

VERITAS SOFTWARE CORP /DE/

Form S-4

March 19, 2003

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As filed with the Securities and Exchange Commission on March 19, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VERITAS SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

7372
*(Primary Standard Industrial
Classification Code Number)*

77-0507675
*(I.R.S. Employer
Identification Number)*

350 Ellis Street

Mountain View, California 94043
(650) 527-8000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Gary L. Bloom
Chairman of the Board, President and Chief Executive Officer
VERITAS Software Corporation
350 Ellis Street
Mountain View, California 94043
(650) 527-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Precise Software Solutions, Inc.
690 Canton Street
Westwood, Massachusetts 02090
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Approximate date of commencement of proposed sale to the public: Upon completion of the merger described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common stock, par value \$0.001 per share, and associated preferred share purchase rights(3)	8,380,799 shares	N/A	\$141,569,945	\$11,454

- (1) Represents the maximum number of shares of common stock of VERITAS Software Corporation, that may be issued to shareholders of Precise Software Solutions Ltd. pursuant to the merger described herein if all Precise shareholders were to receive the mixed cash and stock consideration described herein, calculated by multiplying (i) the maximum number of Precise ordinary shares to be received by VERITAS in the merger, assuming for this purpose the exercise of all vested Precise options and warrants prior to completion of the merger, by (ii) 0.2365, the fraction of a share of VERITAS common stock that may be issued in exchange for each Precise ordinary share in the merger.
- (2) Estimated solely for purposes of calculating the registration fee required by the Securities Act of 1933, as amended, and computed pursuant to Rules 457(f) and (c) under the Securities Act based on (i) \$16.37, the average of the high and low per share prices of ordinary shares of Precise Software Solutions Ltd. on The Nasdaq National Market on March 12, 2003 and (ii) the maximum number of Precise ordinary shares to be received by VERITAS in exchange for VERITAS common stock. Pursuant to Rule 457(f)(3), the minimum cash portion of the merger consideration to be paid by VERITAS has been deducted from the value of the securities to be received by VERITAS in the merger.
- (3) The preferred share purchase rights, which are attached to the shares of VERITAS common stock being registered hereunder, will be issued for no additional consideration. Accordingly, no additional registration fee is payable.

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

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The information in this proxy statement/ prospectus is not complete and may be changed. VERITAS may not sell these securities until the registration statement filed with the U.S. Securities and Exchange Commission is effective. This proxy statement/ prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROXY STATEMENT/ PROSPECTUS, SUBJECT TO COMPLETION

[PRECISE LETTERHEAD]

, 2003

Dear Precise Software Solutions Ltd. Shareholders:

I am writing to you today about the proposed merger of Precise Software Solutions Ltd. with a subsidiary of VERITAS Software Corporation. You are cordially invited to attend the extraordinary meeting of shareholders of Precise to be held on _____ at _____ a.m., local time, at Precise's U.S. offices at 690 Canton Street, Westwood, Massachusetts 02090. At the extraordinary meeting, you will be asked to vote on the merger and the other matters described in the attached proxy statement/prospectus. In accordance with Israeli law, a preliminary notice of the extraordinary meeting of the shareholders was mailed to all shareholders on or about December 27, 2002 and modified on or about February 26, 2003. The information provided in the attached proxy statement/ prospectus is intended to supplement the information in the preliminary notice.

In the merger, you will receive, at your election, for each ordinary share of Precise that you own either (1) \$16.50 in cash, or (2) a combination of \$12.375 in cash plus 0.2365 of a share of VERITAS common stock. Precise shareholders who are Israeli holders, as defined in the enclosed election form, and who properly and timely elect to receive the mixed cash and stock consideration, will receive an amount of cash equal to \$12.375 plus 0.2365 multiplied by the closing price of one share of VERITAS common stock, as reported on The Nasdaq National Market, on the trading day immediately prior to the date the merger takes effect.

If all Precise shareholders were to receive the mixed cash and stock consideration and assuming for this purpose the exercise of all vested Precise options and warrants prior to completion of the merger, VERITAS would issue up to approximately 8.4 million shares of its common stock in the merger. VERITAS common stock is traded on The Nasdaq National Market under the trading symbol VRTS. The closing price of VERITAS common stock on _____, 2003 was \$ _____ per share.

Only holders of record of Precise ordinary shares at the close of business on _____, 2003 are entitled to attend and to vote at the extraordinary meeting or any adjournment thereof. Directors, each in his or her capacity as a shareholder, officers and other affiliated shareholders of Precise that beneficially own approximately 6.8% of Precise's outstanding ordinary shares have entered into undertakings to vote their ordinary shares in favor of approval of the merger agreement, the merger and the other transactions contemplated by the merger agreement.

The Precise audit committee and board of directors have (1) reviewed and considered the terms and conditions of the merger agreement, (2) unanimously determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to, and in the best interests of, Precise and its shareholders and that, considering the financial position of the merging companies, no reasonable concern exists that Precise, as the surviving company in the merger, will be unable to fulfill its obligations to its creditors, and (3) unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement. **The Precise audit committee and board of directors unanimously recommend that you vote FOR the proposal to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement.**

You also will be asked to vote upon an amendment to Precise's articles of association with respect to insurance and indemnification of directors and specified officers and specified modifications to the vesting terms of, and exercise period for, share options held by members of the Precise board of directors. The merger is not conditioned on shareholder approval of the amendment of Precise's articles of association or the modifications of the terms of Precise's director share options. **The Precise board of directors unanimously recommends that you vote FOR the proposal to amend Precise's articles of association and FOR the proposal to modify the terms of Precise's director share options.**

The attached proxy statement/ prospectus provides you with detailed information about VERITAS, Precise, the merger agreement, the merger and the other transactions contemplated by the merger agreement, the proposed amendment of Precise's articles of association and the proposed modifications to the terms of Precise's director share options. We encourage you to read the entire proxy statement/prospectus carefully, including the Risk Factors section beginning on page 32.

Yours sincerely,

Shimon Alon
Chief Executive Officer
Precise Software Solutions Ltd.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares of VERITAS common stock to be issued under the attached proxy statement/ prospectus or determined if the attached proxy statement/ prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The attached proxy statement/prospectus is dated _____, 2003, and is first being mailed to Precise shareholders on or about _____, 2003.

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PRECISE SOFTWARE SOLUTIONS LTD.

10 Hata asiya Street
Or-Yehuda, Israel 60408
+972 (3) 735-2222

**SUPPLEMENT TO
NOTICE OF EXTRAORDINARY MEETING OF SHAREHOLDERS
To Be Held On _____, 2003**

A preliminary notice of an extraordinary meeting of the shareholders of Precise Software Solutions Ltd., a company incorporated under the laws of the State of Israel, was mailed to all shareholders on or about December 27, 2002 in accordance with the requirements of the Israeli Companies Law, 1999. A notification regarding a change in the meeting date and applicable record date was mailed to all shareholders on or about February 26, 2003. This letter and the information in the attached proxy statement/ prospectus is intended to supplement the information provided in the preliminary notice.

An extraordinary meeting of shareholders of Precise will be held at Precise's U.S. offices at 690 Canton Street, Westwood, Massachusetts 02090, on _____, 2003 at _____ a.m., local time, to consider and act upon each of the following matters:

1. To approve the Agreement and Plan of Merger dated as of December 19, 2002, by and among VERITAS Software Corporation, a Delaware corporation, Argon Merger Sub Ltd., an Israeli company and an indirect wholly-owned subsidiary of VERITAS, and Precise, the merger of Argon Merger Sub Ltd. with and into Precise and the other transactions contemplated by the merger agreement.

2. To approve the amendment of Article 74 (Insurance and Indemnity) of Precise's articles of association, which amendment is intended to fully reflect the provisions of the Israeli Companies Law, 1999, with respect to insurance and indemnification of directors and specified officers.

3. To approve the acceleration of the vesting schedule of options to purchase Precise ordinary shares held by members of Precise's board of directors immediately after the completion of the merger, and the extension of the period during which such options may be exercised.

We describe these proposals more fully in the attached proxy statement/ prospectus, which we urge you to read in its entirety, including the matters discussed under "Risk Factors" beginning on page 32.

Only Precise holders of record at the close of business on _____, 2003, the record date, are entitled to attend and to vote at the extraordinary meeting or any adjournment thereof.

Your vote is important. Whether or not you plan to attend the extraordinary meeting, please take the time to vote by completing and mailing the enclosed proxy card. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote FOR the approval of the merger agreement, the merger and the other transactions contemplated by the merger agreement and FOR each of the other proposals to be presented at the extraordinary meeting. Returning your proxy card will not affect your right to vote in person, should you choose to attend the extraordinary meeting.

You should notify Precise before voting at the meeting or indicate on the proxy card, whether or not you indicate how you want to vote, whether or not you are: (1) a person or entity holding, directly or indirectly, 25% or more of either the voting power or the right to appoint a director of VERITAS or the merger subsidiary; (2) a person or entity acting on behalf of VERITAS, the merger subsidiary or a person or entity described in (1); or (3) a family member of, or an entity controlled by, VERITAS, the merger subsidiary or any of the foregoing. If you do not notify Precise as aforesaid, you will not be entitled to vote on the merger and your vote will not be counted with respect to Proposal No. 1.

By Authorization of the Board of Directors

DROR ELKAYAM
Secretary

Or-Yehuda, Israel
, 2003

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VERITAS will provide you with copies of this information relating to VERITAS and the election form, without charge, upon written or oral request to:

**VERITAS Software Corporation
350 Ellis Street
Mountain View, California 94043
Attention: Investor Relations
Telephone Number: (650) 527-2508**

In addition, you may obtain copies of this information and the election form by making a request through the investor relations section of VERITAS website, <http://www.veritas.com>, or by sending an e-mail to invrel@veritas.com.

Precise will provide you with copies of this information relating to Precise, without charge, upon written or oral request to:

**Precise Software Solutions, Inc.
690 Canton Street
Westwood, Massachusetts 02090
Attention: Investor Relations
Telephone Number: (800) 310-4777**

In addition, you may obtain copies of this information by making a request through the investor relations section of Precise's website, <http://www.precise.com/company/IR/>, or by sending an e-mail to krudden@precise.com.

For you to receive timely delivery of the documents before the Precise extraordinary meeting, VERITAS or Precise should receive your request no later than _____, 2003.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. Why am I receiving this proxy statement/prospectus?

A: Precise has entered into a merger agreement with VERITAS and one of its subsidiaries. The terms of the merger agreement are described in this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A. Upon completion of the merger, Precise will become an indirect wholly-owned subsidiary of VERITAS.

To complete the merger, Precise shareholders must approve the merger agreement, the merger and the other transactions contemplated by the merger agreement. Precise will hold an extraordinary meeting of its shareholders to obtain this approval. The merger is not conditioned upon obtaining shareholder approval for the other proposals to be presented at the Precise extraordinary meeting that relate to an amendment of Precise's articles of association and specified modifications to the terms of share options held by members of Precise's board of directors. This proxy statement/prospectus contains important information about the Precise extraordinary meeting, the merger and the other proposals to be presented at the extraordinary meeting, and you should read it carefully.

Q. When is the Precise extraordinary meeting relating to the merger and what specific proposals will I be asked to consider? (see page 48)

A: The Precise extraordinary meeting will take place on _____, 2003. At the extraordinary meeting, you will be asked to:

approve the merger agreement, the merger and the other transactions contemplated by the merger agreement (Proposal No. 1);

approve the amendment of Article 74 (Insurance and Indemnity) of Precise's articles of association intended to fully reflect the provisions of the Israeli Companies Law, 1999, with respect to insurance and indemnification of directors and specified officers (Proposal No. 2); and

approve the acceleration of the vesting schedule of all share options held by members of the Precise board of directors immediately after the completion of the proposed merger and the extension of the period during which options held by these directors may be exercised (Proposal No. 3).

Each of the above proposals is separate and independent from one another. Proposal No. 1 is not conditioned upon obtaining Precise shareholder approval of Proposal No. 2 or Proposal No. 3, and Proposal No. 2 and Proposal No. 3 are not conditioned upon approval of each other or upon obtaining Precise shareholder approval of Proposal No. 1.

Q: What will I receive in the merger? (see page 65)

A: If the merger is completed, you will receive, at your election and subject to the election procedures described in this proxy statement/prospectus, for each ordinary share of Precise that you own either:

the cash consideration, which consists of \$16.50 in cash;

or

the mixed consideration, which consists of (1) \$12.375 in cash, plus (2) 0.2365 of a share of VERITAS common stock.

Precise shareholders who are Israeli holders, as defined in the merger agreement, and who properly and timely elect to receive the mixed consideration will receive (1) \$12.375 in cash, plus (2) an amount of cash equal to 0.2365 multiplied by the closing price of one share of VERITAS common stock, as reported on The Nasdaq National Market, on the trading day immediately prior to the date the merger takes effect.

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The consideration for your Precise ordinary shares, including the exchange ratio for the VERITAS common stock component of the mixed consideration, will not change even if the market prices of Precise ordinary shares or VERITAS common stock fluctuate. However, if you elect to receive the mixed consideration, the value of the VERITAS shares included in the mixed consideration will fluctuate up or down with fluctuations in the market price of VERITAS common stock.

Neither Precise nor VERITAS is making any recommendation as to whether Precise shareholders should elect to receive the cash consideration or the mixed consideration in connection with the merger.

Q: Why am I being asked to indicate on the proxy card whether or not I am an Israeli holder? Why will Precise shareholders who declare that they are Israeli holders and who elect to receive the mixed consideration receive, instead of VERITAS common stock, the cash equivalent of the value of VERITAS common stock on the trading day immediately prior to the date the merger takes effect?

A: To comply with Israeli securities laws, Israeli holders who properly and timely elect to receive the mixed consideration will be entitled to receive \$12.375 in cash, plus, instead of VERITAS common stock, an amount of cash equal to 0.2365 multiplied by the closing price of one share of VERITAS common stock, as reported on The Nasdaq National Market, on the trading day immediately prior to the date the merger takes effect. For this reason, you are being asked to declare whether or not you are an Israeli holder. You will be deemed to be an Israeli holder if (1) you have provided Precise or the broker through which you hold Precise ordinary shares with an address in the State of Israel for the purpose of sending notices or (2) the center of your vital interests, as evidenced by family, economic and social ties, is in Israel. In addition, you will be asked to indicate whether or not you are an Israeli resident, as defined in the Israeli Income Tax Ordinance [New Version], 1961, for Israeli tax purposes. This information may be of importance in determining whether any Israeli withholding tax obligation applies to the consideration for your Precise ordinary shares.

Q: Will I be able to trade any VERITAS common stock that I receive in the merger? (see page 72)

A: The VERITAS common stock you will receive if you properly make a timely election to receive the mixed consideration and are not an Israeli holder will be freely tradeable, unless you are an affiliate of VERITAS or Precise. VERITAS common stock is listed on The Nasdaq National Market under the symbol VRTS.

Q: What do I need to do now? (see page 49)

A: After you review this proxy statement/ prospectus in its entirety, you should mail your completed and signed proxy card in the enclosed return envelope or as indicated on the proxy card as soon as possible so that your ordinary shares can be voted at the extraordinary meeting of Precise shareholders. In order to be counted, your properly completed and signed proxy card must be received by Precise at least 24 hours before the start of the extraordinary meeting.

Q: What happens if I return a signed proxy card but do not indicate how to vote my proxy? (see page 49)

A: If you do not include instructions on how to vote your properly signed and dated proxy card, your shares will be voted FOR the approval of the merger agreement, the merger and the other transactions contemplated by the merger agreement (Proposal No. 1) and FOR the approval of each of the other proposals to be presented at the extraordinary meeting. If you do not indicate on your proxy card whether you are (1) a person or entity holding, directly or indirectly, 25% or more of either the voting power or the right to appoint a director of VERITAS or the merger subsidiary; (2) a person or entity acting on behalf of VERITAS, the merger subsidiary or a person or entity described in (1); or (3) a family member of, or entity controlled by, VERITAS, the merger subsidiary or any of the foregoing, your vote will not be counted with respect to Proposal No. 1.

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Q: What happens if I don't vote? (see page 48)

A: If you don't return your proxy card or vote in person at the Precise extraordinary meeting and a quorum is present at the extraordinary meeting, it will have the effect of reducing the number of votes required to obtain the 75% vote necessary to approve Proposal No. 1 and the majority votes necessary to approve the other proposals to be presented at the extraordinary meeting. The presence in person or by proxy of at least one-third of Precise's outstanding ordinary shares is required to constitute a quorum at the extraordinary meeting. If you do not vote, Precise may be unable to obtain a quorum at the extraordinary meeting.

Q: If my broker holds my shares in street name, will my broker vote my shares without any instructions from me? (see page 49)

A: No. Your broker will not be able to vote your shares without instructions from you. If you do not provide your broker with voting instructions, this will have the effect of reducing the number of votes required to obtain the 75% vote necessary to approve Proposal No. 1 and the majority votes necessary to approve the other proposals to be presented at the extraordinary meeting. If you do not provide your broker with voting instructions, Precise may be unable to obtain a quorum at the extraordinary meeting.

Q: Can I change my vote after I have mailed my signed proxy card? (see page 49)

A: Yes. You can change your vote at any time before your proxy is voted at the extraordinary meeting. You can do this in one of three ways:

you can send a written notice stating that you would like to revoke your proxy, provided such notice is received at least 24 hours prior to the time set for the extraordinary meeting or is presented at the extraordinary meeting to the chairman of the meeting;

you can complete and submit a new proxy card dated later than the first proxy card, provided such new proxy card is received at least 24 hours prior to the time set for the extraordinary meeting or is presented at the extraordinary meeting to the chairman of the meeting; or

you can attend the extraordinary meeting, file a written or make an oral notice of revocation of your proxy with the chairman of the meeting and vote in person.

Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow your broker's directions to change those instructions.

Q: Why am I being asked to indicate on the proxy card whether or not I am related to VERITAS or the merger subsidiary?

A: Under Israeli law, if VERITAS, the merger subsidiary or any person or entity holding 25% or more of either the voting power or the right to appoint a director of VERITAS or the merger subsidiary, holds shares in Precise, then there is an additional requirement for the approval of Proposal No. 1. The additional requirement is that a majority of the shareholders who are present at the extraordinary meeting, excluding VERITAS, the merger subsidiary or any person or entity holding 25% or more of either the voting power or the right to appoint a director of VERITAS or the merger subsidiary, or anyone acting on their behalf, including their family members or entities under their control, shall not have objected to the merger.

Q: How do I elect to receive the cash consideration or the mixed consideration for my Precise ordinary shares? (see page 66)

A: A form for making an election is enclosed with this proxy statement/ prospectus. Additional copies of the election form may be obtained from the exchange agent. For your election to be effective, your properly completed election form, along with your Precise share certificates or an appropriate guarantee of delivery, must be sent to and received by _____, the exchange agent, on or before 5:00 p.m., New

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York City time, on _____, 2003. **Do not send your election form or share certificates together with your proxy card.** Instead, use the separate envelope specifically provided for the election form and your share certificates. Please read this proxy statement/ prospectus carefully for more information about the procedures for electing to receive the cash consideration or the mixed consideration.

If you do not properly and timely send in your completed election form, along with your Precise share certificates or an appropriate guarantee of delivery, you will be deemed to have elected the cash consideration and will receive \$16.50 in cash for each of your Precise ordinary shares if the merger is completed.

Neither Precise nor VERITAS is making any recommendation as to whether Precise shareholders should elect to receive the cash consideration or the mixed consideration in connection with the merger.

Q: Should I send in my share certificates now?

A: Do not send your election form or share certificates together with your proxy card. However, if you want to elect to receive the mixed consideration in exchange for your Precise ordinary shares, you must send your Precise share certificates, or an appropriate guarantee of delivery, and your completed election form indicating your election of the mixed consideration to the exchange agent in the separate envelope specifically provided for the election form and share certificates.

Q: Can I elect to receive the cash consideration for some of my Precise ordinary shares and the mixed consideration for some of my Precise ordinary shares? (see page 66)

A: No. You may only elect to receive one consideration alternative for all of your Precise ordinary shares. A holder of record of Precise ordinary shares who holds such ordinary shares as a nominee, trustee or in another representative capacity may submit multiple election forms, provided that such record holder certifies that each such election form covers all the Precise ordinary shares held by such record holder for a particular beneficial owner.

Q. What is the value of the consideration I will receive if I elect to receive the mixed consideration?

A. If you properly and timely elect to receive the mixed consideration, the value of the consideration you will receive will depend in part upon the value of VERITAS common stock, which fluctuates. The following table illustrates the effect of changes in the value of VERITAS common stock on the value of the mixed consideration.

Price Per Share of VERITAS Common Stock	Cash Value Per Precise Ordinary Share	
	Mixed Election	Cash Election
\$ 16.50	\$ 16.277	\$ 16.50
\$ 17.442 ¹	\$ 16.50	\$ 16.50
\$ 19.00	\$ 16.869	\$ 16.50

1) The price per share of VERITAS common stock at which the value of the mixed consideration is equal to the value of the cash consideration.

Historically, the price of VERITAS common stock has fluctuated significantly and if you elect to receive the mixed consideration in exchange for your Precise ordinary shares, the value of the VERITAS shares will fluctuate up and down with fluctuations in the market price of VERITAS common stock. The value of the consideration you receive in the merger if you properly and timely elect to receive the mixed consideration may be more or less than the \$16.50 that you would have received if you elected to receive the cash consideration. In addition, the trading price of VERITAS common stock on the date you receive the cash consideration or the mixed consideration in exchange for your Precise ordinary shares could be

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more or less than the trading price of VERITAS common stock on the date you make your election to receive either the cash consideration or the mixed consideration. This means that the then-current value of the mixed consideration that you would receive for each Precise ordinary share if you properly and timely elect to receive the mixed consideration could be more or less than the value of the mixed consideration on the date you make your election to receive either the cash consideration or the mixed consideration.

Q. Can I sell my Precise ordinary shares after the record date for the Precise extraordinary meeting?

A. If you have not already made an election with respect to your Precise ordinary shares, you can sell them and you will still be entitled to vote those shares at the extraordinary meeting because you were the holder of record on the record date.

However, if you have already made an effective election with respect to your Precise ordinary shares by delivering an election form and your share certificates or a guarantee of delivery to the exchange agent, you may not sell your Precise ordinary shares until you have effectively revoked
yFAMILY: 'Times New Roman', Times, serif; COLOR: #000000; TEXT-ALIGN: left">Unrealized loss from marketable securities reclassified to statement of operations

Foreign exchange loss	59	(131)	(686)
Other comprehensive income (loss)	6,069	(3,178)	1,122
Comprehensive income	33,150	75,800	118,636
Comprehensive income (loss) attributable to non-controlling interest	61	72	504
Comprehensive income attributable to the Company	33,089	75,728	118,132
Comprehensive income	33,150	75,800	118,636

FRONTLINE LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands of \$)	Mar 31 2017	Mar 31 2016	Dec 31 2016
ASSETS			
Short term			
Cash and cash equivalents	127,534	271,632	202,402
Restricted cash	606	694	677
Marketable securities	53,418	8,453	8,428
Other current assets	166,379	165,173	172,119
Long term			
Newbuildings	279,208	242,583	308,324
Vessels and equipment, net	1,768,609	1,358,587	1,477,395
Vessels under capital lease, net	495,730	668,822	536,433
Investment in finance lease	28,438	38,297	30,908
Goodwill	225,272	225,272	225,273
Other long-term assets	4,496	-	4,358
Total assets	3,149,690	2,979,513	2,966,317
LIABILITIES AND EQUITY			
Short term liabilities			
Short term debt	78,071	64,120	67,365
Current portion of obligations under capital lease	51,455	70,464	56,505
Other current liabilities	100,983	91,921	58,879
Long term liabilities			
Long term debt	1,075,309	851,605	914,592
Obligations under capital lease	332,974	431,296	366,095
Other long-term liabilities	3,154	2,911	3,112
Commitments and contingencies			
Equity			
Frontline Ltd. equity	1,507,902	1,467,063	1,499,601
Non-controlling interest	(158)	133	168
Total equity	1,507,744	1,467,196	1,499,769
Total liabilities and equity	3,149,690	2,979,513	2,966,317

FRONTLINE LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of \$)	2017 Jan-Mar	2016 Jan-Mar	2016 Jan-Dec
OPERATING ACTIVITIES			
Net income	27,081	78,978	117,514
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization of deferred charges	35,688	38,060	143,070
Loss (gain) on cancellation and sale of newbuilding contracts and vessel	(20,565)	-	2,683
Amortization of time charter contract value	-	(3,824)	(6,799)
Contingent rental income	(3,769)	(3,386)	(18,621)
Impairment loss on vessels and vessels under capital lease	21,247	-	61,692
Provision for uncollectible receivables	-	-	4,000
Impairment loss on shares	-	2,351	7,233
(Gain) on sale of shares	(771)	-	-
(Gain) loss on derivatives	(139)	6,485	(8,017)
Other, net	770	(1,304)	(1,232)
Change in operating assets and liabilities	20,242	4,108	(15,508)
Net cash provided by operating activities	79,784	121,468	286,015
INVESTING ACTIVITIES			
Refund of newbuilding installments and interest	-	-	43,497
Additions to newbuildings, vessels and equipment	(246,755)	(161,353)	(622,460)
Change in restricted cash	71	(326)	(309)
Finance lease payments received	2,356	2,280	9,333
Proceeds from sale of vessels and equipment	-	-	173,187
Purchase of DHT shares	(46,100)	-	-
Proceeds from sale of shares	7,104	-	-
Net cash (used in) provided by investing activities	(283,324)	(159,399)	(396,752)
FINANCING ACTIVITIES			
Net proceeds from issuance of shares	-	-	98,200
Proceeds from long-term debt	189,475	130,900	356,066
Repayment of long-term debt	(16,840)	(14,393)	(169,883)
Repayment of capital leases	(16,460)	(12,317)	(61,677)
Debt fees paid	(1,620)	(4,204)	(9,523)
Dividends paid	(25,883)	(54,930)	(164,551)
Payment of fractional shares on reverse share split	-	(17)	(17)
Net cash provided by (used in) financing activities	128,672	45,039	48,615
Net change in cash and cash equivalents	(74,868)	7,108	(62,122)
Cash and cash equivalents at start of period	202,402	264,524	264,524
Cash and cash equivalents at end of period	127,534	271,632	202,402

FRONTLINE LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in thousands of \$ except number of shares)	2017 Jan-Mar	2016 Jan-Mar	2016 Jan-Dec
NUMBER OF SHARES OUTSTANDING			
Balance at beginning of period	169,809,324	781,937,649	781,937,649
Effect of reverse share split	-	(625,551,143)	(625,551,143)
Shares issued	-	-	13,422,818
Balance at end of period	169,809,324	156,386,506	169,809,324
SHARE CAPITAL			
Balance at beginning of period	169,809	781,938	781,938
Effect of reverse share split	-	(625,551)	(625,551)
Shares issued	-	-	13,422
Balance at end of period	169,809	156,387	169,809
ADDITIONAL PAID IN CAPITAL			
Balance at end of period	195,304	109,386	109,386
Stock compensation expense	709	-	1,418
Payment for fractional shares on reverse share split	-	(17)	(17)
Shares issued	-	-	84,517
Balance at end of period	196,013	109,369	195,304
CONTRIBUTED CAPITAL SURPLUS			
Balance at beginning of period	1,099,680	474,129	474,129
Effect of reverse share split	-	625,551	625,551
Balance at beginning and end of period	1,099,680	1,099,680	1,099,680
OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of period	739	(383)	(383)
Other comprehensive income (loss)	6,069	(3,178)	1,122
Balance at end of period	6,808	(3,561)	739
RETAINED EARNINGS			
Balance at beginning of period	34,069	81,212	81,212
Net income attributable to the Company	27,020	78,906	117,010
Cash dividends	(25,497)	(54,930)	(164,153)
Balance at end of period	35,592	105,188	34,069
EQUITY ATTRIBUTABLE TO THE COMPANY	1,507,902	1,467,063	1,499,601
NON-CONTROLLING INTEREST			
Balance at beginning of period	168	61	61
Net income (loss) attributable to non-controlling interest	61	72	504
Dividend paid to non-controlling interest	(387)	-	(397)

Balance at end of period	(158)	133	168
TOTAL EQUITY	1,507,744	1,467,196	1,499,769

FRONTLINE LTD.

SELECTED NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Frontline Ltd. (the "Company" or "Frontline") is a Bermuda based shipping company engaged primarily in the ownership and operation of oil and product tankers. The Company's ordinary shares are listed on the New York Stock Exchange and the Oslo Stock Exchange.

2. ACCOUNTING POLICIES

Basis of accounting

The condensed consolidated financial statements are stated in accordance with accounting principles generally accepted in the United States. The condensed consolidated financial statements do not include all of the disclosures required in the annual and interim consolidated financial statements, and should be read in conjunction with the Company's annual financial statements included in the Company's Annual Report on Form 20-F for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 16, 2017.

Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2016.

3. EARNINGS PER SHARE

The components of the numerator and the denominator in the calculation of basic earnings per share are as follows:

	2017	2016	2016
(in thousands of \$)	Jan-Mar	Jan-Mar	Jan-Dec
Net income attributable to the Company	27,020	78,906	117,010

(in thousands)

Weighted average number of ordinary shares	169,809	156,387	156,973
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The weighted average numbers of shares outstanding have been adjusted for the reverse business acquisition of the Company by Frontline 2012 and the 1-for-5 reverse share split that was effected in February 2016.

4. IMPAIRMENT LOSS ON VESSELS AND VESSELS UNDER CAPITAL LEASE

In the three months ended March 31, 2017 the Company recorded an impairment loss of \$21.2 million in respect of four vessels leased in from Ship Finance.

5. GAIN ON TERMINATION OF LEASE

In March 2017, the lease with Ship Finance for the 1998-built VLCC Front Century was terminated upon the sale and delivery of the vessel to a third party. The Company recorded a gain on this lease termination of \$20.6 million in the first quarter of 2017.

6. NEWBUILDINGS

In the first quarter of 2017, the Company took delivery of the VLCC newbuilding, Front Duchess, the two Suezmax newbuildings, Front Classic and Front Clipper and the two LR2/Aframax tanker newbuildings, Front Antares and Front Vega.

In February 2017, the Company acquired two VLCC newbuildings under construction at Daewoo Shipbuilding & Marine Engineering at a net purchase price of \$77.5 million each. The vessels are due for delivery in September and October 2017.

7. DEBT

The Company drew down \$54.6 million in the three months ended March 31, 2017 from its \$109.2 million term loan facility with ING in connection with one VLCC delivered in the quarter.

The Company drew down \$134.9 million in the three months ended March 31, 2017 from its \$328.4 million term loan facility with China Exim Bank in connection with two Suezmax tankers and two LR2/Aframax tanker delivered in the quarter.

In February 2017, the Company signed a second senior secured term loan facility in an amount of up to \$321.6 million. The facility will be provided by China Exim Bank and will be insured by China Export and Credit Insurance Corporation. The facility matures in 2033, carries an interest rate of LIBOR plus a margin in line with the Company's other credit facilities and has an amortization profile of 15 years. This facility will be used to part finance eight of our newbuildings and will be secured by four Suezmax tankers and four Aframax/LR2 tankers.

In March 2017, the Company obtained financing commitment for a senior secured term loan facility in an amount of up to \$110.5 million with Credit Suisse. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 190 basis points and has an amortization profile of 18 years. The facility will be used to part finance two of our recent VLCC resales and newbuilding contracts. The facility is subject to final documentation.

The Company has recorded debt issuance costs (i.e. deferred charges) of \$11.9 million at March 31, 2017 as a direct deduction from the carrying amount of the related debt.

8. MARKETABLE SECURITIES

In January the Company purchased 10.9 million shares in DHT for an aggregate cost of \$46.1 million. In March the Company has sold 1.7 million shares for \$7.9 million, recognizing a gain of \$0.8 million in the first quarter. In April and May the Company sold a further 2.4 million shares in DHT for proceeds of \$11.0 million and expects to record a gain of \$0.6 million in the second quarter.

9. SHARE CAPITAL

The Company had an issued share capital at March 31, 2017 of \$169,809,324 divided into 169,809,324 ordinary shares (December 31, 2016: \$169,809,324 divided into 169,809,324 ordinary shares).

10. RELATED PARTY TRANSACTIONS

The Company's most significant related party transactions are with Ship Finance International Limited ("Ship Finance"), a company under the significant influence of the Company's largest shareholder. The Company leased 12 of its vessels from Ship Finance at March 31, 2017 and pays Ship Finance profit share based on the earnings of these vessels. Profit share arising in the three months ended March 31, 2017 was \$5.6 million, which was \$3.8 million less than the amount accrued in the lease obligations payable when the leases were recorded at fair value at the time of the merger with Frontline 2012.

In March 2017, the lease with Ship Finance for the 1998-built VLCC Front Century was terminated. The Company recorded a gain on this lease termination of \$20.6 million in the first quarter of 2017. A termination payment of \$4.1 million is due to Ship Finance in connection with the lease termination.

Amounts earned from other related parties comprise office rental income, technical and commercial management fees, newbuilding supervision fees, freights, corporate and administrative services income and interest income. Amounts paid to related parties comprise primarily rental for office space and guarantee fees.

11. COMMITMENTS AND CONTINGENCIES

As of March 31, 2017, the Company's newbuilding program comprised four VLCCs, four Suezmax tankers and five LR2 tanker newbuildings. As of March 31, 2017, total instalments of \$256.1 million had been paid or accrued and the remaining commitments amounted to \$567.5 million all of which are payable in 2017. All newbuildings are expected to be delivered in 2017.

12. SUBSEQUENT EVENTS

In April 2017, the Company ordered two VLCC newbuildings to be constructed at Hyundai Heavy Industries ("HHI") at a purchase price of \$79.8 million each. The vessels are due for delivery in December 2018 and April 2019. The Company has also secured options for two additional sister vessels with delivery in August and November 2019 at same purchase price for each vessel.

In April 2017, the Company obtained financing commitment for a senior secured term loan facility in an amount of up to \$110.5 million with ING. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 190 basis points and has an amortization profile of 18 years. The facility will be used to part finance two of our recent VLCC resales and newbuilding contracts. The facility is subject to final documentation.

In June 2016, the Company signed a senior unsecured loan facility of up to \$275.0 million facility with an affiliate of Hemen Holding Ltd., the Company's largest shareholder. The loan will be used to partially finance the Company's current newbuilding program, partially finance potential acquisitions of newbuildings or vessels on the water and for general corporate purposes. The Company drew down \$50.0 million in May 2017.

In May 2017, the Company agreed with Ship Finance to terminate the long term charter for the 2000 built VLCC Front Scilla and the 1998 built Suezmax tanker Front Brabant upon the sale and delivery of the vessels by Ship Finance to unrelated third parties. The Company expects the vessels to cease operating as conventional tankers, and the charters with Ship Finance are expected to terminate in the second quarter of 2017. Frontline has agreed compensation payments to Ship Finance of approximately \$6.5 million and \$3.6 million, respectively, for the termination of the current charters. The Company expects to record an impairment loss, including these termination payments, of approximately \$12.3 million in the second quarter.

In May 2017, the Company announced a cash dividend of \$0.15 per share for the first quarter of 2017.