VERITAS SOFTWARE CORP /DE/
Form 10-Q
November 05, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

or

o 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: 000-26247

VERITAS Software Corporation

(Exact name of Registrant as Specified in Its Charter)

Delaware	**77-0507675**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

350 Ellis Street

Mountain View, California 94043
(650) 527-8000
(Address, including Zip Code, of Registrant s Principal Executive Offices and Registrant s Telephone Number, including Area Code)

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 þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

The number of shares of the registrant s common stock outstanding as of October 29, 2004 was 422,130,057 shares.

VERITAS SOFTWARE CORPORATION

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PART I: FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

VERITAS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004	December 31, 2003
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 626,291	$ 823,171
Short-term investments	1,912,939	1,679,844
Accounts receivable, net of allowance for doubtful accounts of $6,509 and $7,807, respectively	205,209	250,098
Other current assets	73,447	60,254
Deferred income taxes	34,230	30,302
Total current assets	2,852,116	2,843,669
Property and equipment, net	574,850	572,977
Other intangibles, net	160,824	81,344
Goodwill, net	1,983,006	1,755,591
Other non-current assets	23,414	25,385
Deferred income taxes	57,196	69,500
	$ 5,651,406	$ 5,348,466
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 44,319	$ 38,289
Payable for repurchase of common stock	23,365	
Accrued compensation and benefits	125,359	124,655
Accrued acquisition and restructuring costs	23,091	25,051
Other accrued liabilities	69,288	83,184
Current portion of long-term debt	380,630	
Income taxes payable	138,323	141,623
Deferred revenue	418,157	398,772
Total current liabilities	1,222,532	811,574
Convertible subordinated notes	520,000	520,000
Long-term debt		380,630
Accrued acquisition and restructuring costs	49,808	69,019
Other long-term liabilities	24,404	23,649
Total liabilities	1,816,744	1,804,872
Stockholders equity:		
Common stock	463	458

Additional paid-in capital	7,062,464	6,941,798
Accumulated deficit	(1,095,359)	(1,378,076)
Deferred stock-based compensation	(27,889)	(8,455)
Accumulated other comprehensive income	7,576	6,172
Treasury stock, at cost; 34,009 and 28,609 shares at September 30, 2004 and December 31, 2003, respectively	(2,112,593)	(2,018,303)
Total stockholders equity	3,834,662	3,543,594
	$ 5,651,406	$ 5,348,466

See accompanying notes to condensed consolidated financial statements.

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VERITAS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited) (In thousands, except per share amounts)			
Net revenue:				
User license fees	$287,352	$281,814	$ 859,677	$ 782,070
Services	209,306	164,811	607,762	463,059
Total net revenue	496,658	446,625	1,467,439	1,245,129
Cost of revenue:				
User license fees	5,103	11,483	23,500	35,116
Services(1)	68,793	58,948	201,448	166,057
Amortization of developed technology	4,376	5,043	12,255	30,379
Total cost of revenue	78,272	75,474	237,203	231,552
Gross profit	418,386	371,151	1,230,236	1,013,577
Operating expenses:				
Selling and marketing(1)	153,037	136,184	447,655	373,325
Research and development(1)	87,196	77,377	250,700	219,433
General and administrative(1)	49,541	39,209	143,679	117,026
Amortization of other intangibles	1,389	2,454	6,192	32,895
In-process research and development	11,500		11,900	19,400
Restructuring reversals, net	(9,648)		(9,648)	
Total operating expenses	293,015	255,224	850,478	762,079
Income from operations	125,371	115,927	379,758	251,498
Interest and other income, net	13,661	8,653	35,425	33,556
Interest expense	(6,455)	(9,249)	(18,157)	(24,785)
Loss on extinguishment of debt		(4,714)		(4,714)
Gain (loss) on strategic investments			7,496	(3,518)
Income before income taxes and cumulative effect of change in accounting principle	132,577	110,617	404,522	252,037
Provision for income taxes	36,378	36,250	121,805	88,932
Income before cumulative effect of change in accounting principle	96,199	74,367	282,717	163,105
Cumulative effect of change in accounting principle, net of tax		(6,249)		(6,249)
Net income	$ 96,199	$ 68,118	$ 282,717	$ 156,856
Net income per share:				
Basic	$ 0.22	$ 0.16	$ 0.65	$ 0.37

Diluted	$ 0.22	$ 0.15	$ 0.64	$ 0.36
Number of shares used in computing per share amounts basic	433,126	425,153	431,933	418,314
Number of shares used in computing per share amounts diluted	437,697	440,815	441,936	430,587

(1) Amortization of stock-based compensation consists of:

Services	$ 61	$ 69	$ 364	$ 69
Selling and marketing	578	246	4,440	246
Research and development	608	642	2,444	1,372
General and administrative	24	45	792	45
Total amortization of stock-based compensation	$ 1,271	$ 1,002	$ 8,040	$ 1,732

See accompanying notes to condensed consolidated financial statements.

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VERITAS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2004	**2003**
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	$ 282,717	$ 156,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle		6,249
Depreciation and amortization	89,388	94,900
Amortization of developed technology	12,255	30,379
Amortization of other intangibles	6,192	32,895
In-process research and development	11,900	19,400
Provision for (recovery of) allowance for doubtful accounts	(135)	1,459
Stock-based compensation	8,040	1,732
Tax benefits from stock plans	10,618	24,869
Loss on extinguishment of debt		4,714
(Gain) loss on strategic investments	(7,496)	3,518
(Gain) loss on sale and disposal of assets	833	(180)
Deferred income taxes	3,738	(27,580)
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	53,880	40,259
Other assets	(10,752)	16,998
Accounts payable	5,695	(12,036)
Accrued compensation and benefits	(315)	(10,056)
Accrued acquisition and restructuring costs	(28,850)	(21,248)
Other liabilities	(17,774)	(28,794)
Income taxes payable	(3,208)	72,972
Deferred revenue	10,727	41,259
Net cash provided by operating activities	427,453	448,565
Cash flows from investing activities:		
Purchases of investments	(3,604,703)	(1,373,938)
Sales and maturities of investments	3,374,167	1,389,493
Purchases of property and equipment	(84,349)	(56,961)
Purchases of businesses and technology, net of cash acquired	(325,076)	(402,421)
Net cash used for investing activities	(639,961)	(443,827)
Cash flows from financing activities:		
Net proceeds from issuance of convertible subordinated notes	(170)	508,300
Redemption of convertible subordinated notes		(391,671)
Repurchase of common stock	(70,925)	(316,239)
Proceeds from issuance of common stock	80,202	132,501
	9,107	(67,109)

Net cash provided by (used for) financing activities		
Effect of exchange rate changes on cash and cash equivalents	6,521	20,921
Net decrease in cash and cash equivalents	(196,880)	(41,450)
Cash and cash equivalents at beginning of period	823,171	764,062
Cash and cash equivalents at end of period	$ 626,291	$ 722,612
Supplemental disclosures:		
Cash paid for interest	$ 14,799	$ 10,570
Cash paid for taxes	$ 124,887	$ 19,478
Supplemental schedule of non-cash transactions:		
Issuance of common stock and options for business combinations	$ 19,563	$ 311,394
Increase in property and equipment upon adoption of FIN 46	$	$ 366,849
Increase in long-term debt upon adoption of FIN 46	$	$ 380,630
Issuance of common stock for conversion notes	$	$ 79,852

See accompanying notes to condensed consolidated financial statements.

VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the consolidated financial statements and accompanying notes included in VERITAS Software Corporation s Annual Report on Form 10-K for the year ended December 31, 2003.

2. Use of Estimates

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

3. Accounting for Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, and the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123.* Since the exercise price of options granted under the Company s stock option plans is equal to the market value on the date of grant, no compensation cost has been recognized for grants under such plans. In accordance with APB Opinion No. 25, the Company does not recognize compensation cost related to its employee stock purchase plan. The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had accounted for its stock option and stock purchase plans under the fair value method of accounting under SFAS No. 123, *Accounting for Stock-Based Compensation*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(In thousands, except per share amounts)			
Net income (loss):				
As reported	$ 96,199	$ 68,118	$ 282,717	$ 156,856
Add:				
Stock-based compensation expense included in net income, net of tax	864	671	5,467	1,160
Less:				
Total stock-based compensation expense determined under the fair value method for all awards, net of tax	(52,177)	(76,639)	(201,268)	(238,174)
Pro forma	$ 44,886	$ (7,850)	$ 86,916	$ (80,158)

VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(In thousands, except per share amounts)			
Basic income (loss) per share:				
As reported	$0.22	$ 0.16	$0.65	$ 0.37
Pro forma	$0.10	$(0.02)	$0.20	$(0.19)
Diluted income (loss) per share:				
As reported	$0.22	$ 0.15	$0.64	$ 0.36
Pro forma	$0.10	$(0.02)	$0.20	$(0.19)

For purposes of the pro forma disclosures, the expected volatility assumptions the Company used prior to the fourth quarter of fiscal 2003 were based solely on the historical volatility of the Company s common stock over the most recent period commensurate with the estimated expected life of the Company s stock options. Beginning with the fourth quarter of fiscal 2003, the Company modified its approach and expected volatility by considering other relevant factors in accordance with SFAS No. 123. The Company considered implied volatility in market-traded options on the Company s common stock as well as historical volatility. The Company will continue to monitor these and other relevant factors used to measure expected volatility for future option grants.

Also, beginning with the third quarter of fiscal 2003, the Company decreased its estimate of the expected life of new options granted to its employees from five years to four years. The Company bases its expected life assumption on historical experience as well as the terms and vesting periods of the options granted. The reduction in the estimated expected life was a result of an analysis of the Company s historical experience.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Risk-free interest rate	3.22%	2.65%	2.81%	2.69%
Dividend yield	0%	0%	0%	0%
Weighted average expected life	4.0 years	4.0 years	4.0 years	4.6 years
Volatility of common stock	61%	90%	55%	90%

The fair value of the employees purchase rights under the employee stock purchase plan is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants:

Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003	2004	2003
Risk-free interest rate	1.96%	1.06-1.87%	1.86%	1.06-1.87%
Dividend yield	0%	0%	0%	0%
Weighted average expected life	6 to 24 months	6 to 24 months	6 to 24 months	6 to 24 months
Volatility of common stock	67%	90%	70%	90%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of the Company s restatement of its financial statements for 2002 and 2001 and the delay in filing its Form 10-K for the year ended December 31, 2003, the Company suspended option-holders ability to use the Company s registration statements for its stock option plans (the Plans). As a result, option-holders were unable to exercise options under the Plans until such time as the Company filed its Form 10-K for the year ended December 31, 2003 and lifted the suspension on the use of the registration statements. Pursuant to the terms of the Plans, options held by certain former employees of the Company were scheduled to expire during the suspension period. On March 15, 2004, the Company extended the expiration date of such options for a period of 15 days from the date of filing the Form 10-K, which was considered a modification of such options. For the nine months ended September 30, 2004, $4.3 million was expensed in the statement of operations as a result of this modification.

4. Net Income per Share

The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Numerator:				
Net income	$ 96,199	$ 68,118	$ 282,717	$ 156,856
Denominator:				
Denominator for basic net income per share weighted-average shares outstanding	433,126	425,153	431,933	418,314
Potential common shares	4,571	15,662	10,003	12,273
Denominator for diluted net income per share	437,697	440,815	441,936	430,587
Basic net income per share	$ 0.22	$ 0.16	$ 0.65	$ 0.37
Diluted net income per share	$ 0.22	$ 0.15	$ 0.64	$ 0.36

For the three and nine months ended September 30, 2004 and 2003, potential common shares consist of employee stock options using the treasury stock method. The following table sets forth the potential common shares that were excluded from the net income per share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands)			
Employee stock options outstanding(1)	47,723	24,196	39,122	34,938
0.25% convertible subordinated notes(2)	11,274	11,274	11,274	11,274

(1) These employee stock options were excluded from the computation of diluted net income per share because the exercise price was greater than the average market price of the Company s common stock during the period, and therefore the effect is antidilutive.

(2) Potential common shares related to the Company s 0.25% convertible subordinated notes were excluded from the computation of diluted net income per share because the conversion price was higher than the average market price of the Company s common stock during the period, and therefore the effect is antidilutive.

The weighted average exercise prices of employee stock options with exercise prices exceeding the average fair value of the Company s common stock was $49.18 and $75.49 per share for the three months

VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ended September 30, 2004 and 2003, respectively, and $56.57 and $61.72 per share for the nine months ended September 30, 2004 and 2003, respectively.

5. Business Combinations

KVault Software Limited

On September 20, 2004, the Company acquired all of the outstanding capital stock of KVault Software Limited (KVS), a provider of e-mail archiving products. The Company acquired KVS to expand its product offerings in the storage software market to include products to store, manage, backup and archive corporate e-mail and data. The KVS acquisition included total purchase consideration of $249.6 million which included $224.1 million of cash, $19.6 million relating to the assumption of KVS outstanding unvested stock options for 1.2 million shares of the Company s common stock and $5.9 million of acquisition-related costs. As a result of the acquisition, the Company recorded deferred stock-based compensation of $17.2 million, which will be amortized over the remaining vesting period for the stock options assumed. The fair value of the Company s stock options assumed was determined using the Black-Scholes option pricing model and the following assumptions: estimated expected life of 4 years, risk-free interest rate of 3.08%, expected volatility of 62% and no expected dividend yield. Upon assumption by the Company of the outstanding KVS options, each KVS option became exercisable for 0.0886 shares of the Company s common stock.

The total estimated purchase price was allocated to KVS net tangible and intangible assets based upon their estimated fair values as of the date of the completion of the acquisition. The following represents the allocation of the aggregate purchase price to the acquired net assets of KVS:

	(In thousands)
Cash, cash equivalents and short-term investments	$ 2,565
Other current assets	13,374
Long-term assets	1,434
Current liabilities	(15,071)
Goodwill	143,532
Developed technology	54,300
Other intangible assets	18,140
Trademark	2,600
Deferred stock-based compensation	17,182
In-process research and development	11,500
Total	$249,556

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired. Goodwill is not amortized, which is consistent with the guidance in SFAS No. 142, *Goodwill and Other Intangible Assets.* Developed technology, customer base and other intangible assets are being amortized over their estimated useful lives of five years. The weighted average amortization period for all purchased intangible assets is five years.

In connection with the acquisition of KVS, the Company allocated $11.5 million of the purchase price to in-process technology that had not yet reached technological feasibility and had no alternative future use. This amount has been expensed in the consolidated statements of operations for the quarter ended September 30, 2004.

In order to value purchased in-process research and development (IPR&D), a research project for which technological feasibility had not been established was identified. The value of this project was

VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

determined by estimating the expected cash flows from the project and discounting the net cash flows back to their present value, using an appropriate discount rate.

Net Cash Flows. The net cash flows expected from the identified project are based on the Company s estimates of revenues, cost of sales, research and development costs, selling, general and administrative costs and income taxes from those projects. Revenue estimates are based on the assumptions mentioned below. The research and development costs included in the estimates reflect costs to bring in-process projects to technological feasibility and sustain the technology thereafter.

The estimated revenues are based on the Company s projection of each in-process project and the business projections were compared and found to be consistent with industry analysts forecasts of growth in substantially all of the relevant markets. Estimated total revenues related to the contribution of the IPR&D project to the various products affected are expected to peak in the year ending December 31, 2008 and decline from 2009 into 2011 as the affected products continue to evolve.

These projections are based on the Company s estimates of market size and growth, expected trends in technology and the nature and expected timing of new project introductions by KVS.

Discount Rate. Discounting the expected net cash flows back to their present value is based on the industry weighted average cost of capital (WACC). The Company believes the overall WACC is approximately 21%. The discount rate used to discount the expected net cash flows from IPR&D is 23%. The discount rate used is higher than the overall WACC due to inherent uncertainties surrounding the successful development of IPR&D, market acceptance of the technology, the useful life of such technology and the uncertainty of technological advances which could potentially impact the estimates described above.

Percentage of Completion. The percentage of completion for the in-process project identified was estimated at approximately 56% based on costs incurred to date on the project as compared to the remaining costs required to bring the project to technological feasibility.

If the projects discussed above are not successfully developed, the sales and profitability of the Company may be adversely affected in future periods.

Acquisition-related costs of $5.9 million consist of $2.6 million associated with legal and other professional fees, $2.1 million for terminating and satisfying existing lease commitments, $0.1 million of severance related costs and $1.1 million of government taxes associated with the acquisition. Costs associated with terminating and satisfying existing lease commitments will generally be paid over the remaining lease terms ending in 2006 through 2015 or over a shorter period as the Company may negotiate with its lessors. The Company expects the majority of costs will be paid by the year ending December 31, 2008. Total cash outlays for acquisition-related costs were approximately $0.3 million for legal and other professional fees through September 30, 2004.

The results of operations of KVS are included in the Company s condensed consolidated financial statements from September 21, 2004. The pro forma results of operations disclosed below give effect to the acquisition of KVS as if the acquisition was consummated at the beginning of each period presented.

Invio Software, Inc.

On July 14, 2004, the Company acquired all of the outstanding capital stock of Invio Software, Inc. (Invio), a privately held supplier of information technology (IT) process automation technology. The Company acquired Invio to extend the capability of software products that enable utility computing by offering customers a tool for standardizing and automating IT service delivery in key areas such as storage provisioning, server provisioning and data protection. The Invio acquisition included purchase consideration of approximately $35.4 million which included $34.9 million in cash and $0.5 million of acquisition-related costs. The purchase price was allocated to goodwill of $30.5 million, developed technology of $7.7 million, net

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VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred tax liabilities of $2.9 million and net tangible assets of $0.1 million. The amortization period for the developed technology is 4.0 years. Acquisition-related costs consist of $0.5 million for legal and other professional fees. Total cash outlays for acquisition-related costs were $0.5 million through September 30, 2004. The results of operations of Invio were included in the Company s condensed consolidated financial statements from the date of acquisition. The pro forma impact of the acquisition on the Company s results of operations is not significant.

Ejasent, Inc.

On January 20, 2004, the Company acquired all of the outstanding capital stock of Ejasent, Inc. (Ejasent), a privately held provider of application virtualization technology for utility computing. The Company acquired Ejasent to add important application migration technology, which allows IT personnel to move an application from one server to another without disrupting or terminating the application, to the Company s growing utility computing portfolio. The Ejasent acquisition included purchase consideration of $61.4 million, with $47.8 million in cash and $13.6 million of acquisition-related costs. The purchase price was allocated to goodwill of $53.7 million, developed technology of $11.8 million, other intangibles of $0.3 million, IPR&D of $0.4 million, net deferred tax liabilities of $4.6 million and net tangible liabilities of $0.2 million. The weighted average amortization period for all purchased intangible assets is 4.4 years. Acquisition-related costs consist of $11.5 million of change in control bonuses and direct transaction costs of $2.1 million for legal and other professional fees. Total cash outlays for acquisition-related costs were $13.4 million through September 30, 2004. The results of operations of Ejasent were included in the Company s condensed consolidated financial statements from the date of acquisition. The pro forma impact of the acquisition on the Company s results of operations is not significant.

Precise Software Solutions Ltd.

On June 30, 2003, the Company acquired all of the outstanding common stock of Precise Software Solutions Ltd. (Precise), a provider of application performance management products. The Company acquired Precise in order to expand its product and service offerings across storage, databases and application management. The Precise acquisition included purchase consideration of $714.7 million, with 7.3 million shares of common stock valued at $210.6 million, $397.8 million of cash, $94.0 million relating to the assumption of Precise s outstanding vested and unvested stock options for 4.4 million shares of the Company s common stock and $12.3 million of acquisition-related costs. The purchase price was allocated to goodwill of $509.3 million, developed technology of $27.6 million, other intangibles of $34.3 million, IPR&D of $15.3 million, net deferred tax liabilities of $21.4 million, deferred stock-based compensation of $7.3 million and net tangible assets of $142.3 million. The weighted average amortization period for all purchased intangible assets is 3.7 years. The acquired IPR&D of $15.3 million was written off and the related charge was expensed in the statement of operations in the second quarter of 2003. Acquisition-related costs of $12.3 million consist of $9.0 million associated with investment banking, legal and other professional fees, $2.9 million for terminating and satisfying existing lease commitments and $0.4 million for severance-related costs. Total cash outlays for acquisition-related costs were approximately $8.8 million for investment banking, legal and other professional fees, $0.4 million for severance and $0.7 million for leases through September 30, 2004.

The results of operations of Precise are included in the Company s condensed consolidated financial statements from July 1, 2003. The pro forma results of operations disclosed below give effect to the acquisition of Precise as if the acquisition was consummated at the beginning of each period presented.

VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Jareva Technologies, Inc.

On January 27, 2003, the Company acquired all of the outstanding capital stock of Jareva Technologies, Inc. (Jareva), a privately held provider of automated server provisioning products that enable businesses to automatically deploy additional servers without manual intervention. The Company acquired Jareva to integrate Jareva s technology into the Company s software products to enable the Company s customers to optimize their investments in server hardware by deploying new server resources on demand. The Jareva acquisition included total purchase consideration of $68.7 million, with $58.7 million of cash, $6.8 million relating to the assumption of options exercisable for 426,766 shares of the Company s common stock and $3.2 million of acquisition-related costs. The purchase price was allocated to goodwill of $51.3 million, developed technology of $9.1 million, other intangibles of $1.9 million, IPR&D of $4.1 million, net deferred tax liabilities of $6.1 million, deferred stock-based compensation of $4.6 million and net tangible assets of $3.8 million. The weighted average amortization period for all purchased intangible assets is 3.3 years. The acquired IPR&D of $4.1 million was written off and the related charge was expensed in the statement of operations in the first quarter of 2003. Acquisition-related costs of $3.2 million consist of $2.7 million associated with terminating and satisfying remaining lease commitments, partially offset by sublease income net of related sublease costs, and direct transaction costs of $0.5 million for legal and other professional fees. Total cash outlays for acquisition-related costs were $2.1 million through September 30, 2004. The results of operations of Jareva are included in the Company s condensed consolidated financial statements from the date of acquisition. The pro forma impact on the Company s results of operations is not significant.

Pro Forma Results of Operations

The results of operations of KVS and Precise are included in the Company s condensed consolidated financial statements from the dates of acquisition. The following table presents pro forma results of operations and gives effect to the acquisitions of KVS and Precise as if the acquisitions were consummated at the beginning of the period presented. The unaudited proforma results of operations are not necessarily indicative of what would have occurred had the acquisitions been made as of the beginning of the period or of the results that may occur in the future. Net income excludes the write-off of acquired IPR&D of $11.5 million for KVS and $15.3 million for Precise and includes amortization of intangible assets per quarter related to the acquisition of $3.7 million for KVS and $4.7 million for Precise. Net income also includes amortization of deferred compensation per quarter of $2.0 million for KVS and $0.5 million for Precise. The unaudited pro forma information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Total net revenue	$501,620	$451,845	$1,492,720	$1,291,231
Income before cumulative effect of change in accounting principle	$ 90,693	$ 68,760	$ 260,921	$ 128,369
Net income	$ 90,693	$ 62,511	$ 260,921	$ 122,120
Net income per share basic	$ 0.21	$ 0.15	$ 0.60	$ 0.29
Net income per share diluted	$ 0.21	$ 0.14	$ 0.59	$ 0.28

6. Goodwill and Other Intangible Assets

On January 1, 2002, the Company adopted SFAS No. 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 changes in circumstances suggest that the carrying amount may not be recoverable.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the carrying amount of goodwill. Goodwill also includes amounts originally allocated to assembled workforce:

	September 30, 2004	December 31, 2003
	(In thousands)	
Goodwill:		
Gross carrying amount	$ 4,069,633	$ 3,842,218
Less accumulated amortization	(2,086,627)	(2,086,627)
Net carrying amount of goodwill	$	