exceed the amounts an independent third party would pay for the projects assumed.

The total charge for in-process research and development was estimated to be \$101.2 million for the NSMG acquisition. Seven in-process research and development projects were identified and valued, with two projects under the data protection product group that accounted for approximately 71% of the value assigned to in-process research and development. The data protection software products provide backup and restore functions, including scheduled automated unattended data backup operations. The remaining products identified and valued were under the application solutions and replication product groups. The application solutions software provides scaleable solutions for managing the behavior of different types of networks worldwide from one central location and the replication software products deliver flexible and intelligent data replication for Windows NT environments. Costs to complete all of the NSMG in-process research and development projects were estimated to be \$6.0 million. At the date of acquisition, the development of all products ranged from 48% to 90% complete and averaged approximately 76% complete, with expected completion dates through December 1999. At December 31, 2000, all in-process research and development projects related to the NSMG acquisition were completed or abandoned.

All in-process research and development projects related to the TeleBackup and NuView acquisitions were individually insignificant and were completed or abandoned as of December 31, 1999.

Interest and Other Income, Net. Interest and other income, net increased 9% to \$64.9 million in 2001 from \$59.6 million in 2000, and 156% from \$23.3million in 1999. The 2001 increase was mainly due to increased amounts of interest income attributable to the higher level of funds available for investment, which were primarily from the net cash provided by operating activities, partially offset by a lower return on investment due to lower market interest rates in 2001. The 2000 increase was due primarily to increased amounts of interest income attributable to the higher level of funds available for investment, primarily from the issuance of the convertible subordinated notes in August 1999 and from the net cash provided by operating activities.

Interest Expense. Interest expense consisted primarily of interest recorded under the 1.856% convertible subordinated notes due 2006 issued in August 1999 and the 5.25% convertible subordinated notes due 2004 issued in October 1997. Interest expense decreased 7% to \$29.4 million in 2001 from \$31.6 million in 2000, and increased 102% in 2000 from \$15.7 million in 1999. The decrease in 2001 was due primarily to the interest expense savings that has been realized from the conversion of approximately \$35.5 million of the 5.25% convertible subordinated notes that occurred in the third quarter of 2000. The increase in 2000 was due primarily to interest recorded for the 1.856% convertible subordinated notes, since this was the first full year that these notes were outstanding.

Loss on Strategic Investments. With the decline in the economy in 2001, companies have experienced extreme volatility and instability in their business and operating results. In the third quarter of 2001, we recognized impairment losses of \$16.1 million on our strategic investments when we determined that there had been a decline in the fair value of these investments that was other than temporary. These losses represented write-downs of the carrying amount of our investments and were determined by using, among other factors, a significant decline in an investee's stock value, its inability to obtain additional private financing, and the uncertainty of its financial condition.

Income Taxes. We had negative effective tax rates of 22% in 2001, 17% in 2000 and 8% in 1999. Our effective tax rates were negative and differed from the combined federal and state statutory rates due primarily to differences attributable to acquisition related charges that were non-deductible for tax purposes.

New Accounting Pronouncements

On January 2, 2001, we adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. The adoption of this accounting standard did not have a material impact on our financial position or results of operations.

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In July 2001, the Financial Accounting Standards Board, or FASB, issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*.

SFAS 141, effective in July 2001, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Upon adoption of SFAS 142 on January 1, 2002, we evaluated our existing intangible assets and goodwill that were acquired in a prior purchase business combination, and made necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Also, we reassessed the useful lives and residual values of all intangible assets acquired, and will make necessary amortization adjustments by March 31, 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, we will test the intangible asset for impairment in accordance with the provisions of SFAS 142 by March 31, 2002. Any impairment loss will be measured as of the January 1, 2002 and recognized as the cumulative effect of a change in accounting principle in the first quarter of 2002. We do not believe that SFAS 141 will have a material impact on our financial position, results of operations or cash flows.

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In connection with SFAS 142's transitional goodwill impairment test, we intend to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption in a two-step process as follows:

Step 1. We will identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. We have until June 30, 2002 to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, we will perform the second step of the transitional impairment test. If the reporting unit's fair value exceeds its carrying value, no further work is needed.

Step 2. We will compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets, both recognized and unrecognized, and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141, to its carrying amount, both of which would be measured as of January 1, 2002. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of operations.

As of the date of adoption, January 1, 2002, we had unamortized goodwill in the amount of approximately \$1,171.9 million and unamortized other intangible assets in the amount of approximately \$240.6 million, all of which are subject to the transition provisions of SFAS 141 and 142. We expect to complete the transitional goodwill impairment test by June 30, 2002. We do not expect to record an impairment charge upon completion of the test, but there can be no assurance that at the time the test is completed a significant impairment charge may not be recorded. The amortization of goodwill represented approximately \$202.9 million per quarter prior to the adoption of SFAS 142. We do not believe that SFAS 141 and SFAS 142 will have a material impact on our financial position or cash flows. However, because of the implementation of SFAS 141 and SFAS 142, we expect to become profitable in 2002.

In August 2001, FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supersedes SFAS 121 and APB Opinion No. 30, *Reporting the Results of Operation-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 establishes a single accounting model for long-lived assets to

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be disposed of by sale, whether they were previously held and used or newly acquired, and it also broadens the presentation of discontinued operations to include more disposal transactions. We will be required to implement the provisions of SFAS 144 as of January 1, 2002. We do not believe that SFAS 144 will have a material impact on our financial position, results of operations or cash flows.

In December 2001, the FASB staff issued Topic No. D-103, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* (Topic D-103). Topic D-103 requires companies to record certain reimbursements received for out-of-pocket expenses as revenue instead of an offset to the related expense. Upon application of Topic D-103, comparative financial statements for prior periods must be reclassified to comply with the guidance in this announcement. We will be required to implement the provisions of Topic D-103 as of January 1, 2002. We do not believe that Topic D-103 will have a material impact on our financial position, results of operations or cash flows.

Liquidity and Capital Resources

Cash Flows

Our cash, cash equivalents and short-term investments totaled \$1,694.9 million at December 31, 2001 and represented 71% of our net tangible assets. Our cash, cash equivalents and short-term investments totaled \$1,119.4 million at December 31, 2000 and represented 63% of our net tangible assets. Cash and cash equivalents are highly liquid with original maturities of ninety days or less. Short-term and long-term investments consist mainly of investment grade commercial paper, medium-term notes, corporate notes, government securities (taxable and non-taxable), asset-backed securities and market auction preferreds.

Operating activities provided cash of \$560.4 million in 2001, primarily from income after adjustments to exclude non-cash charges, including amortization of intangibles related to acquisition activities, tax benefits from stock plans and an increase in deferred revenue, decrease in other assets, partially offset by an increase in accrued acquisition costs. Operating activities provided cash of \$546.8 million in 2000, primarily from income after adjustments to exclude non-cash charges, including amortization of intangibles related to acquisition activities, tax benefits from stock plans and an increase in deferred revenue partially offset by an increase in accounts receivable and other assets, as a result of our overall revenue growth. Operating activities provided cash of \$207.4 million in 1999, primarily from income after adjustments to exclude non-cash charges, including amortization of intangibles related to acquisition activities, and tax benefits from stock plans partially offset by an increase in account receivable, as a result of our overall revenue growth.

Investing activities used cash of \$1,015.0 million in 2001, due primarily to the net increase in short-term investments of \$787.4 million and purchases of property and equipment of \$145.7 million. Investing activities provided cash of \$81.0 million in 2000 due to the net decrease in short-term and long-term investments of \$240.2 million, partially offset by purchases of property and equipment of \$134.7 million and strategic investments of \$22.0 million. Investing activities used cash of \$577.0 million in 1999 primarily due to the net increase in short-term and long-term investments of \$505.2 million, purchases of property and equipment of \$59.7 million and the purchase of certain assets of NuView.

Financing activities provided cash of \$102.4 million in 2001, arising primarily from the issuance of common stock under our employee stock plans. Financing activities provided cash of \$119.5 million in 2000 from the issuance of common stock under our employee stock plans. Financing activities provided cash of \$379.6 million in 1999 from the net proceeds of \$334.1 million related to the issuance of the 1.856% convertible subordinated notes in August 1999 and \$45.5 million from the issuance of common stock under our employee stock plans.

Convertible Subordinated Notes

In October 1997, we issued \$100.0 million of 5.25% convertible subordinated notes due in 2004 (the 5.25% notes), for which we received net proceeds of \$97.5 million. We and our wholly-owned subsidiary, VERITAS Operating Corporation, are co-obligors on the 5.25% notes and are unconditionally, jointly and severally liable for all payments under the notes. As of December 31, 2001, a total principal amount of

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\$35.5 million had been converted into approximately 3.7 million shares of our common stock. Based on the aggregate principal amount at maturity of \$64.5 million outstanding as of December 31, 2001, the 5.25% notes provide for semi-annual interest payments of \$1.7 million each May 1 and November 1. The 5.25% notes are convertible into shares of our common stock at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, at a conversion price of \$9.56 per share, subject to adjustment in certain events, equivalent to a conversion rate of 104.65 shares of common stock per \$1,000 principal amount at maturity. On or after November 5, 2002, the 5.25% notes will be redeemable over a period of time until maturity at our option at declining premiums to par. The debt issuance costs are being amortized over the term of the 5.25% notes using the interest method.

In August 1999, we and our wholly-owned subsidiary, VERITAS Operating Corporation, issued \$465.8 million, aggregate principal amount at maturity, of 1.856% convertible subordinated notes due in 2006 (the 1.856% notes) for which we received net proceeds of approximately \$334.1 million. The interest rate of 1.856%, together with the accrual of original issue discount, represent a yield to maturity of 6.5%. We and VERITAS Operating Corporation are co-obligors on the 1.856% notes and are unconditionally, jointly and severally liable for all payments under the notes. As of December 31, 2001, a total principal amount of \$1.1 million had been converted into approximately 29,400 shares of our common stock. Based on the aggregate principal amount at maturity of \$464.7 million outstanding as of December 31, 2001, the 1.856% notes provide for semi-annual interest payments of \$4.3 million each February 13 and August 13. The 1.856% notes are convertible into shares of our common stock at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, at a conversion price of \$35.80 per share, subject to adjustment in certain events, equivalent to a conversion rate of 27.934 shares of common stock per \$1,000 principal amount at maturity. On or after August 16, 2002, the 1.856% notes will be redeemable over a period of time until maturity at our option at the issuance price plus accrued original issue discount and any accrued interest. The debt issuance costs are being amortized over the term of the 1.856% notes using the interest method.

At December 31, 2001, we had a ratio of long-term debt to total capitalization of approximately 14%. The degree to which we will be leveraged could materially and adversely affect our ability to obtain financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. We will require substantial amounts of cash to fund scheduled payments of principal and interest on our indebtedness, including the 5.25% notes and the 1.856% notes, future capital expenditures and any increased working capital requirements. If we are unable to meet our cash requirements out of cash flow from operations, we cannot assure you that we will be able to obtain alternative financing.

Commitments

During the third and fourth quarters of 2001, we extended and amended the term of our \$50.0 million unsecured credit facility, which we hold with a syndicate of financial institutions. At December 31, 2001, no amount was outstanding and the credit facility is due to expire in September 2002. Borrowings under the credit facility bear interest at 1.0% to 1.5% over LIBOR, and are subject to our compliance with financial and other covenants. The credit agreement requires us to maintain specified financial covenants such as earnings before interest, taxes, depreciation and amortization (EBITDA), debt on EBITDA and quick ratio, all of which we were in compliance with as of December 31, 2001.

In 1999 and 2000, we entered into three build-to-suit lease agreements for office buildings in Mountain View, California, Roseville, Minnesota and Milpitas, California. We began occupying the Roseville and Mountain View facilities in May and June 2001 respectively. The development and acquisition of the properties have been financed by a third party through financial institutions. We have accounted for these agreements as operating leases in accordance with SFAS 13, *Accounting for Leases*, as amended.

During the first, third and fourth quarters of 2001, we amended our existing lease agreement, originally signed in the second quarter of 1999, for new corporate campus facilities in Mountain View, California. The facilities, of 425,000 square feet, provide space for sales, marketing, administration and research and development functions. The lease term for these facilities is five years beginning in March 2000, with an option

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to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. We have the option to purchase the property (land and facilities) for the termination value of \$146.2 million or, at the end of the lease, to arrange for the sale of the property to a third party while we retain an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$129.6 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, we are entitled to any proceeds from a sale of the property in excess of the termination value. We now occupy the new corporate campus facilities and began making lease payments in the second quarter of 2001. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table below.

During the first, third and fourth quarters of 2001, we amended our existing lease agreement, originally signed in the first quarter of 2000, for our existing facilities in Roseville, Minnesota. We improved and expanded our existing facilities of 62,000 square feet and developed adjacent property adding 142,000 square feet completed in the second quarter of 2001. The facilities provide space for technical support and research and development functions. The lease term for these facilities is five years beginning in March 2000, with an option to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. We have the option to purchase the property (land and facilities) for the termination value of \$41.3 million or, at the end of the lease, to arrange for the sale of the property to a third party while we retain an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$35.1 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, we are entitled to any proceeds from a sale of the property in excess of the termination value. We now occupy the new campus facilities and began making lease payments in the second quarter of 2001. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table below.

During the third and fourth quarters of 2001, we amended our existing lease agreement, originally signed in the third quarter of 2000, for the lease of 65 acres of land and subsequent improvements for new research and development campus facilities in Milpitas, California. We plan to develop the site in two phases, with the first phase of 466,000 square feet being completed in the fourth quarter of 2002. The facilities will provide space for research and development and general corporate functions. The lease term for the first phase is five years beginning in July 2000, with an option to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. We have the option to purchase the property (land and first phase facilities) for the termination value of \$243.0 million or, at the end of the lease, to arrange for the sale of the property to a third party while we retain an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$220.0 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, we are entitled to any proceeds from a sale of the property in excess of the termination value. We anticipate to begin the lease payments in the third quarter of 2002 for the first phase and to commence occupying the new campus facilities in the fourth quarter of 2002. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table below. We are currently analyzing our construction schedule for the second phase of the campus, but at this time no commitments have been made with respect to the start of construction.

We have evaluated the expected fair value of the properties at the end of the lease terms by reviewing current real estate market conditions and indicators of expectations for the market in the future. In the event that we determine it is probable that the expected fair value of any of the properties at the end of the lease terms will be less than the respective termination values, we will accrue the expected loss on a straight-line basis over the remaining lease term. Currently, we do not believe it is probable that the fair market value of the properties at the end of the lease terms will be less than the termination values.

The three lease agreements listed above require that we maintain specified financial covenants such as EBITDA, debt on EBITDA and quick ratio, all of which we were in compliance with as of December 31, 2001. In addition, all the properties covered by the leases, are subject to a deed of trust in favor of the lessor in order to secure our obligations under the leases.

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The future payments due under debt and the future minimum lease payments for facilities and rental equipment as of December 31, 2001 are:

	5.25% Notes	1.856% Notes	Operating Lease Commitments	Total
2002	\$	\$	\$ 75,350	\$ 75,350
2003			74,972	74,972
2004	64,479		71,993	136,472
2005			45,179	45,179
2006		464,699	34,197	498,896
2007 and thereafter			198,320	198,320
Balance at December 31, 2001	\$64,479	\$464,699	\$500,011	\$1,029,189

We believe that our current cash, cash equivalents and short-term investment balances and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. After that time, we may require additional funds to support our working capital requirements or for other purposes and may seek to raise such additional funds through public or private equity financing or from other sources. We cannot assure you that additional financing will be available at all or that if available, we will be able to obtain it on terms favorable to us.

Factors That May Affect Future Results

In addition to other information in this annual report on Form 10-K, you should consider carefully the following factors in evaluating VERITAS and our business.

Our revenue may fluctuate significantly, which could cause the market price of our securities to decline

We may experience a shortfall in revenue in any given quarter. Any such shortfall in revenue could cause the market price of securities to fall substantially. Our revenue in general, and our license revenue in particular, are difficult to forecast and are likely to fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside of our control. These factors include:

the possibility that our customers may cancel, defer or limit purchases as a result of reduced information technology budgets or the current weak or uncertain general economic and industry conditions;

the timing and magnitude of sales through our original equipment manufacturer customers, including Hewlett-Packard, IBM, Microsoft, Oracle and Sun Microsystems;

the possibility that a slowdown in sales by our original equipment manufacturer customers could result in reduced demand for our products and services;

the unpredictability of the timing and magnitude of sales to the retail channel by our resellers and sales by our direct sales force, both of which tend to generate sales later in a quarter than original equipment manufacturer sales;

the timing of revenue recognition for sales of software products and services;

the introduction, timing and market acceptance of new products and services;

changes in data storage and networking technology or introduction of new operating system upgrades by our original equipment manufacturer customers, which could require us to modify our products and services or to develop new products or services;

the relative growth rates of the Windows NT, UNIX and Linux markets;

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the rate of adoption of storage area networks and network attached storage appliance technology and the timing and magnitude of sales of our storage area networking products and services that incorporate these;

the rate of adoption of network attached storage appliance technology and the timing and magnitude of sales of our network attached storage appliance products and services;

the extent to which our customers renew their service and maintenance contracts with us;

changes in our pricing policies and distribution terms;

the timing and amount of revenue attributable to our end-user customers whose businesses are substantially dependent on the Internet or the telecommunications markets, whose ability to purchase our products may be adversely affected by their inability to raise additional capital or to meet their business objectives;

the possibility that our customers may defer purchases in anticipation of new products or product updates by us or by our competitors;

the possibility that our customers may cancel, defer or limit purchases as a result of the threat of terrorism or military actions taken by the United States or its allies in reaction to that threat;

the possibility that air travel delays or cancellations and air travel restrictions imposed by many companies could adversely affect our licensing efforts or our services revenue, as they result in our inability to visit customer sites and result in our customers' inability to visit our offices;

the overall demand for data availability products and services, which is likely to be lower in weak or uncertain general economic and industry conditions; and

the possibility of a worsening of weak economic and industry conditions.

In the current uncertain economic environment, our revenue, and our license revenue in particular, are extremely difficult to forecast and will likely be less predictable from quarter to quarter. You should not rely on the results of any prior periods as an indication of our future performance. If we have a shortfall in revenue in any given quarter, we probably will not be able to reduce our operating expenses quickly in response. Therefore, any significant shortfall in revenue could have an immediate adverse effect on our operating results for that quarter. In addition, it is possible that in some future periods our operating results may be below the expectations of securities analysts or investors. If this occurs, the price of our common stock may decline.

Our revenue may fluctuate because we depend on large orders from end-user customers for a significant portion of our revenue

We depend on large orders from end-user customers, which entail lengthy sales cycles, for a significant portion of our revenue. Our revenue for a quarter could fluctuate significantly based on whether a large sale near the end of a quarter is completed or delayed. Sales to our end-user customers generally range in value from a few thousand to several million dollars. In recent quarters, increases in revenue were partially attributable to a greater number of these large end-user transactions. This trend may not continue. The effort to close these large sales is typically complex and lengthy. Therefore, our revenue for a given period is likely to be affected by the timing of these large orders, which makes it difficult for us to predict that revenue. The factors that could delay these large orders include:

time needed for end-user customers to evaluate our software;

customer budget restrictions or more lengthy approval processes, particularly in uncertain general economic and industry conditions;

customer internal review and testing procedures; and

engineering work needed to integrate our software with customers' systems.

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Our business could be adversely affected if we fail to manage our growth effectively

If we fail to manage our growth effectively, our business and operating results could be adversely affected, which could cause the market price of our securities to fall. We expect to continue to grow our operations domestically and internationally, and to increase our headcount. The growth in our operations and headcount has placed, and will continue to place, a significant strain on our management systems and resources. If we fail to manage this growth and our future anticipated growth, we may experience higher operating expenses, and we may be unable to meet the expectations of securities analysts or investors with respect to future operating results. To manage this growth we must continue to:

improve our financial and management controls, reporting systems and procedures and proprietary information control procedures;

continue to add and integrate new senior management personnel;

improve our licensing models and procedures;

hire and train qualified employees;

retain qualified employees and manage employee performance;

control expenses;

integrate geographically dispersed operations; and

invest in our internal networking, data center, applications, infrastructure and facilities.

We have committed a significant amount of money to obtaining additional facilities to accommodate our current and future anticipated growth. To the extent that this anticipated growth does not occur or occurs more slowly than we anticipate, we may not be able to reduce expenses to the same degree. If we incur operating expenses out of proportion to revenue in any given quarter, our operating results could be adversely impacted.

To grow our business, we need to attract and retain qualified employees

Our future growth and success depends on our ability to hire and retain qualified employees, as needed, and to manage our employee base effectively. If we are unable to hire and retain qualified employees, our business and operating results could be adversely affected. Conversely, if we fail to manage employee performance or reduce staffing levels when necessary, our costs would be excessive and our business and operating results could be adversely affected. We need to hire additional sales, technical, and senior management personnel to support the planned expansion of our business and to meet the anticipated increased customer demand for our products and services. Competition for people with the skills we require is intense, particularly in the San Francisco Bay Area where our headquarters are located, and the high cost of living in this area makes our recruiting and compensation costs higher. As a result, we expect to continue to experience increases in compensation costs. In addition, the exercise of stock options in the U.S. and certain foreign jurisdictions may result in substantial increases in employer payroll tax liabilities. We cannot assure you that we will be successful in hiring or retaining new personnel. Even if we are successful in hiring and retaining new personnel, the resulting growth is likely to be disruptive to our business and could have an adverse effect on our ability to maintain our anticipated growth.

The loss of key personnel could adversely affect our business

Our future anticipated growth and success depends on the continued service of our key sales, technical and senior management personnel. Many of our senior personnel have been with us for a number of years, and we cannot assure you that we will be able to retain them. The loss of senior personnel can result in significant disruption to our ongoing operations, and new senior personnel must spend a significant amount of time learning our business and our systems in addition to performing their regular duties. Even though we have entered into employment agreements with some key management personnel, these agreements cannot prevent

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their departure. We do not have nor do we intend to obtain key person life insurance covering any of our personnel.

We face intense competition, which could cause us to lose market share

We have a number of competitors in the markets for our various products. If existing or new competitors gain market share in any of these markets, our business and operating results could be adversely affected. Our principal competitors are internal development groups with original equipment manufacturers that provide data availability functions to support their systems, as well as hardware and software vendors that offer backup and file system and volume management, clustering and replication, and storage area networking products.

Many of our competitors have greater financial, technical sales, marketing and other resources than we do. Our future and existing competitors could introduce products with superior features, scalability and functionality at lower prices than our products, and could also bundle existing or new products with other more established products in order to compete with us. Our competitors could also gain market share by acquiring or forming strategic alliances with our other competitors. Finally, because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies in the software industry, we expect to face additional competition from these companies in the future.

We distribute our products through multiple distribution channels, each of which is subject to risks

We sell our products through original equipment manufacturers, through direct sales and through a retail distribution channel. If we fail to manage our distribution channels successfully, they may conflict with one another or otherwise not function as we anticipate, and our business and operating results could be adversely affected.

Retail distribution. Some of our software products are sold primarily in the retail channel, which poses different challenges than we face in selling most of our products, including:

the VERITAS brand does not have high recognition in the retail channel;

retail distribution typically involves shorter product life cycles;

the retail channel has higher risks of product returns, higher marketing expenses and less predictable market demand; and

our retail distributors have no obligation to continue selling our products and may terminate their relationships with us at any time.

Direct sales. We also depend on our direct sales force to sell our products. This involves a number of risks, including:

longer sales cycles for direct sales efforts;

our need to hire, train, retain and motivate our direct sales force; and

the length of time it takes our new sales representatives to become productive.

Original equipment manufacturers. A portion of our revenue comes from our original equipment manufacturer customers that incorporate our data availability software into systems they sell. Risks associated with our original equipment manufacturer customers include:

we have no control over the shipping dates or volumes of systems they ship;

they have no obligation to recommend or offer our software products;

they have no minimum sales requirements and can terminate our relationship at any time;

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a significant period of time may elapse before we realize any associated revenue, due to development work that we must generally undertake under the agreement with our original equipment manufacture customers;

significant time may be needed for the sales and marketing organizations within these customers and distributors to become familiar with and gain confidence in our products;

they could choose to develop their own data availability products and incorporate those products into their systems instead of our products;

they could develop enhancements to and derivative products from our products; and

they could change their own base products, which could make it difficult for us to adapt our products to theirs.

Finally, our original equipment manufacturer customers compete with one another. If one of our original equipment manufacturer customers views the products we have developed for another original equipment manufacturer as competing with its products, it might decide to stop doing business with us, which could adversely affect our business and our operating results.

Some of our original equipment manufacturer agreements may not result in increased product sales

We have important original equipment manufacturer agreements with Hewlett-Packard, IBM, Microsoft and Sun Microsystems. Unlike some of our other original equipment manufacturer agreements under which we sell off-the-shelf versions of our products, under these agreements we develop unique or limited functionality versions of our products to be included in these original equipment manufacturers systems software and products. If we are unable to leverage these relationships to increase product sales, we will have expended significant resources without generating corresponding revenue, which could adversely affect our business and our operating results. These relationships require our personnel to develop expertise with respect to the original equipment manufacturers products and markets and to cooperate closely with their personnel. We cannot assure you that we will be able to attract and retain qualified employees to work with our original equipment manufacturer customers or to develop and improve the products designed for these customers.

We face uncertainties porting products to new operating systems and developing new products

Many of our products operate primarily on the UNIX computer operating system. We are currently redesigning, or porting, these products to operate on the Windows NT operating system. We are also developing new products for UNIX and for Windows NT. In addition, we entered into an agreement with IBM under which we will port our complete set of data availability products to AIX/ Monterey for IBM POWER PC and the Intel IA-64 processor-system. We may not be able to accomplish any of this work quickly or cost-effectively, and it is not clear what the relative growth rates of these operating systems are. These activities require substantial capital investment, the devotion of substantial employee resources and the cooperation of the owners of the operating systems to or for which the products are being ported or developed. For example, our porting and development work for the Windows NT market has required us to hire additional personnel with expertise on these platforms and to devote engineering resources to these projects. For some operating systems, we must obtain from the owner of the operating system a source code license to portions of the operating system software to port some of our products to or develop products for the operating system. Operating system owners have no obligation to assist in these porting or development efforts. If they do not grant us a license or if they do not renew our license, we may not be able to expand our product line into other areas.

Sales of a small number of product lines make up a substantial portion of our revenue

We derive and expect to derive a substantial majority of our revenue from a limited number of software products. For the year ended December 31, 2001, we derived approximately \$951.1 million, or 86%, of our user license fees from our core technologies, including data protection and file system and volume management products. If our customers do not continue to purchase these products as a result of competition,

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technological change, budget constraints or other factors, our revenue would decrease and our business and operating results would be adversely affected.

We derive a significant amount of revenue from only a few customers

Although in 2001, 2000 and 1999 no single customer accounted for greater than 10% of our total net revenue, we typically derive significant revenue from a small number of customers, including our original equipment manufacturer customers. If any of them were to reduce purchases of products or services from us, our business would be adversely affected unless we were able to increase sales to other customers substantially. Many of these customers have recently announced that their own businesses are slowing, which could adversely affect their demand for our products and services. We do not have a contract with any of these customers that requires the customer to purchase any specified number of software licenses from us. Therefore, we cannot be sure that these customers will continue to purchase our products at current levels.

Our success depends on our ability to develop new and enhanced products that achieve widespread market acceptance

Our future success depends on our ability to address the rapidly changing needs of our customers by developing and introducing new products, product updates and services on a timely basis, by extending the operation of our products on new platforms and by keeping pace with technological developments and emerging industry standards. In order to grow our business, we are committing substantial resources to developing new software products and services, including software products and services for the storage area networking market and the network attached storage appliance market. Each of these markets is new and unproven, and industry standards for these markets are evolving and changing. If these markets do not develop as anticipated, or demand for our products and services in these markets does not materialize or occurs more slowly than we expect, we will have expended substantial resources and capital without realizing sufficient revenue, and our business and operating results could be adversely affected.

Our international sales and operations create special problems that could adversely affect our operating results

An investment in our securities may be riskier than an investment in other businesses because we expect to derive an increasing percentage of our revenue from customers located outside of the U.S. We have significant operations outside of the U.S., including engineering, sales, customer support and production operations, and we plan to expand our international operations. As of December 31, 2001, we had approximately 1,000 employees in Europe, 706 employees in the Asia-Pacific region, and 107 employees in Japan. Our foreign operations are subject to risks, including:

potential loss of proprietary information due to piracy, misappropriation or weaker laws regarding intellectual property protection;

imposition of foreign laws and other governmental controls, including trade restrictions;

fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could reduce our customers' ability to obtain financing for software products or which could make our products more expensive in those countries;

difficulties in hedging foreign currency transaction exposures;

longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;

difficulties in staffing and managing our foreign operations, including difficulties related to administering our stock option plan in foreign countries and difficulties related to the new organizational structure in Europe that we implemented in 2001;

difficulties in coordinating the activities of our geographically dispersed and culturally diverse operations;

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seasonal reductions in business activity in the summer months in Europe and other countries;

costs and delays associated with developing software in multiple languages; and

political unrest or terrorism, particularly in areas in which we have facilities.

In addition, our foreign sales are denominated in local currency, creating risk of foreign currency translation gains and losses that could adversely affect our business and operating results. We receive significant tax benefits from sales to our non-U.S. customers. These benefits are contingent upon existing tax regulations in both the U.S. and in the countries in which our international customers are located. Future changes in domestic or international tax regulations could affect our anticipated ability to continue to realize these tax benefits.

Our growth strategy is risky because it includes business acquisitions

As part of our growth strategy, we have in the past and expect in the future to acquire other businesses, business units and technologies. Acquisitions involve a number of special risks and challenges, including:

diversion of management's attention from our core business;

integration of acquired business operations and employees with our existing business, including coordination of geographically dispersed operations;

incorporation of acquired business technology into our existing product lines, including consolidating technology with duplicative functionality or designed on different technological architecture;

loss or termination of employees, including costly litigation resulting from the termination of those employees;

dilution of our then-current stockholders' percentage ownership;

assumption of liabilities of the acquired business, including costly litigation related to alleged liabilities of the acquired business;

presentation of a unified corporate image to our customers and our employees; and

risk of impairment charges related to potential write-down of acquired assets in future acquisitions.

In the past, our integration of the operations of acquired businesses took longer and was more difficult than we anticipated.

As a result of the Seagate Technology leveraged buyout and merger transaction, our subsidiary may be liable to third parties for liabilities resulting from Seagate's operations before the transaction

In November 2000, in the leveraged buyout and merger transaction involving VERITAS and Seagate Technology, Seagate Technology sold all of its operating assets to Suez Acquisition (Cayman) Company, and Seagate Technology became our subsidiary. As part of the transaction, Suez Acquisition Company assumed and agreed to indemnify our subsidiary and us for substantially all liabilities arising in connection with Seagate's operations prior to the transaction. However, governmental organizations or other third parties may seek recourse against our subsidiary or us for these liabilities. Prior to the transaction, Seagate was a large, multinational enterprise that owned or leased facilities and offices in numerous states and foreign countries and employed over 60,000 people worldwide. As a result, our subsidiary could receive claims related to a wide range of possible liabilities. Some areas of potential liability include:

environmental cleanup costs and liabilities for claims made under federal, state or foreign environmental laws;

tax liabilities;

obligations under federal, state and foreign pension and retirement benefit laws;

existing or future litigation relating to the leveraged buyout or the merger transaction;

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existing and future litigation arising from the restructuring that Seagate commenced last year, including litigation initiated by terminated employees; and

existing and future patent litigation.

Any such claim, with or without merit, could be time consuming to defend, result in costly litigation and divert management attention from our core business. Moreover, if Suez Acquisition Company is unable or unwilling to indemnify our subsidiary or us under the indemnification agreement for any of these liabilities, we could experience a material adverse effect on our business and operating results.

The Seagate merger consideration may be subject to recovery under fraudulent conveyance laws

The leveraged buyout and merger transaction involving VERITAS and Seagate Technology may be subject to review under state or federal fraudulent transfer laws in the event that a bankruptcy case or lawsuit is commenced by or on behalf of unpaid creditors of Suez Acquisition Company or any of its affiliates. Under bankruptcy laws, a court could attempt to proceed against the consideration paid to Seagate's stockholders in the merger, or direct that amounts deposited with the trustee administering the distributions of Seagate's tax refunds and credits be held for the benefit of creditors. A court might take one or more of these actions if it determined that when the leveraged buyout was completed, Seagate's operating assets were sold for less than fair value and at that time Seagate, Suez Acquisition Company and their affiliates:

were or became insolvent;

were engaged in a business or transaction for which their unencumbered assets constituted unreasonably small capital; or

intended to incur or reasonably should have believed that they would incur debts beyond their ability to repay as those debts matured.

A court could also proceed against the consideration paid to Seagate's stockholders in the merger, or against Seagate's tax refunds and credits otherwise payable to Seagate's former stockholders following the merger, if the court found that Seagate effected the leveraged buyout with an actual intent to hinder, delay or defraud its creditors.

Our effective tax rate may increase

Our effective tax rate could be adversely affected by several factors, many of which are outside of our control. Our effective tax rate is directly affected by the relative proportions of domestic and international revenue and income before taxes. We are also subject to changing tax laws in multiple jurisdictions in which we operate. We do not have a history of audit activity from various taxing authorities and while we believe we are in compliance with all federal, state and international tax laws, there are various interpretations of their application that could result in additional tax assessments. In addition, in November 2000, we acquired Seagate Technology, which has significant tax audit and tax litigation activity. We believe that we have meritorious defenses against asserted deficiencies and that the likely outcome of a re-determination of these asserted deficiencies by the tax settlement authorities will not result in an additional provision for income taxes. We have an indemnification agreement with Suez Acquisition Company for these deficiencies. If Suez Acquisition Company is unable to or is unwilling to indemnify our subsidiary or us under the indemnification agreement for any of these deficiencies, we could experience a material adverse effect on our business and operating results.

Our strategy of investing in development-stage companies involves a number of risks and uncertainties

We plan to pursue a strategy of investing in development-stage companies. Each of these investments involves risks and uncertainties, including:

diversion of management's attention from our core business;

failure to leverage our relationship with these companies to access new technologies and new markets;

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inability to value investments appropriately or to predict changes to the future value of investments;

inability to manage investments effectively; and

loss of cash invested.

We are incurring significant accounting charges in connection with our acquisitions that created net losses in the past and could create net losses in the future

The significant costs of integration associated with our acquisitions of NSMG, TeleBackup and NuView in 1999 increase the risk that we will not realize the anticipated benefits of those acquisitions. Because we accounted for these three acquisitions using the purchase method of accounting, we recorded goodwill and other intangible assets of approximately \$3,754.9 million in 1999. This amount is being amortized over four years, and resulted in charges to operations of approximately \$234.8 million per quarter. On January 1, 2002 upon adoption of newly issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, the quarterly charges related to the amortization of developed technology, goodwill and other intangibles will decrease. Refer to the *New Accounting Pronouncements* section for a discussion on the impacts of the adoption of SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets* on our financial statements.

We have a significant amount of debt that we may be unable to service or repay

In October 1997, we issued \$100.0 million in aggregate principal amount of 5.25% convertible subordinated notes due 2004, of which \$64.5 million was outstanding as of December 31, 2001. In August 1999, we issued \$465.8 million in aggregate principal amount at maturity of 1.856% convertible subordinated notes due 2006, of which \$464.7 million was outstanding as of December 31, 2001. As of December 31, 2001, the annual interest payments on our outstanding 5.25% notes were \$3.4 million and the annual interest payments on our outstanding 1.856% notes were \$8.6 million, all of which we plan to fund from cash flows from operations. We will need to generate substantial amounts of cash from our operations to fund interest payments and to repay the principal amount of debt when it matures, while at the same time funding capital expenditures and our other working capital needs. If we do not have sufficient cash to pay our debts as they come due, we could be in default of those debts. For example, if we do not make timely payments, the notes could be declared immediately due and payable. Our substantial leverage could also increase our vulnerability to adverse economic and industry conditions because it makes it more difficult for us to raise capital if needed. In addition, any changes in accounting rules regarding our operating leases and built-to-suit facilities may affect our debt levels and operating expenses in the future.

We may not be able to protect our proprietary information

We rely on a combination of copyright, patent, trademark and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect our proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented or challenged, and others may develop technologies or processes that are similar or superior to our technology. We may not have the proprietary information controls and procedures in place that we need to protect our proprietary information adequately. In addition, because we license the source code for some of our products to third parties, there is a higher likelihood of misappropriation or other misuse of our intellectual property. We also license some of our products under shrink wrap license agreements that are not signed by licensees and therefore may be unenforceable under the laws of some jurisdictions. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our products or to obtain or use information that we regard as proprietary.

Third parties may claim that we infringe their proprietary rights

We may from time to time receive claims that we have infringed the intellectual property rights of others. As the number of products in the software industry increases and the functionality of these products further overlap, we believe that we may become increasingly subject to infringement claims, including patent and

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copyright infringement claims. We have received several trademark claims in the past and may receive more claims in the future based on the name VERITAS, which is a word commonly used in trade names throughout Europe and the western hemisphere. In addition, former employers of our former, current or future employees may assert claims that such employees have improperly disclosed to us the confidential or proprietary information of these former employers. Any such claim, with or without merit, could:

be time consuming to defend;

result in costly litigation;

divert management's attention from our core business;

require us to stop selling, to delay shipping or to redesign our product; and

require us to pay monetary amounts as damages, for royalty or licensing arrangements, or to satisfy indemnification obligations that we have with some of our customers.

In addition, we license and use software from third parties in our business. These third party software licenses may not continue to be available to us on acceptable terms. Also, these third parties may from time to time receive claims that they have infringed the intellectual property rights of others, including patent and copyright infringement claims, which may affect our ability to continue licensing this software. Our inability to use any of this third party software could result in shipment delays or other disruptions in our business, which could materially and adversely affect our operating results.

We might experience significant defects in our products

Software products frequently contain errors or failures, especially when first introduced or when new versions are released. We might experience significant errors or failures in our products, or they might not work with other hardware or software as expected, which could delay the development or release of new products or new versions of products, or which could adversely affect market acceptance of our products. Our end-user customers use our products for applications that are critical to their businesses, and they have a greater sensitivity to product defects than the market for software products generally. If we were to experience significant delays in the release of new products or new versions of products, or if customers were dissatisfied with product functionality or performance, we could lose revenue or be subject to liability for service or warranty costs, and our business and operating results could be adversely affected.

Natural disasters or power outages could disrupt our business

We must protect our business and our network infrastructure against damage from earthquake, flood, hurricane and similar events, as well as from power outages. Many of our operations are subject to these risks, particularly our operations located in California. We have already experienced temporary power losses in our California facilities due to power shortages that have disrupted our operations, and we may in the future experience additional power losses that could disrupt our operations. While the impact to our business and operating results has not been material, we cannot assure you that power losses will not adversely affect our business in the future, or that the cost of acquiring sufficient power to run our business will not increase significantly. A natural disaster or other unanticipated problem could adversely effect our business, including both our primary data center and other internal operations and our ability to communicate with our customers or sell our products over the Internet.

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Some provisions in our charter documents may prevent or deter certain corporate actions

Some of the provisions in our charter documents may deter or prevent certain corporate actions, such as a merger, tender offer or proxy contest, which could affect the market value of our securities. These provisions include:

- our board of directors is authorized to issue preferred stock with any rights it may determine;
 - our board of directors is classified into three groups, with each group of directors to hold office for three years;
 - our stockholders are not entitled to cumulate votes for directors and may not take any action by written consent without a meeting; and
 - special meetings of our stockholders may be called only by our board of directors, by the chairman of the board or by our chief executive officer, and may not be called by our stockholders.
- We also have in place a stockholder rights plan that is designed to discourage coercive takeover offers.

Our stock price may be volatile in the future, and you could lose the value of your investment

The market price of our common stock has experienced significant fluctuations and may continue to fluctuate significantly, and you could lose the value of your investment. The market price of our common stock may be adversely affected by a number of factors, including:

- announcements of our quarterly operating results or those of our competitors or our original equipment manufacturer customers;
- changes in earnings estimates by securities analysts;
- announcements of planned acquisitions by us or by our competitors;
- the gain or loss of a significant customer;
- announcements of new products by us, our competitors or our original equipment manufacturer customers; and
- slowdowns in the economy generally.

The stock market in general, and the market prices of stocks of other technology companies in particular, have experienced extreme price volatility, which has adversely affected and may continue to adversely affect the market price of our common stock for reasons unrelated to our business or operating results.

Item 8. Financial Statements and Supplementary Data

Annual Financial Statements

Our financial statements required by this item are submitted as a separate section of the Form 10-K. See Item 14(a)(1) for a listing of consolidated financial statements provided in the section titled Financial Statements.

Selected Quarterly Results of Operations

The following selected quarterly data should be read in conjunction with the Consolidated Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Form 10-K. This information has been derived from unaudited consolidated financial statements of VERITAS that, in our opinion, reflect all recurring adjustments necessary to fairly present this information when read in conjunction with our Consolidated Financial Statements and Notes thereto appearing in the section titled Financial Statements. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period. As described in Note 20 to our

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consolidated financial statements, we have restated our consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
(In thousands, except per share amounts) (As previously reported)					
Fiscal 2001					
Total net revenues	\$ 387,441	\$ 390,223	\$ 340,231	\$ 374,446	\$ 1,492,341
Gross profit	329,312	330,438	282,569	307,604	1,249,923
Loss before income taxes	(105,189)	(115,501)	(172,143)	(149,656)	(542,489)
Net loss	(156,098)	(128,976)	(161,986)	(204,302)	(651,362)
Net loss per share basic and diluted	\$ (0.40)	\$ (0.32)	\$ (0.40)	\$ (0.51)	\$ (1.63)
Number of shares used in computing per share amounts basic and diluted	394,829	398,017	400,455	402,684	399,016
(As restated)(1)					
Total net revenues	\$ 387,291	\$ 390,090	\$ 340,222	\$ 374,325	\$ 1,491,928
Gross profit	329,162	330,305	282,560	307,483	1,249,510
Loss before income taxes	(101,793)	(111,664)	(168,819)	(146,316)	(528,592)
Net loss	(153,890)	(126,482)	(159,825)	(202,132)	(642,329)
Net loss per share basic and diluted	\$ (0.39)	\$ (0.32)	\$ (0.40)	\$ (0.50)	\$ (1.61)
Number of shares used in computing per share amounts basic and diluted	394,829	398,017	400,455	402,684	399,016

(1) See Note 20 to the consolidated financial statements.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
(In thousands, except per share amounts) (As previously reported)					
Fiscal 2000					
Total net revenues	\$ 244,640	\$ 275,436	\$ 317,171	\$ 370,081	\$ 1,207,328
Gross profit	199,168	231,519	270,641	317,199	1,018,527
Loss before income taxes	(154,458)	(145,896)	(125,464)	(100,010)	(525,828)
Net loss	(174,383)	(172,341)	(148,106)	(124,962)	(619,792)
Net loss per share basic and diluted	\$ (0.44)	\$ (0.43)	\$ (0.37)	\$ (0.31)	\$ (1.55)
Number of shares used in computing per share amounts basic and diluted	394,471	400,787	403,613	401,209	400,034
				(As restated) (1)(2)	(As restated) (2)
Total net revenues	\$ 244,640	\$ 275,436	\$ 317,171	\$ 350,194	\$ 1,187,441
Gross profit	199,168	231,519	270,641	297,312	998,640
Loss before income taxes	(154,458)	(145,896)	(125,464)	(113,230)	(539,048)
Net loss	(174,383)	(172,341)	(148,106)	(133,555)	(628,385)
Net loss per share basic and diluted	\$ (0.44)	\$ (0.43)	\$ (0.37)	\$ (0.33)	\$ (1.57)
Number of shares used in computing per share amounts basic and diluted	394,471	400,787	403,613	401,209	400,034

(1) For the year ended December 31, 2000, only the fourth quarter was restated.

(2) See Note 20 to the consolidated financial statements.

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Our operating results have fluctuated in the past, and may fluctuate significantly in the future, depending on a number of factors, including the timing and magnitude of sales of our products through original equipment manufacturers, investment in new products and new distribution channels, the timing and level of sales to resellers and direct end-users, the introduction, timing and market acceptance of new products, the timing of license fee payments and other factors. For further background on fluctuating operating results, see Factors That May Affect Future Results. Our revenue may fluctuate significantly, which could cause the market price of our securities to decline.

On January 1, 2002, upon adoption of newly issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, the total quarterly charges related to the amortization of developed technology, goodwill and other intangibles will decrease. Refer to the New Accounting Pronouncements section in the Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion on the impacts of the adoption of SFAS 141 and SFAS 142 on our financial statements.

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(a) The following documents are filed as part of this report:

1. Financial Statements

As described in Note 20 to its consolidated financial statements, the Company has restated its consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

The following are included in Item 8 and are filed as part of Amendment No. 1 to this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2001 (As restated) and 2000 (As restated)

Consolidated Statements of Operations for the years ended December 31, 2001 (As restated), 2000 (As restated) and 1999

Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the years ended December 31, 2001 (As restated), 2000 (As restated) and 1999

Consolidated Statements of Cash Flows for the years ended December 31, 2001 (As restated), 2000 (As restated) and 1999

Notes to Consolidated Financial Statements

Report of KPMG LLP, Independent Auditors

Report of Ernst & Young LLP, Independent Auditors

2. Financial Statement Schedules

The following financial statement schedule for the years ended December 31, 2001, 2000 and 1999 should be read in conjunction with the consolidated financial statements of VERITAS Software Corporation filed as part of this Annual Report on Form 10-K/A:

Schedule II Valuation and Qualifying Accounts

Schedules other than that listed above have been omitted since they are either not required, not applicable, or because the information required is included in the consolidated financial statements or the notes thereto.

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
2.01	Agreement and Plan of Merger and Reorganization, dated as of March 29, 2000, by and among VERITAS Software Corporation (VERITAS), Victory Merger Sub, Inc. and Seagate Technology, Inc. (Seagate)	8-K	04/05/00	2.01	
2.02	Stock Purchase Agreement, dated as of March 29, 2000, by and among Suez Acquisition Company (Cayman) Limited (Suez), Seagate and Seagate	8-K	04/05/00	2.02	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
2.03	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 VERITAS, Victory Merger Sub, Inc., Seagate, Seagate Software Holdings, Inc. and Suez	S-4/A	08/30/00	2.05	
2.04	Consolidated Amendment No. 2 to Stock Purchase Agreement, Agreement and Plan of Merger and Reorganization and Indemnification Agreement, and Consent, dated October 17, 2000, by and among VERITAS, Victory Merger Sub, Inc., Seagate, Seagate Software Holdings, Inc. and Suez	S-4/A	10/19/00	2.04	
2.05	Amended and Restated Agreement and Plan of Reorganization by and among VERITAS, VERITAS Operating Corporation (VOC), Seagate, Seagate Software, Inc. (Seagate Software) and Seagate Software Network & Storage Management Group, Inc.	S-4	04/19/99	2.01	
2.06	Amended and Restated Combination Agreement by and between VOC and TeleBackup Systems, Inc.	S-4	4/19/99	2.02	
3.01	Amended and Restated Certificate of Incorporation of VERITAS	8-A	6/2/99	3.01	
3.02	Certificate of Amendment of Amended and Restated Certificate of Incorporation of VERITAS	8-A	6/2/99	3.02	
3.03	Certificate of Amendment of Amended and Restated Certificate of Incorporation of VERITAS	S-8	6/2/00	3.03	
3.04	Amended and Restated Bylaws of VERITAS	S-4	9/28/00	3.04	
4.01	Indenture dated as of October 1, 1997 between VOC and State Street Bank and Trust Company of California, N.A.	10-Q	6/30/99	4.03	
4.02	Amended and Restated First Supplemental Indenture dated July 30, 1999 by and among VERITAS, VOC and State Street Bank and Trust of California, N.A.	S-1	7/27/99	4.04	
4.03	Registration Rights Agreement dated as of October 1, 1997 between VOC and UBS Securities LLC	10-Q	9/30/99	4.07	
4.04	Form of Rights Agreement between VERITAS and the Right Agent, which includes as Exhibit A the forms of Certificate of Designations of Series A Junior Participating Preferred Stock, as Exhibit B the Form of Right Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Shares	S-4	4/19/99	4.06	
4.05	Form of Registration Rights Agreement between VERITAS and Seagate Software	S-4	4/19/99	4.07	
4.06	Form of Stockholder Agreement between VERITAS, VOC, Seagate Software and Seagate	S-4	4/19/99	4.08	
4.07	Form of Specimen Stock Certificate	S-1	10/22/93	4.01	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
4.08	Form of Indenture among VERITAS, VOC State Street Bank and Trust Company of California, N.A., as Trustee	S-1	7/27/99	4.10	
10.01	Indemnification Agreement, dated as of March 29, 2000, by and among VERITAS, Seagate, Suez and certain other parties	8-K	04/5/00	2.3	
10.02	Development and License Agreement between Seagate and VERITAS	S-4	04/19/99	10.01	
10.03	Cross License Agreement and OEM Agreement between Seagate Software Information Management Group, Inc. and VERITAS	S-4	04/19/99	10.02	
10.04*	VERITAS 1993 Equity Incentive Plan, as amended	S-8	03/29/01	4.01	
10.05*	VERITAS 1993 Employee Stock Purchase Plan, as amended	S-8	03/29/01	4.02	
10.06*	VERITAS 1993 Directors Stock Option Plan, as amended	10-K	12/31/99	10.04	
10.07*	OpenVision Technologies, Inc. 1996 Employee Stock Purchase Plan, as amended	S-4	03/24/97	10.19	
10.08	Office building sublease dated February 27, 1998, by and between VOC and Space Systems/ Loral, Inc.	10-Q	09/30/98	10.14	
10.09	Office building lease dated April 30, 1998, by and between VOC and Ryan Companies US, Inc.	10-Q	09/30/98	10.15	
10.10	Form of Key Employee Agreement	S-4	04/19/99	10.11	
10.11	Office Building Lease, dated September 2, 1994, as amended, by and between VOC and John Arriliaga and Richard T. Peery regarding property located in Mountain View, California	10-K	12/31/94	10.09	
10.12	Amendment No 1. to Office Building Lease dated May 28, 1997 by and between VOC and John Arriliaga and Richard T. Peery	10-K	12/31/97	10.12	
10.13	Agreement dated November 7, 1996 between VERITAS Software India Pvt. Ltd. and Talwalkar & Talwalkar and Mr. Rajendra Dattatraya Pathak, Mrs. Kamal Trimbak Nighojkar, Mrs. Bakul Prabhakar Pathak, Mrs. Nalini Manohar Saraf, Mr. Narhar Vaman Pandit, Mr. Madhav Narhar Pandit, Ms. Madhavi Damodar Thite, and Ms. Medha Narhar Pandit relating to the development of certain premises in Pune, India	S-4	03/24/97	10.12	
10.14	Form of Indemnification Agreement entered into between VERITAS and each of its directors and executive officers	S-4	04/19/99	10.15	
10.15	Amendment No. 1 to Cross-License and OEM Agreement between Seagate Software Information Management Group, Inc. and VERITAS	S-4	04/19/99	10.16	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.16	Participation Agreement dated April 23, 1999 by and among VOC, First Security Bank, National Association, as Owner Trustee, various banks and other lending institutions which are parties thereto from time to time as Holders, various banks and other lending institutions which are parties thereto from time to time as Lenders, NationsBank, N.A., as Agent for the Lenders and the Holders, and various parties thereto from time to time as Guarantors	S-1	07/27/99	10.17	
10.17	Grant Deed dated April 23, 1999 recording grant of real property to First Security Bank, National Association as Owner Trustee by Fairchild Semiconductor Corporation of California	S-1	07/27/99	10.20	
10.18	Memorandum of Lease Agreement and Lease Supplement No. 1 and Deed of Trust dated April 23, 1999 among VOC, First Security Bank, National Association and Chicago Title Company	S-1	07/27/99	10.21	
10.19	Memorandum of Lease Agreement and Lease Supplement No. 2 and Deed of Trust dated April 23, 1999 among VOC, First Security Bank, National Association and Chicago Title Company	S-1	07/27/99	10.22	
10.20	Collateral Assignment of Sublease dated April 23, 1999 made by VOC to First Security Bank, National Association	S-1	07/27/99	10.23	
10.21	Sublease Agreement dated April 23, 1999 by and between VOC and Fairchild Semiconductor Corporation of California	S-1	07/27/99	10.24	
10.22	Certificate re: Representations and Warranties dated April 20, 1999 by Fairchild Semiconductor Corporation of California and addressed to VOC	S-1	07/27/99	10.25	
10.23	Security Agreement dated April 23, 1999 between First Security Bank, National Bank, as Owner Trustee and NationsBank, N.A., as Agent for the Lenders and the Holders .	S-1	07/27/99	10.26	
10.24	Form of Agreement of Purchase and Sale by and between Fairchild Semiconductor Corporation of California and VOC	S-1	07/27/99	10.27	
10.25	First Amendment dated April 14, 1999 and Agreement of Purchase and Sale dated March 29, 1999 by and between Fairchild Semiconductor Corporation of California and VOC	S-1	07/27/99	10.28	
10.26	Agency Agreement between VOC and First Security Bank, National Association, as Owner Trustee	S-1	07/27/99	10.29	
10.27	Master Lease Agreement dated April 23, 1999 between First Security Bank, National Association and VOC	S-1	07/27/99	10.30	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.28	First Amendment and Restatement of Certain Operative Agreements and Other Agreements dated March 3, 2000 among VOC, the various parties to the participation agreement and other operative agreements from time to time, as the Guarantors, First Security Bank, National Association, as Owner Trustee, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time, as the Holders, and Bank of America, N.A., as successor to NationsBank, N.A.	10-K	12/31/99	10.29	
10.29	Joinder Agreement dated March 3, 2000 by and between VERITAS and Bank of America, N.A.	10-K	12/31/99	10.30	
10.30	Joinder Agreement dated March 3, 2000 by and between OpenVision International, Ltd. and Bank of America, N.A.	10-K	12/31/99	10.31	
10.31	Joinder Agreement dated March 3, 2000 by and between VERITAS Software Global Corporation (formerly known as Seagate Software Network & Storage Management Group, Inc.) and Bank of America, N.A.	10-K	12/31/99	10.32	
10.32	Participation Agreement dated March 9, 2000 by and among VOC, various parties thereto from time to time as Guarantors, First Security Bank, National Association, as Owner Trustee, various banks and other lending institutions which are parties thereto from time to time as Holders, various banks and other lending institutions which are parties thereto from time to time as Lenders, and Bank of America, N.A. as Agent for the Lenders and the Holders	10-K	12/31/99	10.33	
10.33	Master Lease Agreement dated March 9, 2000 between First Security Bank, National Association, and VOC	10-K	12/31/99	10.34	
10.34	Construction Agency Agreement dated March 9, 2000 between VOC and First Security Bank, National Association	10-K	12/31/99	10.35	
10.35	Trust Agreement dated March 9, 2000 between the several holders from time to time as parties thereto, as Holders, and First Security Bank, National Association, as Owner Trustee	10-K	12/31/99	10.36	
10.36	Credit Agreement dated March 9, 2000 among First Security Bank, National Association, as Owner Trustee, the several lenders from time to time as parties thereto, and Bank of America, N.A.	10-K	12/31/99	10.37	
10.37	Security Agreement dated March 9, 2000 between First Security Bank, National Association, as Owner Trustee, and Bank of America, N.A., accepted and agreed to by VOC	10-K	12/31/99	10.38	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.38	Second Amendment, Assignment and Assumption and Restatement of Certain Operative Agreements and Other Agreements dated July 28, 2000 among VOC, VERITAS Software Global Corporation (VSGC), the various parties to the participation agreement and other operative agreements from time to time, First Security Bank, National Association, as Owner Trustee , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders , and Bank of America, N.A., as the Agent for the secured parties	S-4	09/28/00	10.41	
10.39	First Amendment, Assignment and Assumption and Restatement of Certain Operative Agreements and Other Agreements dated July 28, 2000 among VOC, VSGC, the various parties to the participation agreement and other operative agreements from time to time, First Security Bank, National Association, as Owner Trustee , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders , and Bank of America, N.A., as the Agent for the secured parties	S-4	09/28/00	10.42	
10.40	Participation Agreement dated July 28, 2000 among the various parties thereto from time to time, VSGC, First Security Bank, National Association, as Owner Trustee , the various banks and other lending institutions which are parties thereto from time to time as Holders , the various banks and other lending institutions which are parties thereto from time to time as Lenders , ABN AMRO Bank N.V., Credit Suisse First Boston and Credit Lyonnais Los Angeles Branch	S-4	09/28/00	10.43	
10.41	Credit Agreement dated July 28, 2000 among First Security Bank, National Association as Owner Trustee , the several lenders from time to time, ABN AMRO Bank, N.V., Credit Suisse First Boston, and Credit Lyonnais Los Angeles Branch	S-4	09/28/00	10.44	
10.42	Trust Agreement dated July 28, 2000 between the several holders from time to time parties thereto as Holders and First Security Bank, National Association, as Owner Trustee	S-4	09/28/00	10.45	
10.43	Security Agreement dated July 28, 2000 between First Security Bank, National Association, as Owner Trustee and ABN AMRO Bank N.V., and accepted and agreed to by VSGC	S-4	09/28/00	10.46	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.44	Master Lease Agreement dated as of July 28, 2000 between First Security Bank, National Association, as Owner Trustee and VSGC	S-4	09/28/00	10.47	
10.45	Construction Agency Agreement dated July 28, 2000 between VSGC and First Security Bank, National Association, as Owner Trustee	S-4	09/28/00	10.48	
10.46	Credit Agreement dated September 1, 2000 among VSGC, the various parties thereto from time to time as Guarantors, ABN AMRO Bank N.V., as Administrative Agent for Lenders, Credit Suisse First Boston, as Documentation Agent, and Credit Lyonnais Los Angeles Branch, as Syndication Agent.	10-Q	09/30/00	10.11	
10.47*	Employment Agreement dated November 17, 2000 between VERITAS and Gary L. Bloom	10-K	03/29/01	10.47	
10.48*	VERITAS 2001 Chief Executive Officer Compensation Plan	10-K	03/29/01	10.48	
10.49*	Form of VERITAS 2001 Executive Officer Compensation Plan	10-K	03/29/01	10.49	
10.50*	VERITAS Non-Qualified Deferred Compensation Plan	10-K	03/29/01	10.50	
10.51	Second Amendment and Restatement of Certain Operative Agreements and Other Agreements dated April 5, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, First Security Bank, National Association, as Owner Trustee, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders, and Bank of America, N.A., as the Agent for the secured parties (Roseville, MN)	10-Q	05/11/01	10.04	
10.52	Third Amendment and Restatement of Certain Operative Agreements and Other Agreements dated April 5, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, First Security Bank, National Association, as Owner Trustee, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders, and Bank of America, N.A., as the Agent for the secured parties (Mountain View, CA)	10-Q	05/11/01	10.03	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.53	Fourth Amendment and Restatement of Certain Operative Agreements dated as of September 26, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, Wells Fargo Bank Northwest, National Association, as Owner Trustee , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders and Bank of America, N.A., as the Agent for the secured parties.	10-Q	11/14/01	10.01	
10.54	Third Amendment and Restatement of Certain Operative Agreements dated as of September 26, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, Wells Fargo Bank Northwest, National Association, as Owner Trustee , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders and Bank of America, N.A., as the Agent for the secured parties.	10-Q	11/14/01	10.02	
10.55	VERITAS Participation Agreement First Amendment dated as of September 27, 2001 by and among VSGC, the various parties thereto from time to time, Wells Fargo Bank Northwest, National Association as Owner Trustee , the various banks and other lending institutions which are parties thereto from time to time as Holders or Lenders and ABN Amro Bank N.V. as Agent .	10-Q	11/14/01	10.03	
10.56	Amended and Restated Credit Agreement dated as of September 27, 2001 among VSGC, the various parties thereto from time to time, ABN Amro Bank N.V., Credit Suisse First Boston and Credit Lyonnais Los Angeles Branch.	10-Q	11/14/01	10.04	
10.57	Fifth Amendment and Restatement of Certain Operative Agreements, dated as of November 2, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, Wells Fargo Bank Northwest, National Association, as Owner Trustee , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders , the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders , and Bank of America, N.A., as the Agent for the secured parties.	10-Q	11/14/01	10.05	

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.58	Fourth Amendment and Restatement of Certain Operative agreements, dated as of November 2, 2001 among VSGC, the various parties to the participation agreement and other operative agreements from time to time, Wells Fargo Bank Northwest, National Association, as Owner Trustee, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Holders, the various banks and other lending institutions which are parties to the participation agreement and other operative agreements from time to time as Lenders, and Bank of America, N.A., as the Agent for the secured parties.	10-Q	11/14/01	10.06	
10.59	VERITAS Participation Agreement Second Amendment dated as of November 7, 2001 by and among VSGC, the various parties thereto from time to time, Wells Fargo Bank Northwest, National Association as Owner Trustee, the various banks and other lending institutions which are parties thereto from time to time as Holders or Lenders and ABN Amro Bank N.V. as Agent.	10-Q	11/14/01	10.07	
10.60	First Amendment to the Amended and Restated Credit Agreement dated as of November 7, 2001 by and among VSGC, the various parties thereto from time to time, each of the financial institutions from time to time listed in Schedule I thereto, as amended from time to time as Lenders, Credit Suisse First Boston as Documentation Agent, Credit Lyonnais Los Angeles Branch as Syndication Agent, and ABN Amro Bank N.V. as Administrative Agent.	10-Q	11/14/01	10.08	
10.61*	Separation Agreement dated November 27, 2001 by and between VERITAS and Mark Leslie				
10.62*	VERITAS 2002 Executive Officer Compensation Plan				
10.63*	Form of VERITAS 2002 VP Performance-based Employee Incentive Bonus Plan				
21.01	Subsidiaries of the Registrant				
23.01	Independent Auditors consent				X
23.02	Consent of Independent Auditors				X
99.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X

* Management contract, compensatory plan or arrangement.

Confidential treatment has been granted with respect to certain portions of this document.

(b) Reports on Form 8-K

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Date of Report	Item(s)	Description
10/16/01	5, 7	VERITAS announced financial results for its third quarter ended September 30, 2001 and included the press release.

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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, in the City of Mountain View, State of California, on the 14th day of March 2003.

VERITAS SOFTWARE CORPORATION

Registrant

/s/ EDWIN J. GILLIS

Edwin J. Gillis
*Executive Vice President, Finance
and Chief Financial Officer*

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CERTIFICATIONS

I, Gary L. Bloom, certify that:

1. I have reviewed this amendment to the annual report on Form 10-K/ A of VERITAS Software Corporation;

2. Based on my knowledge, this annual report, as amended, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report, as amended; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, as amended, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report, as amended.

Date: March 14, 2003

By: /s/ GARY L. BLOOM

Name: Gary L. Bloom

Title: Chairman of the Board, President and
Chief Executive Officer

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I, Edwin J. Gillis, certify that:

1. I have reviewed this amendment to the annual report on Form 10-K/ A of VERITAS Software Corporation;

2. Based on my knowledge, this annual report, as amended, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report, as amended; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, as amended, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report, as amended.

Date: March 14, 2003

By: /s/ EDWIN J. GILLIS

Name: Edwin J. Gillis
Title: Executive Vice President, Finance and
Chief Financial Officer

Table of Contents**FINANCIAL STATEMENTS**

As required under Item 8. Financial Statements and Supplementary Data, the consolidated financial statements of the Company are provided in this separate section. The consolidated financial statements included in this section are as follows:

Financial Statement Description	Page
Consolidated Balance Sheets as of December 31, 2001 (As restated) and 2000 (As restated)	48
Consolidated Statements of Operations Years Ended December 31, 2001 (As restated), 2000 (As restated) and 1999	49
Consolidated Statements of Stockholders Equity and Comprehensive Loss Years Ended December 31, 2001 (As restated), 2000 (As restated) and 1999	50
Consolidated Statements of Cash Flows Years Ended December 31, 2001 (As restated), 2000 (As restated) and 1999	51
Notes to Consolidated Financial Statements	52
Report of Independent Auditors	82
Report of Ernst & Young LLP, Independent Auditors	83

Table of Contents**VERITAS SOFTWARE CORPORATION****CONSOLIDATED BALANCE SHEETS**
(In thousands, except per share amounts)

ASSETS

	December 31,	
	2001 (As restated)	2000 (As restated)
Current assets:		
Cash and cash equivalents	\$ 538,419	\$ 886,558
Short-term investments	1,156,441	232,891
Accounts receivable, net of allowance for doubtful accounts of \$12,616 and \$7,810, respectively	176,635	186,013
Deferred income taxes	124,290	42,644
Other current assets	66,466	24,970
	<hr/>	<hr/>
Total current assets	2,062,251	1,373,076
Long-term investments		136,111
Property and equipment, net	225,763	168,389
Goodwill and other intangibles, net	1,412,536	2,285,320
Other non-current assets	52,451	110,382
Deferred income taxes	45,375	
	<hr/>	<hr/>
	\$ 3,798,376	\$ 4,073,278

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 32,244	\$ 45,250
Accrued compensation and benefits	89,637	63,838
Accrued acquisition and restructuring costs	12,093	44,123
Other accrued liabilities	80,833	69,416
Income taxes payable	63,735	34,454
Deferred revenue	238,433	199,911
	<hr/>	<hr/>
Total current liabilities	516,975	456,992
Convertible subordinated notes	444,408	429,176
Deferred and other income taxes	113,100	213,132
	<hr/>	<hr/>
Total liabilities	1,074,483	1,099,300
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$.001 par value:		
10,000 shares authorized; none issued and outstanding		
Common stock, \$.001 par value:		
2,000,000 shares authorized; 423,178 and 411,565 shares issued at December 31, 2001 and 2000; 404,503 and 392,890 outstanding at December 31, 2001 and 2000		
	423	412
Additional paid-in capital	6,228,914	5,847,844
Accumulated deficit	(1,803,088)	(1,160,759)
Accumulated other comprehensive loss	(292)	(11,455)
	<hr/>	<hr/>
	(1,702,064)	(1,702,064)

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Treasury stock, at cost; 18,675 shares at December 31, 2001 and 2000

Total stockholders' equity	<u>2,723,893</u>	<u>2,973,978</u>
	<u>\$ 3,798,376</u>	<u>\$ 4,073,278</u>

See accompanying notes to consolidated financial statements.

Table of Contents**VERITAS SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Net revenue:			
User license fees	\$ 1,110,126	\$ 967,565	\$ 498,014
Services	381,802	219,876	98,098
Total net revenue	1,491,928	1,187,441	596,112
Cost of revenue:			
User license fees	40,902	40,779	20,735
Services	138,430	85,968	38,161
Amortization of developed technology	63,086	62,054	35,659
Total cost of revenue	242,418	188,801	94,555
Gross profit	1,249,510	998,640	501,557
Operating expenses:			
Selling and marketing	548,973	437,167	221,989
Research and development (excluding \$870 related to stock-based compensation in 2001)	241,197	175,901	94,477
General and administrative (excluding \$8,079 related to stock-based compensation in 2001)	116,793	77,900	34,185
Amortization of goodwill and other intangibles	886,651	879,032	510,943
Stock-based compensation	8,949		
Acquisition and restructuring costs (reversals)	(5,000)	(4,260)	11,000
In-process research and development			104,200
Total operating expenses	1,797,563	1,565,740	976,794
Loss from operations	(548,053)	(567,100)	(475,237)
Interest and other income, net	64,916	59,619	23,328
Interest expense	(29,381)	(31,567)	(15,659)
Loss on strategic investments	(16,074)		
Loss before income taxes	(528,592)	(539,048)	(467,568)
Provision for income taxes	113,737	89,337	35,390
Net loss	\$ (642,329)	\$ (628,385)	\$ (502,958)
Net loss per share basic and diluted	\$ (1.61)	\$ (1.57)	\$ (1.59)
Number of shares used in computing per share amounts basic and diluted	399,016	400,034	316,892

See accompanying notes to consolidated financial statements.

Table of Contents**VERITAS SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS**
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss		Treasury Stock		Total Stockholders Equity
	Shares	Amount			Loss	Deferred Compensation	Shares	Amount	
Balance at December 31, 1998.	214,329	\$ 214	\$ 199,644	\$ (29,416)	\$ (556)	\$ (32)		\$	\$ 169,854
Components of comprehensive loss:									
Net loss				(502,958)					(502,958)
Foreign currency translation adjustment					(954)				(954)
Total comprehensive loss									(503,912)
Exercise of stock options	11,909	12	38,521						38,533
Issuance of common stock under employee stock purchase plan	799	1	6,973						6,974
Tax benefits from stock plans			63,419						63,419
Issuance of common stock related to the NSMG acquisition	155,583	156	3,151,196						3,151,352
Issuance of options to purchase shares of common stock related to the NSMG acquisition			281,418						281,418
Issuance of common stock related to the TeleBackup acquisition	6,842	7	134,095						134,102
Issuance of options to purchase shares of common stock related to the TeleBackup acquisition			2,762						2,762
Issuance of common stock related to the NuView acquisition	1,436	1	48,526						48,527
Amortization of deferred compensation						32			32
Balance at December 31, 1999.	390,898	391	3,926,554	(532,374)	(1,510)				3,393,061
Components of comprehensive loss:									
Net loss (As restated, see note 20)				(628,385)					(628,385)
					(9,001)				(9,001)

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Foreign currency translation adjustment									
Change in unrealized loss on available-for-sale investments, net of tax of \$629.				(944)					(944)
Total comprehensive loss									(638,330)
Exercise of stock options	15,806	16	101,423						101,439
Issuance of common stock under employee stock purchase plan	1,126	1	18,064						18,065
Tax benefits from stock plans			160,786						160,786
Purchase of treasury stock related to the Seagate acquisition						(128,060)	(11,671,708)		(11,671,708)
Reissuance of treasury stock related to the Seagate acquisition			1,603,380			109,385	9,969,644		11,573,024
Conversion of convertible subordinated notes	3,735	4	37,637						37,641
Balance at December 31, 2000 (As restated)	411,565	412	5,847,844	(1,160,759)	(11,455)	(18,675)	(1,702,064)		2,973,978
Components of comprehensive loss:									
Net loss(As restated, see note 20)				(642,329)					(642,329)
Foreign currency translation adjustment					4,028				4,028
Change in unrealized gain on available-for-sale investments, net of tax of \$(707)					7,135				7,135
Total comprehensive loss									(631,166)
Exercise of stock options	10,528	10	74,915						74,925
Issuance of common stock under employee stock purchase plan	1,079	1	29,281						29,282
Tax benefits from stock plans			267,705						267,705
Conversion of convertible subordinated notes	6		132						132
Stock-based compensation			9,037						9,037
Balance at December 31, 2001 (As restated)	423,178	\$ 423	\$ 6,228,914	\$ (1,803,088)	\$ (292)	\$	(18,675)	\$ (1,702,064)	\$ 2,723,893



See accompanying notes to consolidated financial statements.

Table of Contents**VERITAS SOFTWARE CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In thousands)

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Cash flows from operating activities:			
Net loss	\$ (642,329)	\$ (628,385)	\$ (502,958)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	91,552	46,097	24,126
Amortization of goodwill and other intangibles	886,651	879,032	510,943
Amortization of developed technology	63,086	62,054	35,659
Amortization of original issue discount on convertible notes	15,314	15,773	5,402
Provision for allowance for doubtful accounts	4,806	2,117	3,121
Stock based compensation	8,949		
Tax benefits from stock plans	267,705	160,786	63,419
Acquisition and restructuring costs	(5,000)	(4,260)	948
Loss on strategic investments	16,074		
Gain on sale of assets	(1,027)		
In-process research and development			104,200
Deferred income taxes	(205,859)	(95,454)	(36,775)
Changes in operating assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	4,981	(55,950)	(80,295)
Other receivable			22,935
Other assets	28,383	(22,348)	(3,367)
Accounts payable	(13,305)	15,021	19,389
Accrued compensation and benefits	25,799	28,278	17,539
Accrued acquisition and restructuring costs	(27,077)	(15,819)	(15,269)
Other accrued liabilities	(3,392)	19,301	10,169
Income and other taxes payable	7,261	27,650	(8,956)
Deferred revenue	37,856	112,932	37,203
Net cash provided by operating activities	560,428	546,825	207,433
Cash flows from investing activities:			
Purchases of investments	(1,672,823)	(836,897)	(764,097)
Sales and maturities of investments	885,384	1,077,068	258,891
Purchase of property and equipment	(145,749)	(134,665)	(59,671)
Cash acquired from Seagate Technology		2,294,301	
Payments to former Seagate Technology stockholders		(2,294,301)	
Cash acquired from Seagate Software			1,044
Cash acquired from TeleBackup			1,493
Strategic investments in businesses	(17,110)	(22,000)	
Purchase of other businesses and technologies	(64,661)	(2,520)	(14,625)
Net cash provided by (used for) investing activities	(1,014,959)	80,986	(576,965)
Financing activities:			
Proceeds from short-term borrowings		465,000	
Repayments of short-term borrowings		(465,000)	
Payments on revolving line of credit assumed	(1,892)		

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Proceeds from issuance of common stock	104,256	119,504	45,507
Net proceeds from issuance of convertible debt			334,137
Net cash provided by financing activities	102,364	119,504	379,644
Effect of exchange rate changes	4,028	(9,001)	(954)
Net increase (decrease) in cash and cash equivalents	(348,139)	738,314	9,158
Cash and cash equivalents at beginning of year	886,558	148,244	139,086
Cash and cash equivalents at end of year	\$ 538,419	\$ 886,558	\$ 148,244
Supplemental disclosures:			
Cash paid for interest	\$ 12,010	\$ 14,926	\$ 5,300
Cash paid for (refund) income taxes	\$ 19,165	\$ (3,403)	\$ 15,834
Supplemental schedule of noncash investing and financing transactions:			
Issuance of common stock and options for business acquisitions	\$ 958	\$	\$3,618,161
Issuance of common stock for conversion of notes	\$ 82	\$ 36,245	\$
Strategic investment acquired in acquisition	\$ 3,028	\$	\$
Purchase of treasury stock related to the Seagate transaction	\$	\$(11,671,708)	\$
Reissuance of treasury stock related to the Seagate transaction	\$	\$ 11,573,024	\$

See accompanying notes to consolidated financial statements.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

VERITAS Software Corporation (the Company), a Delaware corporation, is a leading independent supplier of storage software products and services. Storage software includes storage management and data protection software as well as clustering, replication and storage area networking software. The Company develops and sells products for most popular operating systems, including various versions of UNIX (including Linux) and Windows. The Company also provides a full range of services to assist its customers in assessing, architecting and implementing their storage software solutions. The Company markets its products and services through original equipment manufacturers (OEM), direct sales channels and indirect sales channels such as resellers, value-added resellers, hardware distributors, application software vendors and systems integrators.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Stock Splits

On January 27, 2000, the Company announced a three-for-two split in the form of a stock dividend paid on March 3, 2000 to stockholders of record on February 18, 2000. All share and per share data have been restated to give retroactive effect to this stock split.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with insignificant interest rate risk and with original maturities of three months or less. The Company invests its excess cash in diversified instruments maintained primarily in U.S. financial institutions in an effort to preserve principal and to maintain safety and liquidity.

Short-Term and Long-term Investments

The Company classifies all of its short-term and long-term investments in accordance with Statement of Financial Accounting Standards (SFAS) 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company's short-term and long-term investments do not include strategic investments.

In the fourth quarter of 2001 the Company re-evaluated its investment policies and determined that its securities should be classified as available-for-sale. The Company's intent is to sell these securities within one year, regardless of the maturity date, therefore, all investments have been classified as short-term investments.

As of December 31, 2001, the Company classified its short-term investments as available-for-sale, and all short-term investments consisted of securities with original maturities in excess of 90 days. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income, which is a separate component of stockholders' equity, net of tax. The amortization of premiums and discounts on the investments and realized gains and losses, determined on specific identification based on the trade date of the transaction, are included in interest and other income, net.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2000, the Company had classified its investments as held-to-maturity, and the amortized cost of its short and long-term investments approximated the fair value. Investments with original maturities greater than 90 days and remaining maturities of less than one year as of the balance sheet date were classified as short-term investments. Investments with remaining maturities greater than one year as of the balance sheet date were classified as long-term investments.

Fair Value of Financial Instruments

The following methods are used to estimate the Company's financial instruments:

- a) Cash and cash equivalents, held-to-maturity securities accounts receivables, accounts payable and accrued liabilities approximate their fair value due to the short term nature of these instruments;
- b) Available-for-sale securities, equity securities in publicly traded companies and forward exchange contracts are recorded based on quoted market prices; and
- c) Convertible subordinated notes are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives or, in the case of leasehold improvements, the term of the related lease, if shorter. The estimated useful lives of furniture and equipment and computer equipment is generally two to five years. The Company also depreciates a building located in India over fifteen years.

Goodwill and Other intangibles

Goodwill represents the excess of the purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Other intangibles mainly represent developed technology, distribution channels, original equipment manufacturer agreements, assembled workforce and trademarks acquired in business combinations. As described further under *Recent Accounting Pronouncements*, the Financial Accounting Standards Board (FASB) issued SFAS 141, *Business Combinations* and SFAS 142, *Goodwill and Other Intangible Assets* in July 2001. In accordance with SFAS 142, the Company has continued to amortize goodwill related to acquisitions completed prior to July 1, 2001, with amortization ceasing on January 1, 2002. The goodwill balances associated with acquisitions completed prior to July 1, 2001 were amortized over four years using the straight-line method. Consistent with SFAS 142, the Company has not amortized goodwill related to acquisitions completed subsequent to June 30, 2001, but instead tested the balance for impairment. Identifiable intangibles, regardless of acquisition date, are currently amortized over a two to four year period using the straight-line method.

Goodwill, net of accumulated amortization, was \$1,171.9 million and \$1,941.8 million at December 31, 2001, and 2000, respectively. Other intangibles, net of accumulated amortization, was \$240.6 million and \$343.5 million at December 31, 2001 and 2000, respectively. Accumulated amortization of goodwill and other intangibles was \$2,442.6 million as of December 31, 2001, and \$1,492.6 million as of December 31, 2000.

Strategic Investments

The Company holds investments in common and preferred stock in privately-held and publicly traded companies. These strategic investments do not represent a greater than 20% voting interest in any investee and the Company does not have the ability to significantly influence any investee's management. The investments are accounted for on a cost basis and are included in other non-current assets.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company accounts for its strategic investments in publicly traded companies in accordance with SFAS 115 and these investments are classified as available-for-sale. These investments are carried at fair value, with unrealized gains or losses, net of tax, included in accumulated other comprehensive income or loss as a separate component of stockholders' equity.

Impairment losses are recognized on these strategic investments when the Company determines that there has been a decline in the fair value of the investment that is other than temporary.

Income Taxes

The Company accounts for income taxes in accordance with SFAS 109, *Accounting for Income Taxes*. SFAS 109 prescribes the use of the liability method. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted statutory tax rates in effect at the balance sheet date. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists.

Derivative Financial Instruments

On January 1, 2001, the Company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires the Company to recognize these as either assets or liabilities on the balance sheet and measure them at fair value. If certain conditions are met, a derivative may be specifically designated and accounted for as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. Derivatives or portions of derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the period of change in their fair value. The adoption of this accounting standard did not have a material impact on the Company's financial position or results of operations.

The Company transacts business in various foreign currencies and has established a foreign currency hedging program, utilizing foreign currency forward exchange contracts (forward contracts) to hedge certain foreign currency transaction exposures. The objective of these contracts is to neutralize the impact of currency exchange rate movements on the Company's operating results by offsetting gains and losses on the forward contracts with increases or decreases in foreign currency transactions. The Company does not designate its foreign exchange forward contracts as hedges, except for the cross currency interest rate swap discussed in Note 11. Accordingly, the Company adjusts these instruments to fair value through earnings. The Company does not use forward contracts for speculative or trading purposes.

Revenue Recognition

In October of 1997 the Accounting Standards Executive Committee issued Statement of Position (SOP) 97-2 *Software Revenue Recognition*, which has been amended by SOP 98-9. These statements set forth generally accepted accounting principles for recognizing revenue on software transactions. SOP 97-2, as amended by SOP 98-4, was effective for revenue recognized under software license and service arrangements beginning January 1, 1998. SOP 98-9 amended SOP 97-2 and requires recognition of revenue using the residual method when certain criteria are met.

The Company derives revenue from software licenses and customer support and other services. Service revenue includes contracts for software maintenance and technical support, consulting and training. In software arrangements that include rights to multiple software products and/or services, the Company

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

allocates and defers revenue for the undelivered items, based on vendor-specific objective evidence of fair value, and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as revenue.

The Company recognizes revenue from licensing of software products to an end user upon delivery of the software product to the customer, unless the fee is not fixed or determinable, or collectibility is not considered probable. For licensing of the Company's software to OEMs, revenue is not recognized until the software is sold by the OEM to an end-user customer. For licensing of the Company's software through its indirect sales channels, revenue is recognized when the reseller, value-added reseller, hardware distributor, application software vendor or system integrator sells the software to its customer. Arrangements with payment terms extending beyond 90 days from the invoice date are not considered to be fixed or determinable and revenue is recognized when the fee becomes due. If collectibility is not considered probable for reasons other than extended payment terms, revenue is recognized when the fee is collected.

Customer support revenue is recognized on a straight-line basis over the period that the support is provided. Other software service arrangements are evaluated to determine whether those services are essential to the functionality of the other elements of the arrangement. To date, software services have not been considered essential. Therefore, the revenue allocable to the software services is recognized as the services are performed, assuming all other criteria for revenue recognition have been met.

Cost of Revenue

Cost of revenue includes costs related to user license and service revenue and amortization of acquired developed technology. Cost of user license revenue includes material, packaging, shipping and other production costs, and third-party royalties. Cost of service revenue includes salaries, benefits and overhead costs associated with employees providing maintenance, support, training and consulting services. Third-party consultant fees are also included in cost of service revenue.

Software Development Costs

Under SFAS 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized on a product-by-product basis. The annual amortization should be the greater amount of the amount calculated by using the ratio of the revenue generated by product or the amount calculated by amortizing the capitalized cost using the straight-line method over the estimated economic life of the product. Technological feasibility is established upon completion of a working model, which is typically demonstrated by initial beta shipment. The period between the achievement of technological feasibility and the general release of the Company's products has been of short duration. As of December 31, 2001 such capitalizable software development costs were insignificant and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments in debt securities, trade receivables and financial instruments used in hedging activities. The Company primarily invests its excess cash in commercial paper rated A-1/P-1, medium-term notes, corporate notes, government securities (taxable and non-taxable), asset-backed securities, market auction preferreds with approved financial institutions, and other specific money market instruments of similar liquidity and credit quality. The Company is exposed to credit risks in the event of default by the financial institutions or issuers of investments to the extent recorded on the balance sheet. The Company generally does not require collateral. The Company maintains allowances for credit losses, and such losses have been within management's expectations. For the years ended December 31, 2001, 2000 and 1999 no customer accounted

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for greater than 10% of revenues. The counterparties to the agreements relating to the Company's financial instruments used in hedging activities consist of four major, multinational, high credit quality, financial institutions. The amounts potentially subject to credit risk arising from the possible inability of counterparties to meet the terms of their contracts are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of the Company with that counterparty.

Net Loss Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive common shares consist of employee stock options using the treasury stock method and common shares issued assuming conversion of the convertible subordinated notes, if dilutive.

Accounting for Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees* and related interpretations. Pro forma net income and net income per share disclosures required by SFAS 123, *Accounting for Stock Based Compensation*, are included in Note 14.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries, whose functional currency is the local currency, are translated at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries is reflected as a separate component of stockholder's equity. Foreign currency transaction gains or losses are reported in results of operations.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property and equipment, goodwill and other intangibles, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable. The Company assesses impairment in accordance with the requirements of SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of*. The Company assesses the impairment of enterprise level goodwill periodically in accordance with the provisions of APB 17, *Intangible Assets*. The Company determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the asset. No impairment was recognized in 2001, 2000 and 1999.

Advertising Costs (As restated)

Advertising costs are expensed as incurred. Advertising expense was \$32.4 million, \$29.7 million and \$10.5 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Reclassifications

Certain amounts reported in previous years have been reclassified to conform to the 2001 presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*.

SFAS 141, effective in July 2001, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Upon adoption of SFAS 142, on January 1, 2002, the Company had to evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Also, the Company is required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by March 31, 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 by March 31, 2002. Any impairment loss will be measured as of the January 1, 2002 and recognized as the cumulative effect of a change in accounting principle.

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In accordance with SFAS 142, the Company will perform an evaluation of the Company's identifiable intangible assets and goodwill as of January 1, 2002 to reassess the lives of identifiable intangible assets and to determine whether any of the Company's goodwill is impaired. If the Company determines that a portion of the goodwill is impaired as of the date of adoption, the impairment will be recorded as a cumulative effect of a change in accounting principle. Upon adoption of SFAS 142 on January 1, 2002, the Company will no longer be required to amortize goodwill related to acquisitions completed prior to July 1, 2001 and, accordingly, the Company will not incur any future amortization expense related to goodwill. Goodwill amortization expense totaled approximately \$810.5 million during the year ended December 31, 2001. As of the date of adoption, January 1, 2002, the Company had unamortized goodwill in the amount of approximately \$1,171.9 million and unamortized other identifiable intangible assets in the amount of approximately \$240.6 million, all of which are subject to the transition provisions of SFAS 141 and 142. The Company expects to complete the transitional goodwill impairment test by June 30, 2002. The Company does not expect to record an impairment charge upon completion of the test, but there can be no assurance that at the time the test is completed a significant impairment charge may not be recorded. The Company does not believe that SFAS 141 and SFAS 142 will have a material impact on its financial position or cash flows. However, because of the implementation of SFAS 141 and SFAS 142, the Company expects to become profitable in 2002.

In August 2001, FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supersedes SFAS 121 and APB Opinion No. 30, *Reporting the Results of Operation-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of (by sale, abandonment or in a distribution to owners), whether they were previously held and used or newly acquired, and it also broadens the presentation of discontinued operations to include more disposal transactions. The Company will be required to implement the provisions of SFAS 144 as of January 1, 2002. The Company does not believe that SFAS 144 will have a material impact on its financial position, results of operations or cash flows.

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In December 2001, the FASB staff issued Topic No. D-103, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*. Topic D-103 requires companies to record certain reimbursements received for out-of-pocket expenses as revenue instead of an offset to the related expense. Upon application of Topic D-103, comparative financial statements for prior periods must be reclassified to comply with the guidance in this announcement. The Company will be required to implement the provisions of Topic D-103 as of January 1, 2002. The Company does not believe that Topic D-103 will have a material impact on its financial position, results of operations or cash flows.

Note 2. Seagate Technology Transaction

On November 22, 2000, the Company completed a multi-party transaction with Seagate Technology (Seagate) and Suez Acquisition Company (Cayman) Limited (SAC), a company formed by a group of private equity firms led by Silver Lake Partners. The transaction was structured as a leveraged buyout of Seagate pursuant to which Seagate sold all of its operating assets to SAC, and SAC assumed and indemnified Seagate and us for substantially all liabilities arising in connection with those operating assets. The Company did not acquire Seagate's disc drive business or any other Seagate operating business. At the closing, and after the operating assets and liabilities of Seagate had been transferred to SAC, a wholly-owned subsidiary of the Company merged with and into Seagate, following which Seagate became its wholly-owned subsidiary and was renamed VERITAS Software Technology Corporation.

The Company issued approximately 109.4 million shares of our common stock to the Seagate stockholders in exchange for approximately 128.1 million shares of its common stock and certain non-operating assets and liabilities held by Seagate. The transaction resulted in a decrease of approximately 18.7 million shares of the Company's outstanding common stock. At the closing of the transaction the Company recorded the non-operating assets and liabilities assumed from Seagate at their fair values. In addition, the Company accrued \$40.0 million of direct transaction costs.

Acquisition-related costs are summarized below (in millions):

	Direct Transaction Costs
Provision accrued at transaction date	\$ 40.0
Cash payments	(8.6)
	<hr/>
Balance at December 31, 2000	31.4
Cash payments	(26.0)
Reversals	(5.0)
	<hr/>
Balance at December 31, 2001	\$ 0.4
	<hr/>

In 2001, the Company reversed \$5.0 million of net attorneys' fees originally accrued in relation to the Delaware lawsuit captioned *In re Seagate Technology, Inc. Shareholders Litigation*, which the Company will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit and the subsequent distribution of \$50.0 million of additional consideration to the former Seagate stockholders that was paid by SAC. The Company anticipates that the remaining \$0.4 million of acquisition-related costs will be utilized in 2002.

For the year ended December 31, 2000, the transaction had no impact on the Company's consolidated statement of operations. For the year ended December 31, 2001, the transaction had the following significant impacts on its consolidated statement of operations:

reversal of acquisition and restructuring costs of \$5.0 million; and

additional provision for income taxes of \$30.1 million.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Considering the impacts on its consolidated statement of operations, net of tax, and the impacts of the decrease of approximately 18.7 million shares of its common stock outstanding on the number of shares used in computing the net loss per share, the transaction resulted in an incremental net loss per share of \$0.01 for both years ended December 31, 2000 and 2001. The Company expects the transaction to be accretive when it reaches profitability.

As of December 31, 2000 and 2001, the transaction had impacts on the Company's consolidated balance sheet. The impacts on its assets and liabilities were:

As of December 31, 2000

other non-current assets included \$70.0 million of indemnification receivable from SAC and \$4.0 million for its ownership in Gadzoox Networks, Inc.;

accrued acquisition and restructuring costs included \$31.4 million of direct transaction costs; and

deferred and other income taxes included an additional \$132.0 million, which was net of a deferred tax asset of \$3.0 million related to our ownership in Gadzoox Networks, Inc.

As of December 31, 2001

other current assets included \$21.3 million of indemnification receivable from SAC;

other non-current assets included \$18.0 million of indemnification receivable from SAC;

accrued acquisition and restructuring costs included \$0.4 million of direct transaction costs;

income taxes payable included an additional \$21.3 million; and

deferred and other income taxes included an additional \$113.1 million.

As of December 31, 2001 and 2000, deferred and other income taxes payable recorded in connection with the Seagate transaction totaled \$134.4 million and \$135.0 million respectively, and related to certain tax liabilities that the Company expects to pay after the merger. Certain of Seagate's federal and state tax returns for various fiscal years are under examination by tax authorities. In 2001, the Company recorded a reduction of \$30.7 million in tax liabilities and indemnification receivable from SAC due to certain settlements entered into with tax authorities. Also, the Company recorded a provision for income taxes of \$30.1 million due to changes in estimates of the amount and timing of other tax liabilities for years under examination. The Company believes that adequate amounts for tax liabilities have been provided for any final assessments that may result from these examinations.

Note 3. Business Combinations

NSMG acquisition

On May 28, 1999, the Company acquired the Network & Storage Management Group business of Seagate Software, Inc. (NSMG). The NSMG business developed and marketed software products and provided related services enabling information technology professionals to manage distributed network resources and to secure and protect enterprise data. The NSMG acquisition was accounted for using the purchase method, and the Company has been incurring charges of \$221.5 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total NSMG purchase price was \$3,464.5 million and included \$3,151.4 million for the issuance of 155.6 million shares of the Company's common stock, \$269.7 million for the exchange of options to purchase 15.6 million shares of its common stock and \$43.4 million of acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$3,015.8 million, distribution channels of \$233.8 million, original equipment manufacturer agreements of \$23.4 million, developed

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

technology of \$233.7 million, assembled workforce of \$12.8 million, trademarks of \$22.8 million, in-process research and development of \$101.2 million, net deferred tax liabilities of \$179.5 million, other intangibles of \$1.5 million and tangible net liabilities assumed of \$1.0 million. For each of 2001 and 2000, the Company recorded \$827.6 million for the amortization of goodwill and other intangibles, and \$58.4 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in the Company's consolidated financial statements from the date of acquisition.

Acquisition-related costs consisted of direct transaction costs of \$20.0 million, operating lease commitments on duplicative facilities of \$8.2 million and involuntary termination benefits of \$15.2 million. Non-cash charges included in the acquisition-related costs approximated \$11.7 million.

Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Operating lease commitments on duplicative facilities	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 20.0	\$ 8.2	\$ 15.2	\$ 43.4
Cash payments	(17.4)	(0.3)	(1.8)	(19.5)
Non-cash charges			(11.7)	(11.7)
	—	—	—	—
Balance at December 31, 1999	2.6	7.9	1.7	12.2
Cash payments	(1.9)	(1.9)	(0.9)	(4.7)
	—	—	—	—
Balance at December 31, 2000	0.7	6.0	0.8	7.5
Cash payments	(0.7)	(0.2)	(0.3)	(1.2)
	—	—	—	—
Balance at December 31, 2001	\$ —	\$ 5.8	\$ 0.5	\$ 6.3

The remaining acquisition-related costs accrual of \$6.3 million is anticipated to be utilized primarily for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2013.

In addition, the Company recorded a restructuring charge of \$11.0 million in 1999 as a result of the NSMG acquisition. This restructuring charge related to exit costs with respect to duplicative facilities that it plans to vacate, which include \$0.9 million of write-off of redundant equipment and leasehold improvements, and involuntary termination benefits. Involuntary termination benefits relate to the salary and fringe benefit expense for terminated employees in research and development. The involuntarily terminated employees represented 2% of the global workforce. In the fourth quarter of 2000, as a result of lower actual exit costs than originally estimated with respect to duplicative facilities, \$4.3 million of the restructuring charge was reversed.

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Restructuring costs are summarized below (in millions):

	Cancellation of facilities leases and other contracts	Involuntary termination benefits	Write off of redundant equipment and leasehold improvements	Total
Provision accrued at acquisition date	\$ 8.8	\$ 1.3	\$ 0.9	\$ 11.0
Cash payments		(0.9)		(0.9)
Non-cash charges			(0.9)	(0.9)
	—	—	—	—
Balance at December 31, 1999	8.8	0.4		9.2
Cash payments	(0.2)			(0.2)
Reversal	(3.9)	(0.4)		(4.3)
	—	—	—	—
Balance at December 31, 2000	\$ 4.7	\$	\$	\$ 4.7
Cash payments				
	—	—	—	—
Balance at December 31, 2001	\$ 4.7	\$	\$	\$ 4.7
	—	—	—	—

The remaining restructuring charge accrual of \$4.7 million is anticipated to be utilized for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2012.

TeleBackup acquisition

On June 1, 1999 the Company acquired TeleBackup Systems, Inc. (TeleBackup). TeleBackup designed, developed and marketed software products for local and remote backup and recovery of electronic information stored on networked, remote and mobile personal computers. The TeleBackup acquisition was accounted for using the purchase method, and has been incurring charges of \$9.0 million per quarter, primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total purchase price for TeleBackup was \$143.1 million and included \$134.1 million related to the issuance of 6.8 million shares of the Company's common stock, \$2.8 million for the issuance of options to purchase 0.2 million shares of its common stock and \$6.2 million in acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$133.1 million, distribution channels of \$1.0 million, original equipment manufacturer agreements of \$2.1 million, developed technology of \$6.6 million, assembled workforce of \$0.3 million, trademarks of \$1.3 million, in-process research and development of \$1.9 million, net deferred tax liabilities of \$3.0 million and tangible net liabilities assumed of \$0.2 million. For each of 2001 and 2000, the Company recorded \$34.5 million for amortization of goodwill and other intangibles, and \$1.7 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in the Company's consolidated financial statements from the date of acquisition.

The acquisition costs of \$6.2 million consist primarily of direct transaction costs and involuntary termination benefits.

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 5.6	\$ 0.6	\$ 6.2
Cash payments	(5.1)	(0.2)	(5.3)
	<u>0.5</u>	<u>0.4</u>	<u>0.9</u>
Balance at December 31, 1999			
Cash payments	(0.2)	(0.4)	(0.6)
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Balance at December 31, 2000			
Cash payments	(0.3)		(0.3)
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance at December 31, 2001			

NuView acquisition

On August 10, 1999, under an asset purchase agreement the Company acquired certain assets of NuView, Inc. (NuView), for a total cost of approximately \$67.9 million. The acquisition was accounted for using the purchase method, and the Company has been incurring charges of \$4.3 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The purchase price included \$47.7 million related to the issuance of the Company's common stock, \$0.8 million for the issuance of options to purchase its common stock to former NuView employees, \$0.2 million in acquisition-related costs and \$19.2 million paid in cash. The purchase price was allocated, based on an independent valuation, to goodwill of \$62.6 million, developed technology of \$2.4 million, assembled workforce of \$0.6 million, trademarks of \$0.3 million, covenant-not-to-compete of \$0.9 million and in-process research and development of \$1.1 million. For each of 2001 and 2000, the Company recorded \$16.5 million for amortization of goodwill and other intangibles, and \$0.6 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in the Company's consolidated financial statements from the date of acquisition.

Unaudited pro forma summary results of operations related to the NSMG, TeleBackup and NuView acquisitions

The following unaudited pro forma summary results of operations data have been prepared assuming that the NSMG, TeleBackup and NuView acquisitions had occurred at the beginning of the period presented. The consolidated results are not necessarily indicative of results of future operations nor of results that would have occurred had the acquisitions been consummated as of the beginning of the periods presented. The pro forma information excludes the impact of the one-time charges related to in-process research and development costs of \$104.2 million and the restructuring charges of \$11.0 million recorded in 1999 (in thousands, except per share amounts):

	1999
Net revenue	\$ 700,027
Net loss	\$(738,049)
Basic and diluted net loss per share	\$ (2.03)

Other acquisitions

In 2001, the Company completed three acquisitions of privately held companies for a total cost of approximately \$78.2 million. These acquisitions were accounted for using the purchase method. The purchase price included \$76.3 million payable in cash, of which \$64.7 was paid

as of December 31, 2001, and

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$1.9 million in acquisition-related costs, of which \$1.1 million was paid at December 31, 2001. The remaining cash payments of \$11.6 million will be made throughout March 2003 and the remaining acquisition-related costs accrual of \$0.8 million in direct transaction costs is anticipated to be paid in 2002. The purchase price was allocated to goodwill of \$65.9 million, developed technology of \$12.7 million, other intangibles of \$1.7 million, and net of tangible liabilities assumed of \$2.1 million. For 2001, the Company recorded \$7.5 million for the amortization of goodwill and other intangibles, and \$1.0 million for the amortization of developed technology. The identifiable intangible assets are amortized over their estimated useful lives of two to four years. The results of operations of the acquired businesses are included in the Company's consolidated financial statements from the respective dates of acquisition.

Unaudited pro forma summary results of operations related to other acquisitions

The following unaudited pro forma summary results of operations data have been prepared assuming that the other acquisitions had occurred at the beginning of the period presented. The consolidated results are not necessarily indicative of results of future operations nor of results that would have occurred had the acquisitions been consummated as of the beginning of the periods presented (in thousands, except per share amounts):

	2001	2000
	(As restated)	(As restated)
Net revenue	\$ 1,496,231	\$ 1,200,219
Net loss	\$ (663,827)	\$ (656,834)
Basic and diluted net loss per share	\$ (1.66)	\$ (1.64)

Note 4. Cash, Cash Equivalents and Investments

In the fourth quarter of 2001 the Company re-evaluated its investment policies and determined that its securities should be classified as available-for-sale. Effective October 1, 2001 all investments previously classified as held-to-maturity were classified as available-for-sale. The following table details the value of the investments at October 1, 2001 as if they had been classified as available-for-sale (in thousands):

	October 1, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 302,216	\$	\$	\$ 302,216
Money market funds	264,056	2		264,058
Commercial paper	37,084		(115)	36,969
Corporate notes				
Cash and cash equivalents	\$ 603,356	\$ 2	\$(115)	\$ 603,243
Short-term investments:				
Commercial paper	\$ 44,776	\$	\$	\$ 44,776
Market auction preferreds	177,830			177,830
Government securities	164,861	1,750		166,611
Corporate notes	597,847	3,678		601,525
Short-term investments	\$ 985,314	\$ 5,428	\$	\$ 990,742

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The Company's cash, cash equivalents and investments consist of the following at December 31, 2001 and December 31, 2000 (in thousands):

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 390,068	\$	\$	\$ 390,068
Money market funds	125,383			125,383
Commercial paper	22,968			22,968
Corporate notes				
Cash and cash equivalents	\$ 538,419	\$	\$	\$ 538,419
Short-term investments:				
Commercial paper	\$ 99,491	\$	\$	\$ 99,491
Market auction preferreds	202,574			202,574
Government securities	133,098	1,654	(4)	134,748
Corporate notes	715,203	5,633	(1,208)	719,628
Short-term investments	\$1,150,366	\$7,287	\$(1,212)	\$1,156,441

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$825,727	\$	\$	\$825,727
Money market funds	38,416			38,416
Commercial paper	22,415			22,415
Corporate notes				
Cash and cash equivalents	\$886,558	\$	\$	\$886,558
Short-term investments:				
Commercial paper	\$ 113	\$	\$	\$ 113
Market auction preferreds	5,400			5,400
Government securities	45,995			45,995
Corporate notes	181,383			181,383
Short-term investments	\$232,891	\$	\$	\$232,891
Long-term investments:				

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Government securities	\$ 44,006	\$	\$	\$ 44,006
Medium-term corporate notes	92,105			92,105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Long-term investments	\$ 136,111	\$	\$	\$ 136,111
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company recorded gross realized gains (losses) from the sale of available-for-sale investments for the year ended December 31, 2001 of \$0.2 million. The realized gains (losses) are included in interest and other income, net in the consolidated statements of operations.

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The amortized cost and estimated fair value of the Company's investments, as of December 31, 2001, shown by contractual maturity date, are included in the following table:

	December 31, 2001	
	Amortized Cost	Fair Value
Due in less than one year	\$ 1,314,277	\$ 1,317,646
Due between one and five years	374,508	377,214
Total	\$ 1,688,785	\$ 1,694,860

Note 5. Property and Equipment

Property and equipment is stated at cost and consisted of the following (in thousands):

	December 31,	
	2001	2000
Building	\$ 888	\$ 916
Computer equipment	280,638	172,269
Furniture and equipment	57,216	31,649
Leasehold improvements	69,856	36,101
Construction in Process	13,624	33,445
	422,222	274,380
Less accumulated depreciation and amortization	(196,459)	(105,991)
Property and equipment, net	\$ 225,763	\$ 168,389

Depreciation and amortization of property and equipment charged to costs and expenses was approximately \$84.4 million for the year ended December 31, 2001, \$43.2 million for the year ended December 31, 2000 and \$23.1 million for the year ended December 31, 1999.

Note 6. Strategic Investments

The Company holds investments in common and preferred stock of several privately-held and publicly traded companies. These strategic investments are included in other non-current assets. In the third quarter of 2001, the Company recorded impairment losses on strategic investments of \$16.1 million. The losses represented write-downs of the Company's carrying amount of the investments and were determined by using, among other factors, an investee's significant decline in stock value, its inability to obtain additional private financing, its cash position and current burn rate, and the uncertainty of its financial conditions. At December 31, 2001 the Company had evaluated its remaining investments and currently believes that the carrying values are recoverable.

Note 7. Convertible Subordinated Notes

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In October 1997, the Company issued \$100.0 million of 5.25% convertible subordinated notes due 2004 (the 5.25% notes), for which the Company received net proceeds of \$97.5 million. The Company and its wholly-owned subsidiary, VERITAS Operating Corporation, are co-obligors on the 5.25% notes and are unconditionally, jointly and severally liable for all payments under the notes. As of December 31, 2001, a total principal amount of \$35.5 million had been converted into approximately 3.7 million shares of the Company s common stock. Based on the aggregate principal amount at maturity of \$64.5 million outstanding as of December 31, 2001, the 5.25% notes provide for semi-annual interest payments of \$1.7 million each May 1 and November 1. The 5.25% notes are convertible into shares of the Company s common stock at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, at a conversion

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price of \$9.56 per share, subject to adjustment in certain events, equivalent to a conversion rate of 104.65 shares of common stock per \$1,000 principal amount at maturity. On or after November 5, 2002, the 5.25% notes will be redeemable over a period of time until maturity at our option at declining premiums to par. The debt issuance costs are being amortized over the term of the 5.25% notes using the interest method.

In August 1999, the Company and its wholly-owned subsidiary, VERITAS Operating Corporation, issued \$465.8 million, aggregate principal amount at maturity, of 1.856% convertible subordinated notes due 2006 (the 1.856% notes) for which the Company received net proceeds of approximately \$334.1 million. The interest rate of 1.856%, together with the accrual of original issue discount, represent a yield to maturity of 6.5%. The Company and VERITAS Operating Corporation are co-obligors on the 1.856% notes and are unconditionally, jointly and severally liable for all payments under the notes. As of December 31, 2001, a total principal amount of \$1.1 million had been converted into approximately 29,400 shares of the Company's common stock. Based on the aggregate principal amount at maturity of \$464.7 million outstanding as of December 31, 2001, the 1.856% notes provide for semi-annual interest payments of \$4.3 million each February 13 and August 13. The 1.856% notes are convertible into shares of the Company's common stock at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, at a conversion price of \$35.80 per share, subject to adjustment in certain events, equivalent to a conversion rate of 27.934 shares of common stock per \$1,000 principal amount at maturity. On or after August 16, 2002, the 1.856% notes will be redeemable over a period of time until maturity at our option at the issuance price plus accrued original issue discount and any accrued interest. The debt issuance costs are being amortized over the term of the 1.856% notes using the interest method.

Note 8. Summary Financial Information of Subsidiary

VERITAS and its wholly-owned subsidiary, VERITAS Operating Corporation, are co-obligators on VERITAS 5.25% convertible subordinated notes due 2004 and 1.856% convertible subordinated notes due 2006. VERITAS and VERITAS Operating Corporation are unconditionally, jointly and severally liable for all payments under the notes. On June 30, 2000, VERITAS reorganized its corporate structure that resulted in the elimination of differences in the consolidated financial position and operating results of the parent company and VERITAS Operating Corporation. Consequently, separate summarized financial information of VERITAS and VERITAS Operating Corporation, previously presented pursuant to Staff Accounting Bulletin No. 53, *Financial Statement Requirements in Filings Involving the Guarantee of Securities by the Parent*, are no longer presented since such information is now the same as the consolidated financial statements presented elsewhere herein. No other subsidiaries of VERITAS are co-obligators or guarantors of the convertible subordinated notes.

Note 9. Credit facility

During 2001, the Company extended the term of its \$50.0 million unsecured credit facility, which the Company holds with a syndicate of financial institutions. At December 31, 2001, no amount was outstanding. The credit facility is due to expire in September 2002. Borrowings under the credit facility bear interest at 1.0% to 1.5% over LIBOR, and are subject to VERITAS' compliance with financial and other covenants. The credit agreement requires the Company to maintain specified financial covenants such as earnings before interest, taxes, depreciation and amortization (EBITDA), debt on EBITDA and quick ratio, all of which the Company was in compliance with as of December 31, 2001.

Note 10. Commitments

The Company currently has operating leases for its facilities and rental equipment through 2023. Rental expense under operating leases was approximately \$54.0 million, \$32.1 million and \$15.6 million for the years ended December 31, 2001, 2000 and 1999, respectively. In addition to the basic rent, the Company is

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responsible for all taxes, insurance and utilities related to the facilities. The table below shows the Company's commitments related to its convertible subordinated notes discussed in Note 7 and to its approximate minimum lease payments for its facilities and rental equipment as of December 31, 2001 (in thousands):

	5.25% Notes	1.856% Notes	Operating Lease Commitments	Total
2002	\$	\$	\$ 75,350	\$ 75,350
2003			74,972	74,972
2004	64,479		71,993	136,472
2005			45,179	45,179
2006		464,699	34,197	498,896
2007 and thereafter			198,320	198,320
Total commitments	\$ 64,479	\$ 464,699	\$ 500,011	\$ 1,029,189

Facilities lease commitments

In 1999 and 2000, the Company entered into three build-to-suit lease agreements for office buildings in Mountain View, California, Roseville, Minnesota and Milpitas, California. The Company began occupying the Roseville and Mountain View facilities in May and June 2001 respectively. The development and acquisition of the properties have been financed by a third party through financial institutions. The Company has accounted for these agreements as operating leases in accordance with SFAS 13, *Accounting for Leases*, as amended.

During the first, third and fourth quarters of 2001, the Company amended its existing lease agreement, originally signed in the second quarter of 1999, for new corporate campus facilities in Mountain View, California. The facilities, of 425,000 square feet, provide space for sales, marketing, administration and research and development functions. The lease term for these facilities is five years beginning in March 2000, with an option to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. The Company has the option to purchase the property (land and facilities) for the termination value of \$146.2 million or, at the end of the lease, to arrange for the sale of the property to a third party while the Company retains an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$129.6 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, the Company is entitled to any proceeds from a sale of the property in excess of the termination value. The Company now occupies the new corporate campus facilities and began making lease payments in the second quarter of 2001. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table above.

During the first, third and fourth quarters of 2001, the Company amended its existing lease agreement, originally signed in the first quarter of 2000, for our existing facilities in Roseville, Minnesota. The Company improved and expanded our existing facilities of 62,000 square feet and developed adjacent property adding 142,000 square feet completed in the second quarter of 2001. The facilities provide space for technical support and research and development functions. The lease term for these facilities is five years beginning in March 2000, with an option to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. The Company has the option to purchase the property (land and facilities) for the termination value of \$41.3 million or, at the end of the lease, to arrange for the sale of the property to a third party while the Company retains an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$35.1 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, the Company is entitled to any proceeds from a sale of the property in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

excess of the termination value. The Company now occupies the new campus facilities and began making lease payments in the second quarter of 2001. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table above.

During the third and fourth quarters of 2001, the Company amended its existing lease agreement, originally signed in the third quarter of 2000, for the lease of 65 acres of land and subsequent improvements for new research and development campus facilities in Milpitas, California. The Company plans to develop the site in two phases, with the first phase of 466,000 square feet being completed in the fourth quarter of 2002. The facilities will provide space for research and development and general corporate functions. The lease term for the first phase is five years beginning in July 2000, with an option to extend the lease term for two successive periods of one year each, if agreed to by the financial institutions. The Company has the option to purchase the property (land and first phase facilities) for the termination value of \$243.0 million or, at the end of the lease, to arrange for the sale of the property to a third party while the Company retains an obligation to the owner for the difference between the sales price and the guaranteed residual value up to \$220.0 million if the sales price is less than this amount, subject to certain provisions of the lease. In addition, the Company is entitled to any proceeds from a sale of the property in excess of the termination value. The Company anticipates beginning the lease payments in the third quarter of 2002 for the first phase and to commence occupying the new campus facilities in the fourth quarter of 2002. Monthly lease payments under this operating lease are based on LIBOR using 30-day to 180-day LIBOR contracts. Future minimum lease payments under this lease are included in the table above. The Company is currently analyzing our construction schedule for the second phase of the campus, but at this time no commitments have been made with respect to the start of construction.

The Company has evaluated the expected fair value of the properties at the end of the lease terms by reviewing current real estate market conditions and indicators of expectations for the market in the future. In the event that the Company determines it is probable that the expected fair value of any of the properties at the end of the lease terms will be less than the respective termination values, the Company will accrue the expected loss on a straight-line basis over the remaining lease term. Currently, the Company does not believe it is probable that the fair market value of the properties at the end of the lease terms will be less than the termination values.

Note 11. Derivative Financial Instruments

In September 2000, the Company entered into a three year cross currency interest rate swap transaction (swap) for the purpose of hedging fixed interest rate, foreign currency denominated cash flows under an inter-company loan receivable. Under the terms of this derivative financial instrument, EURO denominated fixed principal and interest payments to be received under the inter-company loan will be swapped for U.S. dollar fixed principal and interest payments. As of December 31, 2001, twenty-one monthly payments of EUR 4.3 million remained to be swapped at a forward exchange rate of 0.89070 U.S. dollar per Euro. The fair market value of the swap at December 31, 2001 was \$0.7 million. As a result of entering into the swap, the Company has mitigated its exposure to foreign currency exchange rate fluctuations. The gains or losses on the foreign currency loan receivable will be offset by the gains or losses on the swap. Because the Company is receiving fixed interest payments under the swap, it is still subject to fluctuations in value due to changes in U.S. dollar interest rates. As of December 31, 2001 the impact of these fluctuations was not significant. This hedge was deemed to be perfectly effective as of December 31, 2001.

As of December 31, 2001, the total gross notional amount of the Company's forward contracts was approximately \$186.6 million, all hedging intercompany accounts of certain of its international subsidiaries. The forward contracts had a term of thirty-five days or less and settled immediately after the end of 2001. All foreign currency transactions and all outstanding forward contracts are marked-to-market at the end of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

period with unrealized gains and losses included in other income. The unrealized gain (loss) on the outstanding forward contracts at December 31, 2001 was immaterial to our consolidated financial statements.

Note 12. Contingencies

In the ordinary course of business, various lawsuits and claims have been filed against the Company.

While the outcome of these matters is currently not determinable, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Note 13. Benefit Plans

The Company has adopted a retirement savings plan qualified under Section 401(k) of the Internal Revenue Code, which is a pretax savings plan covering substantially all United States employees. Under the plan, employees may contribute up to 20% of their pretax salary, subject to certain limitations. Employees are eligible to participate beginning the first day of the month following their date of hire. The Company matches approximately 50% of the employee contributions up to \$2,500 per year and contributed approximately \$6.9 million in 2001, compared to \$5.3 million in 2000 and \$3.1 million in 1999.

Note 14. Stockholders' Equity and Stock Compensation Plans

Stockholder Rights Plan

On October 4, 1998, the Board of Directors of the Company adopted a Stockholder Rights Plan, declaring a dividend of one preferred share purchase right for each outstanding share of common stock, par value \$0.001 per share, of VERITAS. The rights are initially attached to the Company's common stock and will not trade separately. If a person or group acquires 20 percent or more of the Company's common stock, or announces an intention to make a tender offer for the Company's common stock the consummation of which would result in acquiring 20 percent or more of the Company's common stock, then the rights will be distributed and will then trade separately from the common stock. Each right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$0.001 per share, of the Company. The rights expire October 5, 2008, unless the expiration date is extended or unless the rights are earlier redeemed or exchanged by the Company.

The Company is authorized to issue up to 10,000,000 shares of undesignated preferred stock. No such preferred shares have been issued to date.

Stock Option Plans

The Company has two stock option plans. The Company's 1993 Equity Incentive Plan provides for the issuance of either incentive or nonstatutory stock options to employees and consultants of the Company. These options generally are granted at the fair market value of the Company's common stock at the date of grant, expire ten years from the date of grant, vest over a four-year period and are exercisable immediately upon vesting. The Company's 1993 Directors Stock Option Plan provides for the issuance of stock options to directors of the Company. These options generally are granted at the fair market value of the Company's common stock at the date of grant, expire ten years from the date of grant, vest over the term of each director's board membership and are exercisable immediately upon vesting. As of December 31, 2001, the Company had reserved 107.2 million shares of common stock for issuance under the 1993 Equity Incentive Plan and 2.5 million shares for issuance under the Company's 1993 Directors Stock Option Plan. As of December 31, 2001, 27.4 million shares were available for future grant under the plans.

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A summary of the status of the Company's stock option plans as of December 31, 2001, 2000 and 1999 and changes during the years ended on those dates is presented below (number of shares in thousands):

	2001		2000		1999	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	54,817	\$41.73	54,422	\$ 10.28	36,948	\$ 4.88
Granted	21,263	\$39.72	19,024	\$100.76	16,717	\$23.36
Assumed in business combinations	28	\$13.08		\$	15,896	\$ 3.40
Exercised	(10,528)	\$ 6.96	(15,806)	\$ 6.47	(11,909)	\$ 3.21
Forfeited	(5,959)	\$62.18	(2,823)	\$ 31.29	(3,230)	\$ 9.07
Outstanding at end of year	59,621	\$45.09	54,817	\$ 41.73	54,422	\$10.28
Options exercisable at year end	26,235		21,621		22,625	
Weighted-average fair value of options granted during the year	\$ 28.58		\$ 63.42		\$ 13.93	

The following table summarizes information about stock options outstanding at December 31, 2001 (number of shares in thousands):

Range of Exercise Prices	Options Exercisable			Options Outstanding	
	Number Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2001	Weighted-Average Exercise Price
\$ 0.03 \$ 4.79	6,665	4.59	\$ 3.08	6,320	\$ 3.03
\$ 4.96 \$ 11.33	6,230	5.74	\$ 8.37	5,429	\$ 8.17
\$12.00 \$ 19.89	7,231	7.15	\$ 17.49	3,756	\$ 17.27
\$20.86 \$ 27.55	4,027	7.95	\$ 23.12	1,710	\$ 22.59
\$28.72 \$ 28.72	7,663	9.67	\$ 28.72	605	\$ 28.72
\$30.96 \$ 39.45	6,177	9.13	\$ 38.53	1,148	\$ 38.47
\$39.57 \$ 88.00	8,221	9.01	\$ 68.74	1,991	\$ 70.83
\$90.38 \$ 97.00	7,789	8.08	\$ 94.09	3,075	\$ 93.75
\$97.61 \$134.17	5,618	8.44	\$113.95	2,201	\$114.08
\$ 0.03 \$134.17	59,621	7.80	\$ 45.09	26,235	\$ 34.65

Employee Stock Purchase Plan

As of December 31, 2001, under the Company's 1993 Employee Stock Purchase Plan, the Company is authorized to issue up to 25.8 million shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the 1993 Employee Stock Purchase Plan, employees can choose to have up to 10% of their wages withheld to purchase the Company's common stock. The 1993 Employee

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Stock Purchase Plan consists of two-year offerings with four 6-month purchase periods in each offering period. The purchase price of the stock is 85% of the lower of the subscription date fair market value or the end of the purchase period fair market value.

Substantially all of the eligible employees have participated in the 1993 Employee Stock Purchase Plan in 2001, 2000 and 1999. Under the 1993 Employee Stock Purchase Plan, the Company issued 1.1 million shares to employees in 2001, 1.1 million shares in 2000, and 0.8 million shares in 1999. The weighted-average purchase price of these shares was \$27.30 in 2001, \$16.11 in 2000 and \$8.70 in 1999.

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Stock-based Compensation*

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Since the exercise price of options granted under such plans is generally equal to the market value on the date of grant, no compensation cost has been recognized for grants under its stock option plans and stock purchase plans. In accordance with APB 25, the Company does not recognize compensation cost related to its employee stock purchase plan. If compensation cost for the Company's stock-based compensation plans had been determined consistent with SFAS No. 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	2001	2000	1999
	(As restated)	(As restated)	
Net loss			
As reported	\$ (642,329)	\$ (628,385)	\$ (502,958)
Pro forma	\$ (932,714)	\$ (779,848)	\$ (540,474)
Basic and diluted loss per share			
As reported	\$ (1.61)	\$ (1.57)	\$ (1.59)
Pro forma	\$ (2.34)	\$ (1.95)	\$ (1.71)

For the pro forma amounts determined under SFAS No. 123, as set forth above, the fair value of each stock option grant under the stock option plans is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2001, 2000 and 1999: risk-free interest rates averaging 4.56% in 2001, 6.16% in 2000 and 5.55% in 1999; a dividend yield of 0.0% for all years; a weighted-average expected life of 5 years for all years; and a volatility factor of the expected market price of the Company's common stock of 0.90 for 2001, 0.70 for 2000 and 0.65 for 1999.

The fair value of the employees' purchase rights under the employee purchase plan is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for these rights granted in 2001, 2000 and 1999: a dividend yield of 0.0% for all years; an expected life ranging up to 2 years for all years; an expected volatility factor of 0.90 in 2001, 0.70 in 2000 and 0.65 in 1999; and risk-free interest rates ranging from 3.37% to 4.99% in 2001, from 6.02% to 6.65% in 2000 and from 4.57% to 5.77% in 1999.

Note 15. Income Taxes

Income before provision for income taxes consisted of (in thousands):

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
United States	\$ (468,863)	\$ (323,749)	\$ (455,404)
International	(59,729)	(215,299)	(12,164)
	<u>\$ (528,592)</u>	<u>\$ (539,048)</u>	<u>\$ (467,568)</u>

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The provision for income taxes consists of the following (in thousands):

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Federal			
Current	\$ 277,449	\$ 165,686	\$ 64,452
Deferred	(167,716)	(85,944)	(35,245)
State			
Current	35,990	14,862	9,340
Deferred	(32,228)	(9,329)	(5,077)
Foreign			
Current	5,451	4,062	1,920
Deferred	(5,209)		
Total	<u>\$ 113,737</u>	<u>\$ 89,337</u>	<u>\$ 35,390</u>

The tax benefits associated with employee stock option activity or employee stock purchase plan shares reduced taxes currently payable by \$267.7 million for 2001, \$160.8 million for 2000, and \$63.4 million for 1999.

The provision for income taxes differed from the amount computed by applying the federal statutory rate as follows:

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Federal tax at statutory rate	35.0%	35.0%	35.0%
State taxes	(0.5)	(1.0)	(0.9)
Impact of foreign taxes	1.3	(0.7)	(0.4)
In-process research and development charge and non-deductible goodwill	(52.4)	(51.1)	(42.2)
Tax credits	0.4	0.7	0.5
Adjustment to merger related tax liability	(5.1)		
Other	(0.2)	0.5	0.4
Total	<u>(21.5)%</u>	<u>(16.6)%</u>	<u>(7.6)%</u>

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Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Deferred tax assets:			
Net operating loss carryforwards	\$ 42,724	\$ 161,966	\$ 26,946
Deferred revenue and reserve accruals not currently deductible	175,773	47,718	28,315
Acquired intangibles	35,599	17,898	12,521
Tax credit carryforwards	40,245	20,070	2,861
Foreign	5,209		
Other	10,040	9,519	2,170
	<u>309,590</u>	<u>257,171</u>	<u>72,813</u>
Valuation allowance	(71,385)	(162,319)	(11,602)
	<u>238,205</u>	<u>94,852</u>	<u>61,211</u>
Deferred tax liabilities:			
Acquired intangibles	(68,540)	(130,340)	(195,275)
	<u>\$ 169,665</u>	<u>\$ (35,488)</u>	<u>\$ (134,064)</u>

As of December 31, 2001 and 2000, deferred and other income taxes payable recorded in connection with the Seagate transaction totaled \$134.4 million and \$135.0 million, respectively and related to certain tax liabilities that are expected to be paid by the Company after the merger (See Note 2). Certain of Seagate's federal and state tax returns for various fiscal years are under examination by taxing authorities. A decrease in the indemnification receivable from SAC of \$30.7 million and a provision for income taxes of \$30.1 million have been recorded in 2001 due to certain settlements entered into with tax authorities as well as the Company's changes in estimates of the amount and timing of other tax liabilities for years under examination. The Company believes that adequate amounts for tax have been provided for any final assessments that may result from these examinations.

The valuation allowance decreased by \$90.9 million in 2001, increased by \$150.7 million in 2000 and decreased by \$9.2 million in 1999. As of December 31, 2001 the Company has provided a valuation allowance on certain deferred tax assets that has two main components. Approximately \$11.6 million of the valuation allowance relates to the tax benefits of certain assets acquired with the acquisition of NSMG and will be credited to goodwill when realized. The Company has also provided \$59.8 million of valuation allowance that relates to certain of its deferred tax assets because of uncertainty regarding their realizability due to the expectation of future employee stock option activity. When recognized, most of the tax benefit of these deferred tax assets will be accounted for as a credit to stockholders' equity rather than as a reduction of the income tax provision.

As of December 31, 2001, the Company had federal tax loss carryforwards of approximately \$34.9 million and federal tax credit carryforwards of approximately \$21.3 million. The federal tax loss carryforwards will expire in 2002 through 2009, and the federal tax credit carryforwards will expire in 2003 through 2021, if not utilized. The Company had state tax loss carryforwards of approximately \$77.7 million and state tax credit carryforwards of approximately \$18.9 million. The state tax loss carryforwards will expire in 2002 through 2009, and of the state tax credit carryforwards \$3.4 million will expire in 2002 through 2007, if not utilized, and \$15.5 million may be carried forward indefinitely. Because of the change in ownership provisions of the Internal Revenue Code, a portion of the Company's net operating loss and tax credit carryforwards may be subject to annual limitation. The annual limitation may result in the expiration of net operating loss and tax

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credit carryforwards before utilization. In addition, the Company had foreign net operating loss carryforwards of approximately \$270.0 million that may be carried forward indefinitely.

As of December 31, 2001, the Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

Note 16. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Numerator:			
Net loss	\$(642,329)	\$(628,385)	\$(502,958)
Denominator:			
Denominator for basic net loss per share weighted-average shares	399,016	400,034	316,892
Potential common shares			
Denominator for diluted net loss per share	399,016	400,034	316,892
Basic and diluted net loss per share	\$ (1.61)	\$ (1.57)	\$ (1.59)

Common stock equivalents included in the denominator for purposes of computing diluted net loss per share do not include shares related to employee stock options, shares issuable upon conversion of the outstanding 5.25% convertible subordinated notes or shares issuable upon conversion of the outstanding 1.856% convertible subordinated notes, as their effect would be anti-dilutive for all periods presented. The following table sets forth the common stock equivalents that were excluded from the net loss per share computations (in thousands):

	2001	2000	1999
Employee stock options outstanding	59,621	54,817	54,422
5.25% convertible subordinated notes	6,749	6,753	10,465
1.856% convertible subordinated notes	12,981	12,982	13,010

The weighted average exercise prices of the employee stock options with exercise prices exceeding the average fair value of the Company's common stock for December 31, 2001, 2000 and 1999 are \$45.09, \$41.73 and \$10.28 per share, respectively.

On January 1, 2002, the Company adopted SFAS 142, *Goodwill and Other Intangible Assets*. As a result, the Company no longer amortizes goodwill, but will test it for impairment annually or whenever events or

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changes in circumstances suggest that the carrying amount may not be recoverable. The adjusted net income per share excluding amortization of goodwill is as follows (in thousands):

	December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
Net loss	\$ (642,329)	\$ (628,385)	\$ (502,958)
Add back:			
Amortization of goodwill	814,390	807,137	469,103
Adjusted net income	\$ 172,061	\$ 178,752	\$ (33,855)
Basic net income (loss) per share	\$ (1.61)	\$ (1.57)	\$ (1.59)
Add back:			
Amortization of goodwill	2.04	2.02	1.48
Adjusted basic net income per share	\$ 0.43	\$ 0.45	\$ (0.11)
Diluted net loss per share	\$ (1.53)	\$ (1.44)	\$ (1.41)
Add back:			
Amortization of goodwill	1.94	1.85	1.32
Adjusted diluted net income (loss) per share	\$ 0.41	\$ 0.41	\$ (0.09)

Note 17. Segment Information

The Company operates in one segment, data availability solutions. The Company's products and services are sold throughout the world, through OEM, direct sales channels and indirect sales channels. The Company's chief operating decision maker, the chief executive officer, evaluates the performance of the Company based upon stand-alone revenue of product channels and the geographic regions of the segment and does not receive discrete financial information about asset allocation, expense allocation or profitability from the Company's storage products or services.

Geographic information (in thousands):

	Years Ended December 31,		
	2001	2000	1999
	(As restated)	(As restated)	
User license fees(1):			
United States	\$ 759,649	\$ 713,931	\$ 372,485
Europe(2)	238,076	175,945	94,986
Other(3)	112,401	77,689	30,543
Total	\$ 1,110,126	\$ 967,565	\$ 498,014

Services(1):			
United States	\$ 302,117	\$ 179,096	\$ 78,756
Europe(2)	56,807	31,646	15,450
Other(3)	22,878	9,134	3,892
Total	\$ 381,802	\$ 219,876	\$ 98,098
Total net revenue	\$ 1,491,928	\$ 1,187,441	\$ 596,112

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	As of December 31,		
	2001	2000	1999
Long-lived assets(4):			
United States	\$ 1,592,060	\$ 2,423,292	\$ 3,289,545
Europe(2)	33,945	22,212	11,918
Other(3)	12,294	8,205	2,244
Total	<u>\$ 1,638,299</u>	<u>\$ 2,453,709</u>	<u>\$ 3,303,707</u>

- (1) License and service revenues are attributed to geographic regions based on location of customers.
- (2) Europe includes the Middle East and Africa.
- (3) Other consists of Canada, Latin America, Japan and the Asia Pacific region.
- (4) Long-lived assets include all long-term assets except those specifically excluded under SFAS No. 131, such as deferred income taxes and financial instruments. Reconciliation to total assets reported (in thousands):

	As of December 31,	
	2001	2000
Total long-lived assets	(As restated) \$ 1,638,299	(As restated) \$ 2,453,709
Other assets, including current	2,160,077	1,619,569
Total consolidated assets	<u>\$ 3,798,376</u>	<u>\$ 4,073,278</u>

No customer represented 10% or more of the Company's net revenue in 2001, 2000 or 1999.

User license fees information (in thousands):

The Company markets and distributes its software products both as individual software products and as integrated products suites, also referred to as application solutions. The Company derives our user license fees from the sale of its core technologies, including data protection and file system and volume management products, from its emerging technologies, including cluster and replication and SAN products and from its application solutions, which include technologies from both its core and emerging technologies. The user license fees from its core technologies were \$951.1 million in 2001, \$830.7 million in 2000 and \$443.6 million in 1999. The user license fees from its emerging technologies were \$159.0 million in 2001, \$136.9 million in 2000 and \$54.5 million in 1999.

The user license fees from its application solutions, as stand-alone products, were \$228.1 million in 2001, \$ 236.1 million in 2000 and \$107.1 million in 1999. The user license fees generated by application solutions are allocated between core technology products and emerging technology products.

Note 18. Related Party Transactions

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In 1999, the Company paid \$6.7 million in service fees related to the acquisition of NSMG to Donaldson, Lufkin & Jenrette (DLJ), a company affiliated with a director of the Company until February 1999. The Company had no outstanding receivable or payable balance with DLJ at December 31, 2001.

In 2001, the Company accelerated the vesting of certain stock options held by its former chief executive officer and chairman of the board, resulting in a one-time stock-based compensation charge of \$8.1 million.

Certain of the Company's customers are also its suppliers. Occasionally, in the normal course of business, the Company has purchased goods or services for its operations from these suppliers at or about the same

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VERITAS SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

time the Company has licensed its software to them. These transactions are separately negotiated and recorded at terms the Company considers to be arm's-length.

Note 19. Subsequent Events

In January 2002, the Company entered into two three-year pay fixed, receive floating, interest rate swaps (interest rate swaps) for the purpose of hedging variable interest rate debt of its built-to-suit lease agreements. Under the terms of the interest rate swaps, the Company makes payments based on the fixed rate and will receive interest payment based on the 3-month LIBOR. The interest rate swaps settles the first day of January, April, July and October until expiration. As a result of entering into the interest rate swaps, the Company has mitigated its exposure to interest rate fluctuations. As the rental payments on the leases are based on the 3-month LIBOR and the Company receives 3-month LIBOR from the interest rate swap counter-party, the Company has eliminated any impact to raising interest rates related to its rent payments under the built-to-suit lease agreements.

Note 20. Restatement of Financial Statements

On January 17, 2003, the Company announced that it would restate its accounting for transactions with AOL Time Warner (AOL) entered into in September 2000. The transactions involved a software and services purchase by AOL at a stated value of \$50.0 million and the purchase by the Company of advertising services from AOL at a stated value of \$20.0 million. The Company originally recorded \$36.9 million of revenue in 2000 and has been recognizing the remaining \$13.1 million in revenue over a three-year support period. The purchase of advertising services at a stated value of \$20.0 million was recorded as an expense as the services were provided in 2000 and 2001.

The Company has conducted an internal review of the AOL transactions and other contemporaneous customer-vendor transactions to determine if the fair value of goods and services purchased and sold could be reasonably determined. The Company has determined that the fair value of the goods and services purchased and sold in the AOL transactions could not be reasonably determined and has accordingly restated its financial results to reflect a reduction in revenues and expenses of \$20.0 million. The Company is also restating two additional contemporaneous transactions involving software licenses and the purchase of on-line advertising services entered into in 2000 to reflect an additional reduction in revenues and expenses of \$977,000. The periods affected by the restatement include fiscal years ended December 31, 2000 and 2001. In fiscal 2000, the restatement reduces revenue by \$19.9 million and increases net loss and net loss per share by \$8.6 million and \$0.02, respectively. In fiscal 2001, the restatement reduces revenue by \$0.4 million and decreases net loss and net loss per share by \$9.0 million and \$0.02, respectively. Additionally, as of December 31, 2001, the deferred revenue balance was reduced by \$0.7 million.

The restatement has no impact on the Company's net cash flows from operating activities or on the Company's cash and cash equivalents in the consolidated statements of cash flows for the years ended December 31, 2000 and 2001.

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables show the impacts of the restatement on the Company's consolidated statements of operations for the years ended December 2001 and 2000 and on the Company's consolidated balance sheets as of December 31, 2001 and 2000 (in thousands, except per share amounts):

	Year Ended December 31, 2001	
	(As originally reported)	(As restated)
Net revenue:		
User license fees	\$ 1,110,400	\$ 1,110,126
Services	381,941	381,802
Total net revenue	<u>1,492,341</u>	<u>1,491,928</u>
Cost of revenue:		
User license fees	40,902	40,902
Services	138,430	138,430
Amortization of developed technology	63,086	63,086
Total cost of revenue	<u>242,418</u>	<u>242,418</u>
Gross profit	1,249,923	1,249,510
Operating expenses:		
Selling and marketing	563,283	548,973
Research and development (excluding \$870 related to stock-based compensation in 2001)	241,197	241,197
General and administrative (excluding \$8,079 related to stock-based compensation in 2001)	116,793	116,793
Amortization of goodwill and other intangibles	886,651	886,651
Stock-based compensation	8,949	8,949
Acquisition and restructuring reversals	(5,000)	(5,000)
Total operating expenses	<u>1,811,873</u>	<u>1,797,563</u>
Loss from operations	(561,950)	(548,053)
Interest and other income, net	64,916	64,916
Interest expense	(29,381)	(29,381)
Loss on strategic investments	(16,074)	(16,074)
Loss before income taxes	(542,489)	(528,592)
Provision for income taxes	108,873	113,737
Net loss	<u>\$ (651,362)</u>	<u>\$ (642,329)</u>
Net loss per share - basic and diluted	<u>\$ (1.63)</u>	<u>\$ (1.61)</u>
Number of shares used in computing per share amounts - basic and diluted	<u>399,016</u>	<u>399,016</u>

Year Ended December 31, 2000

	(As originally reported)	(As restated)
Net revenue:		
User license fees	\$ 987,363	\$ 967,565
Services	219,965	219,876
	<hr/>	<hr/>
Total net revenue	1,207,328	1,187,441
Cost of revenue:		
User license fees	40,779	40,779

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Year Ended December 31, 2000	
	(As originally reported)	(As restated)
Services	85,968	85,968
Amortization of developed technology	62,054	62,054
	<hr/>	<hr/>
Total cost of revenue	188,801	188,801
	<hr/>	<hr/>
Gross profit	1,018,527	998,640
Operating expenses:		
Selling and marketing	443,834	437,167
Research and development	175,901	175,901
General and administrative	77,900	77,900
Amortization of goodwill and other intangibles	879,032	879,032
Acquisition and restructuring reversals	(4,260)	(4,260)
	<hr/>	<hr/>
Total operating expenses	1,572,407	1,565,740
	<hr/>	<hr/>
Loss from operations	(553,880)	(567,100)
Interest and other income, net	59,619	59,619
Interest expense	(31,567)	(31,567)
	<hr/>	<hr/>
Loss before income taxes	(525,828)	(539,048)
Provision for income taxes	93,964	89,337
	<hr/>	<hr/>
Net loss	\$ (619,792)	\$ (628,385)
	<hr/>	<hr/>
Net loss per share basic and diluted	\$ (1.55)	\$ (1.57)
	<hr/>	<hr/>
Number of shares used in computing per share amounts basic and diluted	400,034	400,034
	<hr/>	<hr/>

	December 31, 2001	
	(As originally reported)	(As restated)
Current assets:		
Cash and cash equivalents	\$ 538,419	\$ 538,419
Short-term investments	1,156,441	1,156,441
Accounts receivable, net of allowance for doubtful accounts of \$12,616	176,635	176,635
Deferred income taxes	124,527	124,290
Other current assets	66,466	66,466
	<hr/>	<hr/>
Total current assets	2,062,488	2,062,251
Property and equipment, net	225,763	225,763
Goodwill and other intangibles, net	1,412,536	1,412,536

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Other non-current assets	52,451	52,451
Deferred income taxes	45,375	45,375
	<u> </u>	<u> </u>
	\$3,798,613	\$3,798,376
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 32,244	\$ 32,244
Accrued compensation and benefits	89,637	89,637
Accrued acquisition and restructuring costs	12,093	12,093
Other accrued liabilities	80,833	80,833

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	December 31, 2001	
	(As originally reported)	(As restated)
Income taxes payable	63,735	63,735
Deferred revenue	239,110	238,433
Total current liabilities	517,652	516,975
Convertible subordinated notes	444,408	444,408
Deferred and other income taxes	113,100	113,100
Total liabilities	1,075,160	1,074,483
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value:		
10,000 shares authorized: none issued and outstanding		
Common stock, \$.001 par value:		
2,000,000 shares authorized; 423,178 shares issued at December 31, 2001; 404,503 outstanding at December 31, 2001	423	423
Additional paid-in capital	6,228,914	6,228,914
Accumulated deficit	(1,803,528)	(1,803,088)
Accumulated other comprehensive loss	(292)	(292)
Treasury stock, at cost; 18,675 shares at December 31, 2001	(1,702,064)	(1,702,064)
Total stockholders' equity	2,723,453	2,723,893
	\$ 3,798,613	\$ 3,798,376

	December 31, 2000	
	(As originally reported)	(As restated)
Current assets:		
Cash and cash equivalents	\$ 886,558	\$ 886,558
Short-term investments	232,891	232,891
Accounts receivable, net of allowance for doubtful accounts of \$7,810	186,863	186,013
Deferred income taxes	38,017	42,644
Other current assets	38,303	24,970
Total current assets	1,382,632	1,373,076
Long-term investments	136,111	136,111
Property and equipment, net	168,389	168,389
Goodwill and other intangibles, net	2,285,320	2,285,320
Other non-current assets	110,382	110,382
	\$4,082,834	\$4,073,278
LIABILITIES AND STOCKHOLDERS' EQUITY		

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Current liabilities:

Accounts payable	\$ 45,250	\$ 45,250
Accrued compensation and benefits	63,838	63,838
Accrued acquisition and restructuring costs	44,123	44,123
Other accrued liabilities	69,289	69,416

Table of Contents**VERITAS SOFTWARE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	December 31, 2000	
	(As originally reported)	(As restated)
Income taxes payable	34,454	34,454
Deferred revenue	201,001	199,911
	<u> </u>	<u> </u>
Total current liabilities	457,955	456,992
Convertible subordinated notes	429,176	429,176
Deferred and other income taxes	213,132	213,132
	<u> </u>	<u> </u>
Total liabilities	1,100,263	1,099,300
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value:		
10,000 shares authorized: none issued and outstanding		
Common stock, \$.001 par value:		
2,000,000 shares authorized; 411,565 shares issued at		
December 31, 2000; 392,890 outstanding at December 31, 2000	412	412
Additional paid-in capital	5,847,844	5,847,844
Accumulated deficit	(1,152,166)	(1,160,759)
Accumulated other comprehensive loss	(11,455)	(11,455)
Treasury stock, at cost; 18,675 shares at December 31, 2000	(1,702,064)	(1,702,064)
	<u> </u>	<u> </u>
Total stockholders' equity	2,982,571	2,973,978
	<u> </u>	<u> </u>
	\$ 4,082,834	\$ 4,073,278
	<u> </u>	<u> </u>

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REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors

VERITAS Software Corporation

We have audited the accompanying consolidated balance sheet of VERITAS Software Corporation and subsidiaries as of December 31, 2001 and the related consolidated statement of operations, stockholders' equity and comprehensive loss, and cash flows for the year ended December 31, 2001. Our audit also included the financial statement schedule listed in the index at Item 14(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of VERITAS Software Corporation and subsidiaries as of December 31, 2001, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 20 to the consolidated financial statements, VERITAS Software Corporation has restated its consolidated financial statements as of and for the year ended December 31, 2001.

/s/ KPMG LLP

Mountain View, California
January 25, 2002, except for Note 20,
which is as of March 14, 2003

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Stockholders and Board of Directors

VERITAS Software Corporation

We have audited the accompanying consolidated balance sheet of VERITAS Software Corporation as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the two years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VERITAS Software Corporation at December 31, 2000, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 20 to the accompanying consolidated financial statements, VERITAS Software Corporation has restated its financial statements for the year ended December 31, 2000.

/s/ ERNST & YOUNG LLP

San Jose, California

January 23, 2001,
except for Note 20, insofar as it relates to the year 2000,
as to which the date is March 14, 2003.

Table of Contents**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

	Balance at Beginning of Year	Provision From Businesses Acquired	Charged to Operating Expenses	Deductions(1)	Balance at End of Year
	(In thousands)				
Allowance for doubtful accounts:					
Year ended December 31, 2001	\$7,810	\$ 220	\$5,136	\$ 550	\$12,616
Year ended December 31, 2000	\$5,693	\$	\$4,585	\$2,468	\$ 7,810
Year ended December 31, 1999	\$2,572	\$1,477	\$2,425	\$ 781	\$ 5,693

(1) Deductions related to the allowance for doubtful accounts represent amounts written off against the allowance.

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
23.01	Independent Auditors consent				X
23.02	Consent of Independent Auditors				X
99.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X