VERITAS SOFTWARE CORP /DE/
Form 10-K
April 06, 2005

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value per share;
Preferred Share Purchase Rights

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 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. þ

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

The aggregate market value of the Registrant s common stock, $0.001 par value per share, held by non-affiliates of the Registrant on June 30, 2004, the last business day of the Registrant s most recently completed second fiscal quarter, was approximately $12 billion (based on the closing sales price of the Registrant s common stock on that date). Shares of the Registrant s common stock held by each officer and director and each person who owns 10% or more of the outstanding common stock of the Registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 31, 2005, 427,229,966 shares of the Registrant s common stock were outstanding.

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This annual report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the Securities Act of 1933 that involve risks and uncertainties. These forward-looking statements include statements about our revenue, revenue mix, gross margin, operating expense levels, financial outlook, commitments under existing leases, research and development initiatives, sales and marketing initiatives, competition and continued listing on Nasdaq. In some cases, forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may and similar expressions. You should not place undue these forward-looking statements, which speak only as of the date of this annual report. All of 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. Actual results could differ from those projected in these forward-looking statements as a result of many factors, including those identified in the section captioned Factors That May Affect Future Results appearing in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this annual report. We urge you to review and consider the various disclosures made by us in this report, and those detailed from time to time in our filings with the Securities and Exchange Commission, that attempt to advise you of the risks and factors that may affect our future results.

PART I

Item 1. *Business*

Merger of VERITAS Software Corporation with Symantec Corporation

On December 16, 2004, VERITAS Software Corporation and Symantec Corporation announced that the companies had entered into a definitive agreement to merge in an all-stock transaction. Under the agreement, which has been unanimously approved by both boards of directors, our stock will be converted into Symantec stock at a fixed exchange ratio of 1.1242 shares of Symantec common stock for each outstanding share of our common stock. Upon closing, Symantec stockholders will own approximately 60 percent and our stockholders will own approximately 40 percent of the combined company. Completion of the merger is subject to customary closing conditions that include receipt of required approvals from VERITAS and Symantec stockholders and receipt of required regulatory approvals. The merger, which is expected to close in the second calendar quarter of 2005, may not be completed if any of the conditions are not satisfied or waived. Unless otherwise indicated, the discussions in this document relate to VERITAS as a stand-alone entity and do not reflect the impact of the proposed merger with Symantec. For additional information regarding the proposed merger, please refer to the Form S-4 (File No. 333-122724), containing a preliminary joint proxy statement/prospectus in connection with the proposed merger, filed by Symantec on February 11, 2005.

Overview

VERITAS Software Corporation is a leading independent supplier of storage and infrastructure software products and services. Our software products operate across a variety of computing environments, from personal computers, or PCs, and workgroup servers to enterprise servers and networking platforms in corporate data centers to protect, archive and recover business-critical data, provide high levels of application availability, enhance and tune system and application performance to define and meet service levels and enable recovery from disasters. Our solutions enable businesses to reduce costs by efficiently and effectively managing their information technology, or IT, infrastructure as they seek to maximize value from their IT investments. We offer software products focused on three areas:

- Data Protection: products for ensuring the protection, retention and recovery of data using both disk, tape and optical media.

- Storage Management: products for optimizing storage hardware utilization, simplifying administration for environments with diverse computer hardware and software architectures and enabling high performance and continuous availability of mission-critical applications.

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Utility Computing Infrastructure: products for automating the provisioning and management of servers and applications to meet IT service levels for high availability, high performance and process automation.

We develop and sell software products for the most widely-used operating systems, including various versions of Linux, NetWare, UNIX and Windows. We also develop and sell software products that support a wide variety of servers, storage devices, databases, applications and network equipment. Our customers include many leading global corporations and small and medium-sized enterprises located around the world and operating in a wide variety of industries. In addition to our software products, we provide a full range of services to assist customers in assessing, architecting, implementing, supporting and maintaining their storage and infrastructure software solutions.

Our product strategy is to meet the data storage, system and application availability and performance needs of our customers, while remaining at the forefront of innovation to support our customers long-term requirements by providing the building blocks for utility computing. Utility computing is a computing model that delivers IT as a measurable service, aligned with business needs and capable of adapting to changing demands. We offer a building block approach that allows our customers to evolve to a utility computing model in an evolutionary and modular fashion while leveraging their existing IT investments.

In 2004, we completed the acquisitions of Ejasent, Inc., Invio Software, Inc. and KVault Software Limited, or KVS. Through our acquisition of Ejasent in January 2004, we acquired UpScale, which offers the ability to move applications from one server to another without disrupting or terminating the application, and MicroMeasure, which enables usage-based metering and billing of physical and logical data center assets, including servers, storage and application transactions by specific users and departments. Our acquisition of Invio in July 2004 provided us with software that standardizes and automates IT service delivery in key areas such as storage provisioning, server provisioning and data protection. In addition, in September 2004, we acquired KVS and its Enterprise Vault software, the leading Microsoft Exchange e-mail archiving product, to address compliance and data management, a critical component and addition to our data protection portfolio.

With revenue of $2.04 billion in 2004, VERITAS ranks among the top 10 software companies in the world and, as of December 31, 2004, had 7,587 employees in 38 countries. We were incorporated in Delaware in October 1998. Our predecessor company was originally incorporated in California in 1982 and reincorporated in Delaware in 1997. Our principal offices are located at 350 Ellis Street, Mountain View, California 94043, and our telephone number at that location is (650) 527-8000. Our home page on the Internet is at http://www.veritas.com. Information on our website is not a part of this annual report.

Products

VERITAS offers a wide range of industry leading software products that are broadly categorized into data protection, storage management and utility computing infrastructure solutions. Demand for our software products and services is driven by the ever increasing quantity of data being collected and the need for data to be protected, recoverable and accessible at all times, particularly in the event of a disaster. Other factors driving demand include the rapid increase in the number of Internet users and companies conducting business online, the continuous automation of business processes, increased pressures on companies to lower storage and server management costs, while increasing the utilization and performance of their existing heterogeneous IT infrastructure and the increasing importance of document retention and regulatory compliance solutions. Our products offer our customers scalability for managing the rapid growth of data and the increasing complexity and size of IT environments.

Data Protection

We offer software products designed to protect, backup, archive and restore data across a broad range of computing environments from large corporate data centers to remote groups and PC clients, such as desktop and laptop computers. Our data protection products protect and recover data on servers and clients running most major operating systems and databases. These products integrate to provide solutions to manage data throughout its lifecycle from creation to disposal, both onsite and offsite, across all levels of the storage hierarchy including disk, tape and optical storage media. Our data protection products include:

Product Set	Description
VERITAS NetBackup	VERITAS NetBackup software delivers enterprise data protection for the largest Linux, NetWare, UNIX and Windows environments, and offers enterprise-strength features, such as synthetic backups that allow for quick client restore from a single backup image, disk-based protection, automated disaster recovery and desktop and laptop protection. VERITAS NetBackup provides advanced media management, including tape labeling, tape media pool creation, device sharing, media/device reporting and bar code support. VERITAS NetBackup also provides optional database and application aware backup and recovery solutions for Oracle, SAP, Microsoft SQL Server, Microsoft Exchange, Microsoft SharePoint Portal Server, DB2, Lotus Notes/Domino, Sybase and Informix to deliver data availability for Utility Computing.
VERITAS Backup Exec	VERITAS Backup Exec for Windows Servers provides comprehensive, cost-effective and certified backup and recovery including disk-based recovery. An intuitive, web-based user interface simplifies installation and management of backup and remote servers with easy-to-use wizards. Centralized administration provides scalable management of distributed backup and remote servers. Easy-to-use wizards simplify data protection and recovery procedures for any level user and any size network. This product includes a complete family of agents and options available to protect Windows, Linux, NetWare and UNIX server data, as well as Windows desktops and laptops. VERITAS Backup Exec for NetWare Servers provides backup and restore technology for protecting server and workstation data. An intuitive graphical user interface provides enhanced functionality and manageability. Local and remote agents offer cross platform protection for mixed platform environments.
VERITAS Enterprise Vault	VERITAS Enterprise Vault provides a flexible, software-based e-mail archiving framework to enable the discovery of content held within Microsoft Exchange, Microsoft SharePoint Portal Server and Microsoft Windows file systems, while helping to reduce storage costs and simplify management. Enterprise Vault manages e-mail content through automated, policy-controlled archiving to online stores for active retention and retrieval of information, and includes powerful search and discovery capabilities, complemented by specialized client applications for NASD compliance and legal discovery. Implementing Enterprise Vault helps customers with business issues such as: compliance and discovery, storage optimization, operational efficiency, knowledge exploitation and migration and consolidation.

Storage Management

We offer products for optimizing storage resource utilization, simplifying administration of heterogeneous environments and providing continuous availability of mission-critical applications and data. These products are designed for most Linux, NetWare, UNIX and Windows servers, and include replication and a storage resource management suite. They are offered in both standalone and application solutions, as agents and

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options, and are often combined with our utility computing infrastructure and data protection products to deliver high levels of availability and performance. Our storage management products include:

Product Set	**Description**
VERITAS Storage Foundation	VERITAS Storage Foundation combines VERITAS Volume Manager and VERITAS File System to provide a complete solution for online storage management. With VERITAS Storage Foundation, physical disks can be grouped into logical volumes to improve disk utilization and eliminate storage-related downtime. In addition, VERITAS Storage Foundation helps to provide administrators with the flexibility to move data between different operating systems and storage arrays, balance input/output across multiple paths to improve performance, replicate data to remote sites for higher availability and move unimportant or out-of-date files to less expensive storage without changing the way users or applications access the files.
VERITAS Replication Exec and VERITAS Volume Replicator	VERITAS Replication Exec provides continuous remote office data protection and helps to reduce costs and minimize IT workload. Replication Exec copies data from multiple remote offices over an IP connection, to a central location at the main office for consolidated backups. By centralizing backups, Replication Exec helps reduce infrastructure costs by eliminating the need for backup hardware, media, and administration resources to be located at each remote office. Replication Exec integrates with Backup Exec (using Backup Exec tm SmartLink technology) to help simplify management and enable administrators to monitor company-wide data protection from a centralized management console. VERITAS Volume Replicator provides the foundation for seamless data availability across central and remote sites. Based on VERITAS Volume Manager, Volume Replicator replicates data from central to remote locations over any IP network when data loss and prolonged downtime cannot be tolerated.
VERITAS CommandCentral Storage and VERITAS Storage Exec	VERITAS CommandCentral Storage integrates storage resource management, performance and policy management, storage provisioning and zoning capabilities to help ensure that storage infrastructure runs as efficiently as possible. The active management of storage resources drives service level agreements, and is designed to ensure optimal performance and availability of business critical applications by managing the entire data path from application to array and everything in between. CommandCentral Storage offers customizable policy-based management to automate notification, recovery and other user-definable actions. VERITAS CommandCentral Storage also provides IT managers with a comprehensive view into the usage and utilization of storage resources across their organization and enables storage administrators to track critical details about their departmental, and geographic (local, remote and enterprise-wide) storage usage and provide detailed metrics. VERITAS Storage Exec helps organizations to maximize their storage resources and reduce backup and restore times by providing automated storage management. Storage Exec enables real-time storage quotas for individual users, blocks non- business files such as MP3s and viruses from

company servers and creates extensive, detailed storage reports. Storage Exec helps to reduce administration through email notification that enables end-users to manage their own files without IT intervention.

Utility Computing Infrastructure

Our utility computing infrastructure products include tools for managing application availability and performance service level agreements, improving server and storage utilization and automating IT processes for enterprise data centers. These products include application performance management and centralized

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service level management functionality. These products also include capabilities to measure and report costs incurred and standardized Web-based interfaces that reduce administrative costs. Our utility computing infrastructure products include:

Product Set	Description
VERITAS Cluster Server	VERITAS Cluster Server is designed to help reduce planned and unplanned downtime, facilitate server consolidation and effectively manage a wide range of applications running across heterogeneous IT environments. With scalability for up to 32 node clusters, VERITAS Cluster Server can protect single critical database instances, as well as large, globally dispersed, multi-application clusters. VERITAS Cluster Server increases automation by providing features to test production disaster recovery scenarios and plans without disruption, and offers intelligent workload management to help cluster administrators maximize resources by moving beyond reactive recovery to proactive management of application availability.
VERITAS CommandCentral Availability	VERITAS CommandCentral Availability is a Web-based management solution that allows IT staff to manage application availability for geographically distributed data centers from a central console. Administrators can view and manage their distributed VERITAS Cluster Server clusters running all major operating systems. Consolidated management helps to reduce administrative overhead for any business with two or more server clusters. VERITAS CommandCentral Availability helps to increase IT staff productivity by providing centralized and common cluster visualization, monitoring and control in real-time. Administrators can also consolidate the deployment of configuration changes for multiple clusters. VERITAS CommandCentral Availability improves application availability by enabling administrators to detect, isolate and correct errors quickly.
VERITAS OpForce	VERITAS OpForce is a server automation solution with lifecycle management capabilities that enables customers to build, manage and optimize their server infrastructure. OpForce provides a secure solution for increasing the availability, manageability and performance of servers and software. OpForce allows customers to securely deploy software, applications and patches remotely across multiple systems. OpForce software s snapshot technology and in-context provisioning introduces personalization while managing customers devices, directories and networks. OpForce provides an integrated provisioning platform for Linux, UNIX (Sun Solaris and IBM AIX) and Windows environments.
VERITAS i^3	VERITAS i^3 is an integrated software solution that provides a methodology for improving application performance. VERITAS i^3 correlates the application flow across the multi-tiered IT infrastructure by continuously monitoring all the technologies that contribute to response time. This enables rapid detection to correction of performance degradation before the end-user community is adversely affected. VERITAS i^3 includes three key software elements, VERITAS Indepth, VERITAS Inform and VERITAS Insight. VERITAS Indepth collects detailed performance metrics from the underlying technologies that contribute to response time such as Oracle,

SQL Server, DB2 UDB, J2EE application servers, Web servers and storage to provide visibility into complex performance issues. The information is leveraged to identify the root cause of performance degradation within that technology tier and to generate expert tuning advice to resolve the issue. The information is stored in a performance warehouse so historical trends and real-time alerts can be generated by VERITAS Inform.

Product Set	Description
	VERITAS Inform delivers key performance information collected by Insight and Indepth in the form of historical reports and exception alerts. Performance metrics such as response time can be reported to show gradual degradation and identify a point in time when action must be taken to ensure response time stays at an acceptable level. Real-time alerting notifies IT staff when a key performance metric has exceeded a threshold and needs attention which helps to ensure that the issue does not go unattended and the problem is resolved as quickly as possible. VERITAS Insight measures the real end-user response time of a multi-tier application and, within an end-to-end view, breaks down the response time by the technology tiers such as web server, application server, database server or storage, so IT staff know where to prioritize their efforts. Insight also provides application specific performance metrics for SAP, Oracle, PeopleSoft, Siebel, BEA Tuxedo and J2EE-based applications. These application specific metrics provide a deeper understanding of how the application is performing and provide the visibility required to resolve the most complex performance issues. The information is stored in a performance warehouse so historical trends and real-time alerts can be generated by VERITAS Inform.
VERITAS CommandCentral Service	VERITAS CommandCentral Service is a software product designed to help organizations move toward a utility computing model, where IT acts like a service provider to its various customers. CommandCentral Service allows IT to define services being offered, present those services to consumers, measure and report on service levels and resource usage, automate provisioning processes through the embedded workflow engine and allocate costs for services used. CommandCentral Service then becomes a portal interface between IT and its consumers. The service levels that consumers define subsequently map to service implementations in underlying VERITAS and non-VERITAS products. In this way, IT becomes more transparent, measurable and aligned with the larger objectives of the business. VERITAS CommandCentral Service facilitates the shift to utility computing.

For information regarding revenue and long-lived assets by geographic areas, see Note 20, Segment Information in the Notes to Consolidated Financial Statements. For information regarding the amount and percentage of our revenue contributed in each of our product categories, our practices regarding working capital requirements and our financial information, including information about geographic areas in which we operate, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Services

We provide a full range of services to assist our customers in assessing, architecting, implementing, supporting and maintaining their storage and infrastructure software solutions. Our global services organization provides customers with maintenance and technical support, consulting and education services.

Maintenance and Technical Support

We believe that providing a high level of customer service and technical support is critical to customer satisfaction and our success in increasing the adoption rate of our solutions. Most of our customers have maintenance and technical support agreements with us that provide for fixed fee, renewable annual maintenance and technical support, consisting of technical and emergency support, bug fixes and product upgrades. Our customers can choose from a variety of support packages to address their specific needs, ranging from one-time incident charges to comprehensive support services with a dedicated single point of contact at VERITAS. We offer seven-day a week, 24-hour a day telephone support, as well as e-mail customer support. In addition, through our Business Critical service, we provide our enterprise customers with support account management, emergency fly-to-site capability and specialized reporting. Some of the value-added resellers, system integrators and original equipment manufacturers that offer our products also provide customer technical support for our products through a frontline/backline arrangement whereby the partner handles the initial customer contact, the frontline, and we provide secondary support and engineering assistance, the backline.

Consulting

We offer our customers a full suite of consulting services, ranging from basic product selection and implementation engagements to more complex strategic and analytical services like business continuity readiness assessments and disaster recovery planning. These services help our customers plan for the management and control of enterprise computing in their specific computing environments, including storage area network environments.

VERITAS consulting services are intended to complement existing professional services offerings and are available to customers through their sales account managers. We currently have four consulting practices. They are:

Disaster Recovery Certified disaster recovery professionals along with engineers and architects consult and advise in the development of comprehensive disaster recovery programs that minimize the impact of unplanned downtime.

Storage Management Professionals consult and advise in identifying suboptimal areas of storage service and offer product-independent reference models for benchmarking. They facilitate the development of open architectures, processes and organizations that optimize the use of existing resources and lay the foundation for evolving to a utility computing infrastructure.

Application Performance Management Professionals consult and advise to identify mission-critical application performance bottlenecks to recommend solutions that improve user satisfaction and productivity and to create reporting tools that help IT identify trends before they become problems.

Utility Computing Through workshops and assessments, professionals develop a utility transformation program to execute a pragmatic building block approach to the deployment of service level agreements and the metering and chargeback of IT services.

Education Services

We have a worldwide customer education organization that offers structured training to our customers. The focus of this organization is aligned with our strategy to offer end-to-end software solutions by providing instruction from highly experienced education professionals either at the customer location or in one of our multi-platform classrooms. The training helps our customers optimize their investments in technology and technical personnel through access to high quality, comprehensive instruction.

Marketing, Sales and Distribution

We sell and market our products and related services both directly to end-users and through a variety of indirect sales channels, which include value-added resellers, or VARs, distributors, system integrators, or SIs, and original equipment manufacturers, or OEMs. Our customers include many leading global corporations and small and medium-sized enterprises around the world operating in a wide variety of industries.

Direct Sales to End-Users, and VARs. One of our primary methods of distribution to end-users is through our direct sales, services and technical support organizations that market our products and services throughout the world. Many of our products involve a consultative, solution-oriented sales model that uses the collaboration of technical and sales personnel to propose solutions to specific customer requirements, often in conjunction with hardware, software and managed services providers. We focus our initial sales efforts on senior executives and IT department personnel who are responsible for a customer s business initiatives and data center management. We complement our direct sales efforts with indirect sales channels such as resellers, VARs, distributors and SIs. Single and multiple tier distribution channels are important in our global expansion strategy and are the primary channels for addressing the small to medium-sized enterprise market.

We will continue to invest in programs that train and enable our channel partners to market our technologies and utility computing capabilities. We provide our software products to our channel partners and customers under non-exclusive license agreements, including shrink-wrap or click-wrap licenses for some products, without transferring title of our software products.

Other Indirect Channels. An important element of our sales and marketing strategy is to continue to expand our relationships with third parties, including our strategic partners, to increase market awareness, demand and acceptance of our products. Our strategic partners generate and qualify sales leads, recommend our solutions which interoperate with their products or are related to their value-added services, bring us into potential sales opportunities and complete transactions through distribution rights granted by us. We may enter into distribution arrangements for our products with our strategic partners, including granting rights to integrate or bundle our products with our partners products and services. Some of our strategic partner relationships include:

Independent Software Vendors: We collaborate with, and license our software to, independent software vendors, or ISVs, including enterprise application software, database, infrastructure and other packaged application software vendors. Some of our significant ISV partners include Amdocs Ltd., BEA Systems, Inc., Novell Inc., Oracle Corporation, SAP and Sybase, Inc. Application vendors can exert significant influence on our joint customers buying decisions, so we will continue to develop strong, market oriented relationships with certain ISVs, including joining and investing in their partner programs and demonstrating customer value for our joint solutions. We build, maintain and promote certain application program interfaces within our products that allow interoperability between our products and the ISVs products. We also market ISV agents, options and extensions that are specifically built to allow interoperability with or optimal performance of our products and ISV products. ISVs may incorporate our product into their product, bundle our products with their products, serve as authorized resellers of our products or use VERITAS with their own products to provide hosted services. Under these arrangements, ISVs are not obligated to sell our products or services.

System Integrators and Managed Services Providers: We collaborate with SIs, who may refer their customers to us, utilize us as a subcontractor in some situations, build standard and customized solutions with our products or use our products to deliver hosted services as well as outsourced services. SIs use our products and services in conjunction with optimizing their client s investment in high-end transactional applications and related hardware. Some of our SI relationships include Accenture Ltd., International Business Machines Corporation, or IBM, CapGemini Ernst & Young Group, Computer Services Corporation and Electronic Data Systems Corporation. Some SIs are authorized resellers of our products and some use our products and services to deliver consultative services or managed services to their customers. Under these arrangements, SIs and managed services providers are not obligated to use or sell our products or services.

In general, we receive a fee for each sublicense of our products granted by our partners. In some cases, we grant rights to distribute promotional versions of our products, which have limited functionality or limited use periods, on a non-fee basis. We enter into both object-code only and, when appropriate, source-code licenses of our products. We do not transfer title of our software products to our customers.

Original Equipment Manufacturers. Another important element of our sales and marketing strategy involves our strategic relationships with OEM partners. These OEM partners may incorporate our products into their products, bundle our products with their products, endorse our products in the marketplace or serve as authorized resellers of our products. Our OEM partners with whom we generate the greatest distribution and sales of our products include Dell Products L.P., Hewlett-Packard Company, IBM, Microsoft Corporation and Sun Microsystems, Inc. In addition, we have strategic relationships with other OEMs, including Fujitsu Ltd., Hitachi Ltd., Storage Technology Corporation, Network Appliance, Inc. and Unisys Corporation. In order to reach new markets and extend the value of our OEM partners, some of our partners may have additional rights to our products and services. These include using VERITAS products in a hosted services environment; integrating our support services with their own support services, thereby providing combined

services to our joint customers; or reselling our packaged as well as our custom consulting services. These licensing and services rights allow our partners customers to maximize their system availability, performance and utilization through optimal configurations and reliable installations. In general, our OEM partners are not obligated to sell our products or services under these arrangements and are not obligated to continue to include our products in future versions of their products.

Other Important Relationships. In addition to the channels of distribution and strategic relationships described above, we also maintain important relationships with various technology partners. Over 150 established and emerging companies, specializing in storage management, data protection or utility computing infrastructure, participate in our technology partner program and interoperability lab services, which provide access to software development kits, special purpose testing programs and protocols, as well as development support services. We support a large and diverse number of hardware and software technology vendors and, as a leader in storage and infrastructure software, contribute to the development and support of industry standards. Some technology partners integrate and distribute our products under licensing arrangements as bundled solutions for vertical markets such as telecommunications, finance and healthcare. Under these arrangements, technology partners are not obligated to sell our products.

Customers

Our software solutions are used by customers in a wide variety of industries, including many leading global corporations and small and medium-sized enterprises around the world, as well as by various governmental entities. In 2004, 2003 and 2002, no end-user customer accounted for more than 10% of our net revenue. In 2004 and 2003, no distributor accounted for more than 10% of our net revenue. In 2002, a distributor that sells our products and services through resellers accounted for approximately 11% of our net revenue.

Competition

The principal markets in which we compete are data protection, file system and volume management, clustering, replication, storage resource management, storage area network management, automated server provisioning, application performance management and centralized service level management. These markets are intensely competitive and rapidly changing. Our future anticipated growth and success will depend on our ability to develop superior products more rapidly and less expensively than our competitors, to educate potential customers as to the benefits of licensing our products rather than relying on alternative products and technologies and to develop additional channels to market.

Many of our strategic partners, including EMC Corporation, Hewlett-Packard, IBM, Microsoft, Oracle and Sun Microsystems, offer software products that compete with our products or have announced their intention to focus on developing or acquiring their own storage and enterprise management software products. While we may compete with these companies for a share of the market, some also resell our products, and in some cases incorporate our technology into their products or solutions.

In addition, we compete with hardware and software vendors that offer data protection products, file system and volume management products, clustering and replication products, storage area networking management solutions, automated server provisioning solutions and centralized service level management products. We compete with software vendors that offer application performance management solutions and systems management companies that are integrating storage resource management functions into their platforms. Some of our products also compete with enterprise management vendors, including BMC Software, Inc., Computer Associates International, Inc., Mercury Interactive Corporation and Quest Software, Inc.

The principal competitive factors in our industry include product functionality, product integration, platform coverage, price, ability to scale, worldwide sales and marketing infrastructure and global technical support. Although some of our competitors have greater financial, technical, sales, marketing and other resources than we do, as well as greater name recognition and a larger installed customer base, we believe we compete favorably on the basis of each of these competitive factors relative to our competitors. We believe that our unique position as an independent software provider, strategy for utility computing infrastructure, hardware independent solutions and proven data protection and storage software market leadership, give us an advantaged position in the market.

Our future anticipated growth and success will depend on our ability to continue to develop products more rapidly than and superior to those of our competitors, educate potential customers as to the benefits of licensing our products rather than purchasing or using competing technologies and develop additional channels to market. 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 to compete with our products. 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 may face additional competition from these companies in the future. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could adversely affect our business and operating results.

Seasonality

As is typical for many large software companies, our business is seasonal. Software license orders are generally higher in our fourth fiscal quarter and lower in our first fiscal quarter, with a significant decline in license orders in the first quarter of a fiscal year when compared to license orders in the fourth quarter of the prior fiscal year. In addition, we generally receive a higher volume of software license orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that this seasonality primarily reflects customer spending patterns and budget cycles, as well as the impact of compensation incentive plans for our sales personnel. Software license revenue generally reflects similar seasonal patterns but to a lesser extent than license orders because not all orders received during a quarter are shipped during that quarter, and license revenue is not recognized until an order is shipped and other revenue recognition criteria are met.

Unfilled License Orders and Deferred Revenue

Unfilled license orders, which represent an unaudited operating measure, were approximately $83.2 million and $96.4 million at December 31, 2004 and 2003, respectively. Unfilled license orders represent cancelable and non-cancelable license orders that have been received from our customers for the license of our software products but have not been shipped as of the end of the applicable fiscal period. We generally ship our software products within 30 days after acceptance of customer orders. In some cases, we have discretion over the timing of product shipments, which affects the timing of revenue recognition for software license orders. In those cases, we consider a number of factors, including: the effect of the related license revenue on our business plan; the delivery dates requested by customers and resellers; the amount of software license orders received in the quarter; the amount of software license orders shipped in the quarter; the degree to which software license orders received are concentrated at the end of the quarter; and our operational capacity to fulfill software license orders at the end of the quarter. We do not believe that unfilled license orders are a consistent or reliable indicator of future results.

Deferred license revenue was approximately $13.8 million and $11.6 million at December 31, 2004 and 2003, respectively. Deferred license revenue represents license orders for our software products that have been billed to and paid by our customers and for which revenue will generally be earned within the next year. Deferred license revenue excludes license orders that have not been paid by our customers and that do not otherwise satisfy our revenue recognition criteria; these license orders were approximately $14.6 million and $15.5 million at December 31, 2004 and 2003, respectively.

Deferred services revenue was approximately $534.1 million and $387.2 million at December 31, 2004 and 2003, respectively. Maintenance and technical support is generally recognized over the maintenance and support period of twelve months. Education or consulting services are generally recognized over the period the specific services are delivered. The increase in deferred services revenue is the result of significant growth in our installed base of customers under software maintenance and technical support contracts and our continued focus on maintenance and technical support contract renewals.

Research and Development

Our research and development efforts have been directed toward developing new products for Linux, NetWare, UNIX and Windows, developing new features and functionality for existing products, integrating products across our existing product lines, porting new and existing products to different operating systems and expanding our product portfolio into new markets such as e-mail archiving, application performance management, server provisioning and centralized service level management.

Our major research and development initiatives include:

Continued focus on operating system platform expansion. We have successfully ported the majority of our traditional storage software and enterprise data protection products to Linux, NetWare, UNIX and Windows and are seeing increased acceptance of new platform offerings in the marketplace. In particular, we are increasing our investment in products for servers based on Intel architecture that we believe will be important to future data center architectures.

New utility computing infrastructure products, including server provisioning, clustering, application performance management and service level management. Our current product offerings contain many best-of-class products that serve as building blocks that enable customers to adopt a utility computing model. These products are also unique in their level of heterogeneous platform, application and database support. Future investment is focused on both creating new best-in-class building blocks as we better understand customer utility computing requirements and increasingly integrating these components to provide solution suites that automate IT processes, enable dynamic reconfiguration of the data centers and define, measure and enforce service level agreements.

Replication, storage resource management and next generation virtualization technology. During 2004, we saw increased acceptance of our replication and storage resource management solutions. Our unique replication approach enables customers to implement data recovery solutions at a much lower cost than traditional array-based approaches and we are increasingly integrating this function into our clustering and data protection technologies to simplify customer deployments. Our focus in storage resource management is to develop, acquire and integrate technology into a single suite for both storage area network management and business level reporting for data centers, and to increase distribution of low-end solutions for high volume servers in medium-sized businesses and remote offices.

New data protection technologies for disk-based data protection, regulatory compliance and disaster recovery. VERITAS NetBackup 5.0, released in the fourth quarter of 2003, added significant new capabilities that enable customers to leverage increasingly inexpensive disk technology to protect their data as a complement to traditional tape based methodologies. With the acquisition of KVS in September 2004, we acquired an e-mail archiving software product called Enterprise Vault. VERITAS Enterprise Vault provides a flexible, software-based archiving framework to enable the discovery of content held within Microsoft Exchange, Microsoft SharePoint Portal Server and Microsoft file system environments, while reducing storage costs and simplifying management.

Local language support. We continue to focus on providing local language support for our traditional storage software and enterprise data protection products to increase the acceptance of these products in international markets.

We had research and development expenses, exclusive of in-process research and development associated with acquisitions, of $346.6 million in 2004, $301.9 million in 2003 and $274.9 million in 2002. We believe that technical leadership is essential to our success and we expect to continue to commit substantial resources to research and development. Our future success will depend in large part on our ability to enhance existing products, respond to changing customer requirements and develop and introduce new products in a timely manner that keep pace with technological developments and emerging industry standards. We continue to make substantial investments in new products, which may or may not be successful. We may not complete these research and development efforts successfully and, therefore, future products may not be available on a timely basis or achieve market acceptance.

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Intellectual Property Rights

Protective Measures

We regard some of the features of our internal operations, software and documentation as proprietary and rely on copyright, patent, trademark and trade secret laws, confidentiality procedures, contractual and other measures to protect our proprietary information. Our intellectual property is an important and valuable asset that helps enable us to gain recognition for our products, services and technology and enhance our competitive position.

As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors and corporate partners and license agreements with respect to our software, documentation and other proprietary information. These license agreements are generally non-transferable and have a perpetual term. We also educate our employees on trade secret protection and employ measures to protect our facilities, equipment and networks.

Trademarks, Patents and Copyrights

VERITAS and the VERITAS logo are trademarks or registered trademarks in the United States and other countries. In addition to VERITAS and the VERITAS logo, we have used, registered and/or applied to register other specific trademarks and service marks to help distinguish our products, technologies and services from those of our competitors in the U.S. and foreign countries and jurisdictions. We enforce our trademark, service mark and trade name rights in the U.S. and abroad. The duration of our trademark registrations varies from country to country and in the U.S., we generally are able to maintain our trademark rights and renew any trademark registrations for as long as the trademarks are in use.

We have a number of U.S. and foreign issued patents and pending patent applications, including patents and rights to patent applications acquired through strategic transactions, which relate to various aspects of our products and technology. The duration of our patents is determined by the laws of the country of issuance and for the U.S. is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application resulting in the patent, which we believe is adequate relative to the expected lives of our products.

Our products are protected under U.S. and international copyright laws and laws related to the protection of intellectual property and proprietary information. We generally take measures to label such products with the appropriate proprietary rights notices and actively are enforcing such rights in the U.S. and abroad. However, these measures may not provide sufficient protection, and our intellectual property rights may not be of commercial benefit to us or the validity of these rights may be challenged. While we believe that our ability to maintain and protect our intellectual property rights is important to our success, we also believe that our business as a whole is not materially dependent on any particular patent, trademark, license or other intellectual property right.

Employees

As of December 31, 2004, we had 7,587 employees, including 2,312 employees in research and development, 4,178 in sales, marketing, consulting, customer support and strategic initiatives and 1,097 in general and administrative services. We have not entered into any collective bargaining agreements with our employees and believe that our relations with our employees are good. We believe that our future success will depend in part upon the continued service of our key employees and on our continued ability to hire and retain qualified personnel.

Other Information

Our Internet website is located at http://www.veritas.com. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and

Exchange Commission, or SEC. Other than the information expressly set forth in this annual report, the information contained, or referred to, on our website is not a part of this annual report.

The public may also read and copy any materials we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the SEC.

Item 2. ***Properties***

Our properties consist primarily of leased office facilities for sales, research and development, consulting and administrative personnel. Our corporate headquarters consist of approximately 425,000 square feet located in Mountain View, California. Most of our facilities are occupied under leases that expire at various times through 2022. The table below shows the approximate square footage of the facilities that we leased as of December 31, 2004 in the U.S. and abroad, excluding approximately 31 executive suites in North America, 17 in Europe, and 13 in Asia.

Location	Approximate Total Square Footage(1)	Leased Square Footage	Owned Square Footage
United States	2,038,674	942,579	1,096,095
Canada	43,090	43,090	0
Europe/ Middle East/ Africa	479,379	479,379	0
Asia/ Australia	406,443	401,281	5,162
South America	15,891	15,891	0
Total	2,983,477	1,882,220	1,101,257

(1) Total square footage excludes approximately 138,090 square feet of space in the U.S. and 28,815 square feet of space in Europe that we sublease to third parties.

We believe our existing and planned facilities will be suitable for our needs. See Note 8, Accrued Acquisition and Restructuring Costs of the Notes to Consolidated Financial Statements for information regarding our facility restructuring plan approved in the fourth quarter of 2002, Note 10, Long-Term Debt of the Notes to Consolidated Financial Statements for information regarding our three build-to-suit lease agreements and Note 12, Commitments of the Notes to Consolidated Financial Statements for information regarding our operating lease obligations.

In February 2005, our board of directors authorized the purchase of the three properties subject to the build-to-suit lease agreements. In March 2005, we acquired beneficial ownership of the Mountain View, California, Milpitas, California and Roseville, Minnesota properties, consisting of a total of approximately 1,096,000 square feet, for an aggregate cash purchase price of $384 million. As a result of these transactions, we will continue to lease the properties from the landlords, which are our wholly owned subsidiaries. We plan to terminate the existing leases for each of these properties by causing the landlords to transfer the properties to us for no additional consideration.

Item 3. ***Legal Proceedings***

SEC Related Matters

SEC Investigation. Since the third quarter of 2002, we have received subpoenas issued by the Securities Exchange Commission in the investigation entitled *In the Matter of AOL/ Time Warner*. The SEC has requested information concerning the facts and circumstances surrounding our transactions with AOL Time Warner, or AOL, and related accounting and disclosure matters. Our transactions with AOL, entered into in September 2000, involved a software and services purchase by AOL at a stated value of $50.0 million and the purchase by us of advertising services from AOL at a stated value of $20.0 million. In March 2003, we restated our financial statements for 2001 and 2000 to reflect a reduction in revenues and expenses of $20.0 million. The restatement included an additional reduction in revenues and expenses of $1.0 million related to two other contemporaneous transactions with other parties entered into in 2000 that involved software licenses and the purchase of online advertising services. In March 2005, the SEC charged AOL with securities fraud pursuant to a complaint entitled *Securities and Exchange Commission v. Time Warner, Inc*. In its complaint, the SEC described certain transactions between AOL and a California-based software company that creates and licenses data storage software that appears to reference our transactions with AOL as described above, and alleged that AOL aided and abetted that California-based software company in violating Section 10(b) of the Securities Exchange Act of 1934 and Exchange Act Rule 10b-5.

In March 2004, we announced our intention to restate our financial statements for 2002 and 2001 and revise our previously announced financial results for 2003. The decision resulted from the findings of an investigation into past accounting practices that concluded on March 12, 2004. The investigation resulted from concerns raised by an employee in late 2003, which led to a detailed review of the matter in accordance with our corporate governance processes, including the reporting of the matter to the audit committee of our board of directors, and to KPMG LLP, our independent registered public accounting firm. The audit committee retained independent counsel to investigate issues relating to these past accounting practices, and the audit committee s counsel retained independent accountants to assist with the investigation. In the first quarter of 2004, we voluntarily disclosed to the staff of the SEC past accounting practices applicable to our 2002 and 2001 financial statements that were not in compliance with GAAP.

We and our audit committee continue to cooperate with the SEC in its review of these matters. At this time, we cannot predict the outcome of the SEC s review.

Litigation

After we announced in January 2003 that we would restate our financial results as a result of transactions entered into with AOL in September 2000, numerous separate complaints purporting to be class actions were filed in the United States District Court for the Northern District of California alleging that we and some of our officers and directors violated provisions of the Securities Exchange Act of 1934. The complaints contain varying allegations, including that we made materially false and misleading statements with respect to our 2000, 2001 and 2002 financial results included in our filings with the SEC, press releases and other public disclosures. On May 2, 2003, a lead plaintiff and lead counsel were appointed. A consolidated complaint entitled *In Re VERITAS Software Corporation Securities Litigation* was filed by the lead plaintiff on July 18, 2003. On February 18, 2005, the parties filed a Stipulation of Settlement in the class action. On March 18, 2005, the Court entered an order preliminarily approving the class action settlement. Pursuant to the terms of the settlement, a $35.0 million settlement fund was established on March 25, 2005. Our insurance carriers funded $24.9 million of the settlement fund, and we funded $10.1 million of the settlement fund, which one of our insurance companies is obligated to repay to us on or before April 15, 2005.

In 2003, several complaints purporting to be derivative actions were filed in California Superior Court against some of our directors and officers. These complaints are generally based on the same facts and circumstances alleged in *In Re VERITAS Software Corporation Securities Litigation*, referenced above, and allege that the named directors and officers breached their fiduciary duties by failing to oversee adequately our financial reporting. The state court complaints were consolidated into the action *In Re VERITAS Software Corporation Derivative Litigation*, which was filed on May 8, 2003 in the Superior Court of Santa Clara County. On January 26, 2005, the parties to the derivative action filed a stipulation of settlement with the Superior Court and the Court entered an order approving the stipulation of settlement and dismissed the lawsuit with prejudice on February 4, 2005.

On August 2, 2004, we received a copy of an amended complaint in *Stichting Pensioenfonds ABP v. AOL Time Warner, et. al.* in which we were named as a defendant. The case was originally filed in the United States District Court for the Southern District of New York in July 2003 against Time Warner (formerly, AOL Time Warner), current and former officers and directors of Time Warner and AOL, and Time Warner s outside auditor, Ernst & Young LLP. In adding us as a defendant, the plaintiff alleges that we aided and abetted AOL in alleged common law fraud and also alleges that we engaged in common law fraud as part of a civil conspiracy. The plaintiff seeks an unspecified amount of compensatory and punitive damages. On November 22, 2004, we filed a motion to dismiss in this action and the plaintiff filed its opposition memoranda on March 4, 2005. The motion remains pending before the Court.

On July 7, 2004, a purported class action complaint entitled *Paul Kuck, et al. v. VERITAS Software Corporation, et al.* was filed in the United States District Court for the District of Delaware. The lawsuit alleges violations of federal securities laws in connection with our announcement on July 6, 2004 that we expected our results of operations for the fiscal quarter ended June 30, 2004 to fall below our earlier estimates. The complaint generally seeks an unspecified amount of damages. Subsequently, additional purported class action complaints have been filed in Delaware federal court against the same defendants named in the Kuck lawsuit. These complaints are based on the same facts and circumstances as the Kuck lawsuit. On July 19, 2004, defendants filed a motion to transfer venue from Delaware to the Northern District of California. The Court denied the motion on January 14, 2005, and denied our motion for reconsideration of denial of transfer on March 2, 2005.

On December 17, 2004, a purported class action complaint entitled *Daniel Drotzman, et. al., v. Gary Bloom, et. al.*, was filed in California Superior Court against the VERITAS board of directors. The lawsuit alleged that defendants breached their fiduciary duty by approving the merger agreement VERITAS entered into with Symantec because they were allegedly motivated to obtain indemnification agreements from Symantec in connection with the Kuck securities class action described above. The complaint generally sought an unspecified amount of damages. Subsequently, an additional purported class action complaint was filed in California state court against the same defendants named in the Drotzman lawsuit. This complaint was based on the same set of facts and circumstances as the Drotzman lawsuit. On January 3, 2005, defendants filed demurrers to both complaints requesting they be dismissed by the Court. On February 15, 2005, plaintiffs filed a request for dismissal without prejudice with the Court, which request was granted by the Court on the same date.

The foregoing cases that have not been settled or dismissed are still in the preliminary stages, and it is not possible for us to quantify the extent of our potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, defending any litigation may be costly and divert management s attention from the day-to-day operations of our business.

In addition to the legal proceedings listed above, we are also party to various other legal proceedings that have arisen in the ordinary course of our business. While we currently believe that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our results of operations and cash flows for the period in which the ruling occurs. The estimate of the potential impact on our financial position or overall results of operations for the above discussed legal proceedings could change in the future.

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of fiscal 2004, there were no matters submitted to a vote of security holders, through the solicitation of proxies or otherwise.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

Our common stock is currently listed on The Nasdaq National Market under the symbol VRTSE. Prior to April 5, 2005, our common stock was listed on The Nasdaq National Market under the symbol VRTS.

Due to our inability to timely file this annual report on Form 10-K, Nasdaq notified us on April 1, 2005 that the trading symbol for our common stock would be changed from VRTS to VRTSE. We delivered a written submission to Nasdaq on March 31, 2005 detailing our plan to remedy our noncompliance with Nasdaq requirements, and have requested an exemption from the Nasdaq requirements until the date of this filing. We believe that the trading symbol for our common stock will be changed back to VRTS after Nasdaq receives confirmation that we have remedied our filing delinquency. However, there can be no assurance that Nasdaq will grant our request for an exemption and continued listing on The Nasdaq National Market.

The table below shows the range of high and low reported sale prices on the Nasdaq National Market for our common stock for the periods indicated.

	High	Low
2005		
First Quarter	$ 29.28	$ 21.88
2004		
First Quarter	$ 40.68	$ 26.00
Second Quarter	$ 29.97	$ 24.27
Third Quarter	$ 27.54	$ 16.30
Fourth Quarter	$ 28.94	$ 18.15
2003		
First Quarter	$ 20.45	$ 15.55
Second Quarter	$ 30.71	$ 17.40
Third Quarter	$ 36.96	$ 26.51
Fourth Quarter	$ 39.40	$ 31.32

As of March 31, 2005, there were approximately 3,862 holders of record of our common stock. Brokers and other institutions hold many of our outstanding shares on behalf of other stockholders.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain any future earnings to fund development and growth of our business and do not anticipate paying any cash dividends in the foreseeable future.

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Issuer Purchases of Equity Securities

During 2004, we repurchased 13.0 million shares of our common stock for an aggregate purchase price of $250.0 million. The monthly repurchases of our common stock during the fourth fiscal quarter of 2004 are set forth below.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs*
	(In thousands, except per share amounts)			
Month 1:				
October 1 through October 31, 2004	7,624	$ 20.42	7,624	$ 250,009
Month 2:				
November 1 through November 30, 2004		N/A		$ 250,009
Month 3:				
December 1 through December 31, 2004		N/A		$ 250,009
Total	7,624	$ 20.42	7,624	$ 250,009

* On July 27, 2004, we issued a press release announcing that in July 2004, our board of directors had approved a stock repurchase program. Under the stock repurchase program, we are authorized to repurchase up to $500 million of our common stock over a 12 to 18 month period beginning July 2004.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data has been 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.

	Years Ended December 31,				
	2004	2003	2002	2001	2000
					(Unaudited)
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					

Total net revenue	$ 2,041,874	$ 1,747,087	$ 1,505,998	$ 1,489,225	$ 1,190,114
Amortization of developed technology	19,583	35,267	66,917	63,086	62,054
Amortization of goodwill and other intangibles(1)	9,201	35,249	72,064	885,397	878,050
Stock-based compensation(2)	11,363	2,680	435	8,079	
Restructuring costs (reversals), net(3)	(9,648)		99,308		(4,440)
In-process research and development(4)	11,900	19,400			
Income (loss) from operations	551,357	386,985	129,369	(536,810)	(555,804)
Income (loss) before cumulative effect of change in accounting principle(5)	411,411	353,722	58,266	(635,791)	(620,131)

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	Years Ended December 31,				
	2004	2003	2002	2001	2000
					(Unaudited)
	(In thousands, except per share data)				
Cumulative effect of change in accounting principle, net of tax(6)		(6,249)			
Net income (loss)	$ 411,411	$ 347,473	$ 58,266	$ (635,791)	$ (620,131)
Income (loss) per share before cumulative effect of change in accounting principle basic	$ 0.96	$ 0.84	$ 0.14	$ (1.59)	$ (1.55)
Income (loss) per share before cumulative effect of change in accounting principle diluted	$ 0.94	$ 0.81	$ 0.14	$ (1.59)	$ (1.55)
Cumulative effect of change in accounting principle per share basic	$	$ (0.01)	$	$	$
Cumulative effect of change in accounting principle per share diluted	$	$ (0.01)	$	$	$
Net income (loss) per share basic	$ 0.96	$ 0.83	$ 0.14	$ (1.59)	$ (1.55)
Net income (loss) per share diluted	$ 0.94	$ 0.80	$ 0.14	$ (1.59)	$ (1.55)
Number of shares used in computing per share amounts basic	429,873	420,754	409,523	399,016	400,034
Number of shares used in computing per share amounts diluted	438,966	434,446	418,959	399,016	400,034

	December 31,				
	2004	2003	2002	2001	2000
					(Unaudited)
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	$ 2,553,200	$ 2,503,015	$ 2,241,321	$ 1,687,936	$ 1,255,109
Working capital	1,728,765	2,043,547	1,905,752	1,566,977	1,066,223
Total assets(6)	5,888,559	5,348,466	4,199,335	3,780,329	4,061,196
Long-term debt obligations(6)	524,141	905,209	465,252	444,408	429,176

Accumulated deficit	(966,665)	(1,378,076)	(1,725,549)	(1,783,815)	(1,148,024)
Stockholders equity	3,923,691	3,543,594	2,902,991	2,741,042	2,986,636

(1) In 1999, we acquired three companies which we accounted for using the purchase method of accounting, and accordingly, we recorded developed technology, goodwill and other intangible assets of $3,752.0 million. Until December 31, 2001, these assets were being amortized over their estimated useful life of four years, and resulted in amortization charges of approximately $236 million per quarter. On January 1, 2002, upon adoption of newly issued Statement of Accounting Standards, or SFAS, No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, the total quarterly charges related to the amortization of goodwill and other intangibles decreased as we no longer amortize goodwill.

(2) In 2004, we recorded $11.4 million of stock-based compensation primarily related to grants of restricted stock units, the modification of certain stock options and the compensation expense associated with the 2004 acquisition of KVS and 2003 acquisitions of Jareva and Precise. In 2003, we recorded $2.7 million of stock-based compensation primarily related to the January 2003 acquisition of Jareva and the June

2003 acquisition of Precise. In 2001, we recorded a stock-based compensation charge of $8.1 million primarily related to the acceleration of certain stock options held by our former chief executive officer.

(3) In 2004, we acquired KVS and, as a result, reversed $9.6 million of net restructuring costs related to previously restructured facilities to be occupied by KVS personnel. In 2002, we recorded a restructuring charge of approximately $99.3 million related primarily to our facility restructuring plan to exit and consolidate certain of our worldwide facilities. In 1999, we recorded a restructuring charge of $11.0 million related primarily to costs for our duplicative facilities that we planned to vacate, of which $4.4 million was reversed in 2000 as a result of lower actual exit costs than originally estimated with respect to our duplicative facilities.

(4) In 2004, we recorded non-cash charges of $11.9 million related to the write-off of in-process research and development for the acquisitions of KVS and Ejasent. In 2003, we recorded non-cash charges of $19.4 million related to the write-off of in-process research and development for two acquisitions.

(5) Income before cumulative effect of change in accounting principle for the year ended December 31, 2003 included an adjustment for an income tax benefit of $95.1 million related to the March 15, 2004 settlement of certain tax audits associated with our 2000 acquisition of Seagate Technology.

(6) In July 2003, we adopted Financial Accounting Standards Board Interpretation Number, or FIN, 46, *Consolidation of Variable Interest Entities*, which required us to consolidate our variable interest entities into our financial statements. As a result of consolidating these entities in the third quarter of 2003, we reported a cumulative effect of change in accounting principle in accordance with Accounting Principles Board, or APB, Opinion No. 20, *Accounting Changes*, with a charge of $6.2 million which equals the amount of depreciation expense that would have been recorded had these variable interest entities been consolidated from the date the properties were available for occupancy, net of tax. In addition, on July 1, 2003, we recorded property and equipment, net of accumulated depreciation, equal to $366.8 million, long-term debt in the amount of $369.2 million and non-controlling interest of $11.4 million for a total of $380.6 million of long-term debt included on the balance sheet. In 2004, the long-term debt was reclassified to short-term because the remaining lease terms for the applicable properties became less than one year.

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

This annual report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the Securities Act of 1933 that involve risks and uncertainties. These forward-looking statements include statements about our revenue, revenue mix, gross margin, operating expense levels, financial outlook, commitments under existing leases, research and development initiatives, sales and marketing initiatives, competition and continued listing on Nasdaq. In some cases, forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may and similar expressions. You should not place undue these forward-looking statements, which speak only as of the date of this annual report. All of 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. Actual results could differ from those projected in these forward-looking statements as a result of many factors, including those identified in the section captioned Factors That May Affect Future Results below, and elsewhere in this annual report. We urge you to review and consider the various disclosures made by us in this report, and those detailed from time to time in our filings with the Securities and Exchange Commission, that attempt to advise you of the risks and factors that may affect our future results.

Merger of VERITAS Software Corporation with Symantec Corporation

On December 16, 2004, VERITAS Software Corporation and Symantec Corporation announced that the companies had entered into a definitive agreement to merge in an all-stock transaction. Under the agreement, which has been unanimously approved by both boards of directors, our stock will be converted into Symantec stock at a fixed exchange ratio of 1.1242 shares of Symantec common stock for each outstanding share of our common stock. Upon closing, Symantec stockholders will own approximately 60 percent and our stockholders will own approximately 40 percent of the combined company. Completion of the merger is subject to customary closing conditions that include receipt of required approvals from VERITAS and Symantec stockholders and receipt of required regulatory approvals. The merger, which is expected to close in the second calendar quarter of 2005, may not be completed if any of the conditions are not satisfied or waived. Under terms specified in the merger agreement, VERITAS or Symantec may terminate the agreement, and, as a result, either VERITAS or Symantec may be required to pay a $440 million termination fee to the other party in certain circumstances. Unless otherwise indicated, the discussions in this document relate to VERITAS as a stand-alone entity and do not reflect the impact of the proposed merger with Symantec. For additional information regarding the proposed merger, please refer to the Form S-4 (File No. 333-122724), containing a preliminary joint proxy statement/ prospectus in connection with the proposed merger, filed by Symantec on February 11, 2005.

Overview

The following Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is intended to help the reader understand our company s historical results and anticipated future outlook prior to the close of the proposed merger with Symantec, which is expected to occur in the second calendar quarter 2005. MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and accompanying notes.

Our Business

VERITAS is a leading independent supplier of storage and infrastructure software products and services. Our software products operate across a variety of computing environments, from personal computers, or PCs, and workgroup servers to enterprise servers and networking platforms in corporate data centers to protect, archive and recover business-critical data, provide high levels of application availability, enhance and tune system and application performance to define and meet service levels and enable recovery from disasters. Our solutions enable businesses to reduce costs by efficiently and effectively managing their information technology, or IT, infrastructure as they seek to maximize value from their IT investments.

We generate revenues, income and cash flows by licensing software products and selling related services to our customers, which include many leading global corporations and small and medium-sized enterprises around the world operating in a wide variety of industries. We market our products and related services both directly to end-users and through a variety of indirect sales channels, which include value added resellers, or VARs, distributors, system integrators, or SIs, and original equipment manufacturers, or OEMs. Specifically, the channel mix for 2004 was 58% from sales to end-users and through VARs, and 42% from other indirect sales channels, which includes 11% from our OEM partners.

We invest significantly in research and development activities and in 2004 we spent $346.6 million on research and development. Our research and development efforts have been directed toward developing new products for Linux, NetWare, UNIX and Windows, developing new features and functionality for existing products, integrating products across our existing product lines, porting new and existing products to different operating systems and expanding our product portfolio into new markets such as email archiving, application performance management, server provisioning and centralized service level management.

Our Strategy

Our strategy is to continue to compete in our current markets while expanding and integrating our product portfolio in the area of utility computing infrastructure, to continue to expand our product offerings across key operating system platforms, including Linux, NetWare, UNIX and Windows, and to continue to invest for growth in international markets.

We have historically grown the company organically and through acquisitions. In January 2004, we completed the acquisition of Ejasent, Inc., which added application migration technology to our utility computing infrastructure. In July 2004, we completed the acquisition of Invio Software, Inc., which added IT process automation technology to our Utility Computing Infrastructure portfolio. Then in September 2004, we completed the acquisition of KVault Software Limited, or KVS, which added e-mail archiving software to our Data Protection product line.

In 2004, revenue from international sales, consisting of sales of license and services to customers located outside the United States, was $852.9 million, up 35% from 2003, and represented 42% of our total net revenue. In 2003, revenue from international sales was $633.5 million, up 29% from 2002, and represented 36% of our total revenue. This growth is primarily the result of our increased sales investment in our international geographies, market strength in the emerging market areas in Europe and Asia and a favorable impact of changes in foreign currency exchange rates related to the weaker U.S. dollar. We expect to continue to grow international revenue faster than total revenue by increasing the size and breadth of our international operations.

Our Financial Results

In 2004, we experienced stronger IT spending in our customer base internationally, resulting in stronger demand for our products and growth in our user license fees compared to 2003. The acquisitions of KVS and Precise and the integration of the acquired products into our product offerings contributed to our growth, as did our increased sales penetration in international markets and the favorable impact of changes in foreign currency exchange rates. Additionally, our services revenue grew significantly due to new service contracts associated with user license fees as well as our success in increasing support contract renewals within our customer base. For fiscal 2004, total revenue from sales in the U.S. increased 7% from 2003 and represented 58% of our total revenue for 2004 compared to 64% in 2003.

Net revenue and net income per share are key measurements of our financial condition. For fiscal 2004, net revenue was $2,041.9 million, an increase of 17% from 2003. Revenue from user license fees was $1,191.1 million, an increase of 9% from 2003 and representing 58% of total revenue. Services revenue in 2004 was $850.8 million, an increase of 30% from 2003, and representing 42% of total net revenue. Diluted net income per share was $0.94 in 2004, up from $0.80 in 2003, as a result of earnings leverage from revenue growth and also due to the restructuring reversal in 2004, gains on strategic investments in 2004, the loss on extinguishment of debt in 2003, the cumulative effect of change in accounting principle in 2003 and a reduction in acquisition-related expenses, such as amortization of intangibles and in-process research and development in 2004 offset by the impact of the settlement in 2003 of tax audits relating to our 2000 acquisition of Seagate.

We continue to generate cash from operations and retain a significant balance of cash, cash equivalents and short-term investments. As of December 31, 2004, we had $2,553.2 million in cash, cash equivalents and short-term investments, which represented approximately 68% of our tangible assets. We generated cash of approximately $584.2 million from operating activities for the year ended December 31, 2004. We utilize cash in ways that management believes provides an optimal return on investment. Principal uses of our cash for investing and financing activities include acquisitions of businesses and technologies, repurchases of our common stock and purchases of property and equipment.

Recent Acquisitions

In September 2004, we acquired KVS, a provider of e-mail archiving products. We acquired KVS to expand our 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 $249.2 million. We have included the results of operations of KVS in our consolidated financial statements beginning September 21, 2004. In connection with the acquisition of KVS, we allocated $11.5 million of the purchase price to in-process research and development, or IPR&D, that had not yet reached technological feasibility and had no alternative future use. We have expensed this amount in our consolidated statement of operations for the year ended December 31, 2004.

In July 2004, we acquired Invio Software, Inc., a privately held supplier of IT process automation technology. We 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 $35.4 million. We have included the results of operations of Invio in our consolidated financial statements beginning July 15, 2004.

In January 2004, we acquired Ejasent, Inc., a privately held provider of application virtualization technology for utility computing. We 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. The Ejasent acquisition included total purchase consideration of $61.2 million. We have included the results of operations of Ejasent in our consolidated financial statements beginning January 21, 2004. In connection with the acquisition of Ejasent, we allocated $0.4 million of the purchase price to IPR&D that had not yet reached technological feasibility and had no alternative future use. We have expensed this amount in our consolidated statement of operations for the year ended December 31, 2004.

In June 2003, we acquired Precise Software Solutions Ltd., a provider of application performance management products. We acquired Precise to expand our product and service offerings across storage, databases and application performance management. The Precise acquisition included total purchase consideration of $714.6 million. We have included the results of operations of Precise in our consolidated financial statements beginning July 1, 2003. In connection with the acquisition of Precise, we allocated $15.3 million of the purchase price to IPR&D that had not yet reached technological feasibility and had no alternative future use. We have expensed this amount in our consolidated statement of operations for the year ended December 31, 2003.

In January 2003, we acquired Jareva Technologies, Inc., a privately held provider of automated server provisioning products that enable businesses to automatically deploy additional servers without manual intervention. We acquired Jareva to integrate its technology into our software products. This technology enables our 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. We have expensed the acquired IPR&D of $4.1 million in our consolidated statement of operations for the year ended December 31, 2003.

Critical Accounting Policies and Estimates

There are several accounting policies that are critical to understanding our historical and future performance, because these policies affect the reported amounts of revenue and other significant areas in our reported financial statements and involve management s judgments and estimates. These critical accounting policies and estimates include:

- revenue recognition;
- restructuring expenses and related accruals;
- impairment of goodwill and long-lived assets; and
- accounting for income taxes.

These policies and estimates and our procedures related to these policies and estimates are described in detail below and under specific areas within the discussion and analysis of our financial condition and results of operations. Please refer to Note 1, Organization and Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for further discussion of our accounting policies and estimates.

Revenue Recognition

We make significant judgments related to revenue recognition. For each arrangement, we make significant judgments regarding the fair value of multiple elements contained in our arrangements, judgments regarding whether our fees are fixed or determinable and judgments regarding whether collection is probable. We also make significant judgments when accounting for concurrent transactions with our suppliers and in our accounting for potential product returns. These judgments, and their effect on revenue recognition, are discussed below.

Multiple Element Arrangements

We typically enter into arrangements with customers that include perpetual software licenses, maintenance and technical support. Some arrangements may also include consulting and education services. Software licenses are sold as site licenses or on a per copy basis. Site licenses give customers the right to copy licensed software on either a limited or unlimited basis during a specified term. Per copy licenses give customers the right to use a single copy of licensed software. We make judgments regarding the fair value of each element in the arrangement and generally account for each element separately.

Assuming all other revenue recognition criteria are met, license revenue is recognized upon delivery using the residual method in accordance with Statement of Position, or SOP, No. 98-9, *Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions*. Under the residual method, we allocate and defer revenue for the undelivered elements based on vendor-specific objective evidence, or VSOE, of fair value, and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. Undelivered elements typically include maintenance and technical support, consulting and education services. 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. If sufficient evidence of fair value cannot be determined for any undelivered item, all revenue from the arrangement will be deferred until VSOE of fair value can be established or until all elements of the arrangement have been delivered. If the only undelivered element is maintenance and technical support for which we cannot establish VSOE, we will recognize the entire arrangement fee ratably over the maintenance and support term.

Our VSOE of fair value for maintenance and technical support is based upon stated renewal rates for site licenses and historical renewal rates for per copy licenses. Maintenance and technical support revenue is recognized ratably over the maintenance term. Our VSOE of fair value for education services is based upon the price charged when sold separately. Revenue is recognized when the customer has completed the course. For annual education passes, revenue is recognized ratably over the one-year term. Our VSOE of fair value for consulting is based upon the price charged when sold separately. Consulting revenue is recognized as work is performed when reasonably dependable estimates can be made of the extent of progress toward completion, contract revenue and contract costs. Otherwise, consulting revenue is recognized when the services are complete.

The Fee is Fixed or Determinable

We make judgments, at the outset of an arrangement, regarding whether the fees are fixed or determinable. Our customary payment terms are generally within 30 days after the invoice date. Arrangements with payment terms extending beyond 90 days are not considered to be fixed or determinable, in which case revenue is recognized as the fees become due and payable.

Collection is Probable

We also make judgments at the outset of an arrangement regarding whether collection is probable. Probability of collection is assessed on a customer-by-customer basis. We typically sell to customers with whom we have a history of successful collections. New customers are subjected to a credit review process to evaluate the customer s financial position and ability to pay. If it is determined at the outset of an arrangement that collection is not probable, then revenue is recognized upon receipt of payment.

Indirect Channel Sales

We generally recognize revenue from licensing of software products through our indirect sales channel upon sell-through or when evidence of an end-user exists. For certain types of customers, such as distributors, we recognize revenue upon receipt of a point of sales report, which is our evidence that the products have been sold through to an end-user. For resellers, we recognize revenue when we obtain evidence that an end-user exists, which is usually when the software is delivered. For licensing of our software to original equipment manufacturers, or OEMs, royalty revenue is recognized when the OEM reports the sale of software to an end-user customer, generally on a quarterly basis. In addition to license royalties, some OEMs pay an annual flat fee and/or support royalties for the right to sell maintenance and technical support to the end-user. We recognize revenue from OEM support royalties and fees ratably over the term of the support agreement.

Transactions with our Suppliers

Some of our customers are also our suppliers. Occasionally, in the normal course of business, we purchase goods or services for our operations from these suppliers at or about the same time we license our software to them. We also have multi-year agreements under which we receive sub-licensing royalty payments from OEMs from whom we may also purchase goods or services. We identify and review significant transactions to confirm that they are separately negotiated at terms we consider to be arm s length. In cases where the transactions are not separately negotiated, we apply the provisions of Accounting Principles Board, or APB, Opinion No. Force Issue, or EITF, No. 01-02, *Interpretations of APB Opinion No. 29.* If the fair values are reasonably determinable, revenue is recorded at the fair values of the products delivered or products or services received, whichever is more readily determinable. If we cannot determine fair value of either of the goods or services involved within reasonable limits, we record the transaction on a net basis. License revenue associated with software licenses entered into with our suppliers at or about the same time that we purchase goods or services from them is not material to our consolidated financial statements.

Delivery of Software Products

Our software may be physically delivered to our customers with title transferred upon shipment to the customer. We may also deliver our software electronically, by making it available for download by our customers or by installation at the customer site. We consider delivery complete when the software products have been shipped and the customer has access to license keys. If an arrangement includes an acceptance provision, we generally defer the revenue and recognize it upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Product Returns and Exchanges

Our license arrangements do not typically provide customers a contractual right of return. Some of our sales programs allow customers limited product exchange rights. We estimate potential future product returns and exchanges and reduce current period product revenue in accordance with SFAS No. 48, *Revenue Recognition When Right of Return Exists*. Our estimate is based on our analysis of historical returns and exchanges. Actual returns may vary from estimates if we experience a change in actual sales, returns or exchange patterns due to unanticipated changes in products, competitive or economic conditions.

Restructuring Expenses and Related Accruals

We monitor and regularly evaluate our organizational structure and associated operating expenses. Depending on events and circumstances, we may decide to restructure our operations to reduce operating costs.

We applied the provisions of EITF No. 94-3, *Liability Recognized for Certain Employee Termination Benefits and other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*, to all of our restructuring activities initiated before January 1, 2003. For exit or disposal activities initiated on or after January 1, 2003, we apply the provisions of Statement of Financial Accounting Standards, or SFAS, No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.*

Our restructuring costs and any resulting accruals involve significant estimates made by management using the best information available at the time the estimates are made, some of which may be provided by third parties. These estimates include facility exit costs, such as lease termination costs, and amount and timing of sublease income and related sublease expense costs, such as brokerage fees.

We regularly evaluate a number of factors to determine the appropriateness and reasonableness of our restructuring accruals. These factors include, but are not limited to, our ability to enter into sublease or lease termination agreements and market data about lease rates, timing and term of potential subleases and costs associated with terminating certain leases on vacated facilities.

Our estimates involve a number of risks and uncertainties, some of which are beyond our control, including future real estate market conditions and our ability to successfully enter into subleases or lease termination agreements upon terms as favorable as those assumed under our restructuring plan. Actual results may differ significantly from our estimates and may require adjustments to our restructuring accruals and operating results in future periods. For example, if the actual proceeds from our sublease agreements were to differ by 10% from the current estimate, our accrued acquisition and restructuring costs balance as of December 31, 2004 would differ by approximately $4 million.

Impairment of Goodwill and Long-Lived Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we review our goodwill for impairment annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. We are required to test our goodwill for impairment at the reporting unit level and we have determined that we have only one reporting unit. The test for goodwill impairment is a two-step process:

Step 1 We compare the carrying amount of our reporting unit, which is the book value of our entire company, to the fair value of our reporting unit, which corresponds to our market capitalization. If the carrying amount of our reporting unit exceeds its fair value, we have to perform the second step of the process. If not, no further work is required.

Step 2 We compare the implied fair value of our reporting unit s goodwill to its carrying amount. If the carrying amount of our reporting unit s goodwill exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess.

We completed this test during the fourth quarter of 2004 and were not required to record an impairment loss on goodwill.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, we review our long-lived assets, including property and equipment and other intangibles, for impairment whenever events indicate that their carrying amount may not be recoverable. When we determine that one or more impairment indicators are present for an asset, 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 future undiscounted cash flows that the asset is expected to generate, we would compare the fair value to the book value of the asset. If the fair value is less than the book value, we would recognize an impairment loss. The impairment loss would be the excess of the carrying amount of the asset over its fair value.

Some of the events that we consider as impairment indicators for our long-lived assets, including goodwill, are:

significant under performance of our company relative to expected operating results;

our net book value compared to our market capitalization;

significant adverse economic and industry trends;

an adverse action or assessment by a regulator;

unanticipated competition;

a loss of key personnel;

significant decrease in the market value of the asset;

the extent to which we use an asset or changes in the manner which we use it; and significant changes to the asset since we acquired it.

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Significant assumptions and estimates are made when determining if our goodwill or other long-lived assets have been impaired or if there are indicators of impairment. We base our estimates on assumptions that we believe to be reasonable, but actual future results may differ from those estimates as our assumptions are inherently unpredictable and uncertain. Our estimates include estimates of future market growth and trends, forecasted revenue and costs, expected periods of asset utilization, appropriate discount rates and other variables.

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 accruals and allowances 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. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax laws or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our balance sheet and results of operations. 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. As of December 31, 2004, we determined the valuation allowance to be $69.0 million based upon uncertainties related to our ability to recover certain deferred tax assets. These deferred tax assets are in specific geographical or jurisdictional locations, are related to losses on strategic investments that will only be realized with the generation of future capital gains within a limited time period or are net operating losses from acquired companies that may be subject to significant annual limitation under certain provisions of the Internal Revenue Code. Our determination of our valuation allowance is based upon a number of assumptions, judgments and estimates, including forecasted earnings, future taxable income and the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. Future results may vary from these estimates, and at this time, we can not determine if we will need to establish an additional valuation allowance and if so, whether it would have a material impact on our financial statements.

Results of Operations

Net Revenue

	2004	2003	2002
	(In millions, except percentages)		
Net revenue	$ 2,041.9	$ 1,747.1	$ 1,506.0
Percentage increase over prior period	17%	16%	

In 2004, our total net revenue increased by $294.8 million or 17% due primarily to the growth in user license fees which grew by 9%, increased sales penetration of international markets which grew by 35% and the continued growth of our services businesses which grew by 30%. In 2003, our total net revenue increased by $241.1 million or 16% due primarily to the growth in user license fees which grew by 11%, increased sales penetration of international markets which grew by 29% and the continued growth of our services businesses which grew by 26%. During 2004 and 2003, as part of our strategy to increase our net revenue, we continued expanding our product portfolio and offerings, expanded our capabilities across the multiple platforms our software supports and continued to invest in sales and service capacity internationally. In 2002, our total net revenue was impacted by weak general economic and industry conditions resulting in reduced capital spending by our customers, which was partially offset by international growth in user license fees and services revenue. While we believe that the increase in total net revenue achieved in recent periods is not necessarily indicative of future results, we expect total net revenue to increase in 2005 assuming increased penetration of international markets, the benefit of new product offerings and continued growth of services revenue.

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During 2004, we completed and recognized revenue for 77 direct transactions valued at over $1.0 million, including related services, and 977 direct transactions valued at over $100,000. During 2003 and 2002, we completed and recognized revenue for 51 and 50 direct transactions valued at over $1.0 million and 948 and 938 direct transactions valued at over $100,000, respectively.

International Sales and Operations

We believe that a key component of our growth strategy is the continued expansion of our international operations. We currently have sales and services offices and resellers located in Europe, Asia-Pacific and Japan, Latin America, Canada, Africa and the Middle East, and research and development centers in India, the United Kingdom, Israel, China and Japan. Our international sales consist of sales of licenses and services to customer locations outside the U.S. and are generated primarily through our international sales subsidiaries. International revenue, a majority of which is collectible in foreign currencies, accounted for approximately 42% of our total revenue in 2004, 36% of our total revenue in 2003 and 32% of our total revenue in 2002. Our international revenue increased 35% to $852.9 million in 2004 from $633.5 million in 2003 and 29% in 2003 from $489.3 million in 2002. During 2004 and 2003, we saw continued strength in the emerging markets in Europe and Asia-Pacific and Japan. Additionally, during 2004, our international sales benefited from favorable foreign currency exchange rate movements relative to the weaker U.S. dollar. Excluding the benefit from foreign currency movement, the increase in international sales would have been 26% from 2003 to 2004 and 20% from 2002 to 2003. We expect that our international revenue will continue to increase in absolute dollars and as a percent of total revenue in 2005 because of the continued expansion of international markets and the focus and increased investment by our company in these markets.

User License Fees

We market and distribute our software products both as standalone software products and as integrated product suites. We derive our user license fees from the licensing of our technology, segregated into three product categories: Data Protection, which includes our NetBackup, Backup Exec and Enterprise Vault product families; Storage Management, which includes our Storage Foundation, Replicator and storage resource management product families; and Utility Computing Infrastructure, which includes our Cluster Server, CommandCentral, OpForce and i^3 product families.

	2004	**2003**	**2002**
	(In millions, except percentages)		
User license fees:			
Data protection	$ 660.1	$ 624.7	$ 599.0
Storage management	298.7	264.8	251.5
Utility computing infrastructure	232.3	203.2	136.3
Total user license fees	$ 1,191.1	$ 1,092.7	$ 986.8
As a percentage of user license fees:			
Data protection	55%	57%	61%
Storage management	25	24	25
Utility computing infrastructure	20	19	14
Total user license fees	100%	100%	100%
As a percentage of total net revenue	58%	63%	66%
Percentage increase over prior period:			
Data protection	6%	4%	

Storage management	13	5
Utility computing infrastructure	14	49
Total user license fees	9	11

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During 2004, user license fees increased by $98.4 million or 9% due primarily to increased user license fees in Europe and international regions at 36% and 16%, respectively. These increases were offset by a 5% decrease in U.S. user license fees in 2004, primarily reflecting a decrease in demand by the U.S. federal government, compared to exceptional performance for that sector in 2003, and weaker than expected license revenue in the U.S. enterprise market in the second quarter of 2004. User license fees across our data protection product category increased by $35.4 million due primarily to increases in our core backup family of products, including our NetBackup 5.0 which was introduced during the fourth quarter of 2003. In addition, we believe the anticipated announcement of our Backup Exec 10.0 product in January 2005 resulted in some purchase delays for this product category in the fourth quarter. User license fees across our storage management product category increased $33.9 million due primarily to increases in revenue related to our replication and storage resource management products. User license fees across our utility computing infrastructure product category increased by $29.1 million due primarily to increases in revenue related to clustering and Database Editions/ Advanced Cluster products.

During 2003, user license fees increased by $105.9 million or 11% due to increases across each product category. User license fees across our data protection product category increased by $25.7 million due primarily to increases in revenue related to our core backup family of products, including our Backup Exec 9.0 which was introduced during the first quarter of 2003 and NetBackup 5.0 which was introduced during the fourth quarter of 2003. User license fees across our storage management product category increased $13.3 million due primarily to increases in revenue related to our replication and storage resource management products. User license fees across our utility computing infrastructure product category increased by $66.9 million due primarily to the addition of APM products as a result of our acquisition of Precise at June 30, 2003 as well as from increases in revenue related to clustering and Database Editions/ Advanced Cluster products.

User license fees from OEMs accounted for 12% of user license fees for 2004 and 12% and 15% for 2003 and 2002, respectively. The decreases in 2004 and 2003 compared to 2002 reflects reduced hardware sales by OEMs as their customers reduced technology spending as well as our focus on expanding direct and reseller sales.

	2004	2003	2002
	(In millions, except percentages)		
Services revenue	$ 850.8	$ 654.4	$ 519.2
As a percentage of total net revenue	42%	37%	34%
Percentage increase over prior period	30%	26%	

We derive our services revenue primarily from contracts for software maintenance and technical support and, to a lesser extent, consulting and education services. The increase in 2004 and 2003 was due primarily to the increase in maintenance and support contracts of 33% and 30%, respectively. During 2004, the maintenance and support increase was primarily due to the increase in renewals as result of a larger installed base of customers and a greater focus on renewing customer support contracts, particularly internationally. We expect our services revenue to increase in absolute dollars and as a percentage of net revenue as we continue to focus on increasing renewals of maintenance and technical support contracts and on increasing demand for our consulting and education and training services.

Cost of Revenue

	2004	2003	2002
	(In millions, except percentages)		
Cost of revenue	$ 327.0	$ 313.6	$ 305.6
As a percentage of total net revenue	16%	18%	20%
Percentage increase over prior period	4%	3%	

Gross profit on user license fees, excluding amortization of developed technology, is substantially higher than gross profit on services revenue, reflecting the low materials, packaging and other costs of software products compared with the relatively high personnel costs associated with providing maintenance and technical support, consulting and education services. Cost of services varies depending upon the mix of maintenance and technical support, consulting and education services. We expect gross profit to fluctuate in the future, reflecting changes in royalty rates on licensed technologies, the mix of license and services revenue, the timing of continued investment in our services organization and the recognition of revenue that we expect as a result of these investments.

Cost of User License Fees (including amortization of developed technology)

	2004	2003	2002
	(In millions, except percentages)		
Cost of user license fees:			
User license fees	$ 30.6	$ 48.7	$ 36.2
Amortization of developed technology	19.6	35.3	66.9
Total cost of user license fees	$ 50.2	$ 84.0	$ 103.1
Percentage decrease over prior period	(40)%	(19)%	
Gross profit:			
User license fees including amortization of developed technology	96%	92%	90%

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 acquisitions completed during 1999, the first and second quarters of 2003 and the first and third quarters of 2004. If we had excluded the amortization of developed technology from the cost of user license fees, the gross profit on user license fees would have been 97% in 2004 and 96% in 2003 and 2002. The gross profit on user license fees may vary from period to period based on the license revenue mix because some of our products carry higher royalty rates than others. Excluding the amortization of developed technology, we expect gross profit on user license fees to remain relatively constant in 2005.

The decrease in amortization of developed technology in 2004 and 2003 from 2002 was primarily the result of the developed technology related to our 1999 acquisitions reaching full amortization in the second quarter of 2003. This decrease was partially offset by the amortization of developed technology related to the Ejasent, Invio and KVS acquisitions in 2004 and the Jareva and Precise acquisitions in 2003. We expect amortization of developed technology to be approximately $7 million per quarter in 2005.

Cost of Services

	2004	2003	2002
	(In millions, except percentages)		
Cost of services	$ 276.9	$ 229.5	$ 202.5
Percentage increase over prior period	21%	13%	
Gross profit	67%	65%	61%

Cost of services consists primarily of personnel-related costs in providing maintenance and technical support, consulting and education to customers. The gross profit improvement in 2004 and 2003 was primarily the result of the increase in maintenance and support revenues of 33% and 30%, respectively, while related expenses increased only 17% and 12%, respectively, as we continued to take advantage of the economies of scale of the larger installed customer base. We expect gross profit on services revenue to remain stable or increase slightly in 2005.

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Selling and Marketing

	2004	2003	2002
	(In millions, except percentages)		
Selling and marketing	$ 611.0	$ 534.0	$ 478.5
As a percentage of total net revenue	30%	31%	32%
Percentage increase over prior period	14%	12%	

Selling and marketing expenses consist primarily of salaries, related benefits, commissions, consultant fees and other costs associated with our sales and marketing efforts. The increase in 2004 of $77.0 million was primarily the result of an increase in sales commissions, compensation and benefit costs due to an increase in sales and marketing personnel from 2,121 employees in 2003 to 2,364 employees in 2004 partially resulting from our 2004 acquisitions, investments in sales capacity in our international markets and higher sales commissions resulting from the increase in total net revenues. The increase in 2003 of $55.5 million was primarily the result of an increase in sales commissions, compensation and benefit costs due to an increase in sales and marketing personnel in 2003 partially resulting from the Precise acquisition and higher sales commissions resulting from the increase in user license revenues. Our selling and marketing expenses remained relatively consistent when measured as a percentage of net revenue. We expect selling and marketing expenses to continue to grow in absolute dollars, and to remain relatively constant as a percentage of net revenue, for 2005.

Research and Development

	2004	2003	2002
	(In millions, except percentages)		
Research and development	$ 346.6	$ 301.9	$ 274.9
As a percentage of total net revenue	17%	17%	18%
Percentage increase over prior period	15%	10%	

Research and development expenses consist primarily of salaries, related benefits, third-party consultant fees and other engineering related costs. The increase of $44.7 million in 2004 was primarily the result of increases in compensation costs from an increase in research and development personnel from 1,848 employees in 2003 to 2,312 employees in 2004. The 2003 increase of $27.0 million was due primarily to increased compensation and benefits due to an increase in research and development personnel and an increase in outside services used to supplement engineering personnel. We believe that a significant level of research and development investment is required to remain competitive and we expect to continue to invest in research and development in 2005 at current levels as a percentage of net revenue.

General and Administrative

	2004	2003	2002
	(In millions, except percentages)		
General and administrative	$ 194.5	$ 156.0	$ 143.1
As a percentage of total net revenue	10%	9%	10%
Percentage increase over prior period	25%	9%	

General and administrative expenses consist primarily of salaries, related benefits and fees for professional services, such as legal and accounting services. The increase of $38.5 million in 2004 was primarily the result of an increase in compensation and benefit costs due to an increase in general and administrative personnel from 943 employees in 2003 to 1,097 employees in 2004, costs associated with our restatement and compliance with our corporate governance initiatives, including those required under the Sarbanes-Oxley Act of 2002. The increase of $12.9 million in 2003 was primarily the result of an increase in compensation and benefit costs, depreciation expense as a result of consolidating certain leased buildings (see Liquidity and Capital Resources Long-Term Debt), costs associated with the SEC investigation (see Item 3. Legal Proceedings) and compliance with our corporate governance initiatives, including those requirements under

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the Sarbanes-Oxley Act of 2002, partially offset by a decline in bad debt expense. We expect general and administrative expenses to decline slightly as a percentage of net revenue in 2005.

Amortization of Other Intangibles

	2004	2003	2002
	(In millions, except percentages)		
Amortization of other intangibles	$ 9.2	$ 35.2	$ 72.1
As a percentage of total net revenue	%	2%	5%
Percentage decrease over prior period	(74)%	(51)%	

Amortization of other intangibles principally represents amortization of distribution channels, trademarks and other intangibles related to acquisitions. The decrease in amortization of other intangibles in 2004 and 2003 compared to 2002 was primarily due to other intangibles related to our 1999 acquisitions reaching full amortization during the second quarter of 2003. The amortization of other intangibles includes intangibles from the acquisitions of Jareva, Precise, Ejasent and KVS which are being amortized over the estimated useful lives of one to five years. We expect amortization of other intangibles to be approximately $2 million per quarter in 2005.

In-Process Research and Development

In connection with our acquisition of Ejasent in January 2004 and KVS in September 2004, we allocated $0.4 million and $11.5 million, respectively, of the purchase price to IPR&D, which represents technology we identified as having not reached technological feasibility and having no alternative future use. In connection with our acquisition of Jareva in January 2003 and Precise in June 2003, we allocated $4.1 million and $15.3 million, respectively, of the purchase price to IPR&D.

Restructuring Costs (Reversals)

In the third quarter of 2004, in connection with our acquisition of KVS, we reversed $9.6 million of net accrued restructuring costs related to previously restructured facilities to be occupied by KVS personnel. In 2002, we recorded a net facility restructuring charge to operating expenses of $96.1 million under a plan, approved by our board of directors, to exit and consolidate certain of our facilities located in 17 metropolitan areas related to facilities that, as of January 31, 2004, had all been vacated. We also recorded net restructuring charges of $3.2 million related to restructuring plans initiated prior to 2002.

Interest and Other Income, Net

	2004	2003	2002
	(In millions, except percentages)		
Interest and other income, net	$ 52.8	$ 43.6	$ 41.7
As a percentage of total net revenue	3%	2%	3%
Percentage increase over prior period	21%	5%	

Interest and other income, net, includes interest income and realized gains and losses on our cash equivalents and investments held and, to a lesser extent, foreign currency exchange gains or losses. The increase in interest and other income of $9.2 million in 2004 over 2003 was due primarily to higher balances of cash, cash equivalents and short-term investments held and higher interest rates in 2004. The increase of $1.9 million in 2003 over 2002 was due primarily to higher balances of cash, cash equivalents and short-term investments held, partially offset by lower interest rates.

Interest Expense

	2004	2003	2002
	(In millions, except percentages)		
Interest expense	$ 24.4	$ 30.4	$ 30.3
As a percentage of total net revenue	1%	2%	2%
Percentage decrease over prior period	(20)%	%	

Interest expense for 2004 consisted primarily of interest recorded under the 0.25% convertible subordinated notes issued in August 2003 and interest of approximately $17 million per year, beginning in July 2003, as a result of our adoption of FIN 46, *Consolidation of Variable Interest Entities*, which required us to consolidate the properties from our build-to-suit lease agreements and related debt in our financial statements. Previously, interest on the build-to-suit lease agreements was recorded as rent expense in cost of revenue and operating expenses. Interest expense in 2003 also consisted of interest recorded under the 1.856% convertible subordinated notes issued in August 1999 that were partially redeemed for cash and partially converted to common stock in August 2003, interest recorded under the 5.25% convertible subordinated notes issued in October 1997 that were converted to common stock in August 2003 and interest on the build-to-suit lease agreements. We expect interest expense in 2005 to be approximately $2 million per quarter related to the interest on the 0.25% convertible subordinated notes. In March 2005, we acquired beneficial ownership of the Mountain View, California, Milpitas, California, and Roseville, Minnesota properties for an aggregate cash purchase price of approximately $384 million. Accordingly, we expect interest expense in the first quarter of 2005 to be approximately $4 million for the debt related to our build-to-suit properties.

Loss on Extinguishment of Debt

In August 2003, we redeemed our outstanding 1.856% convertible subordinated notes for $391.8 million in cash including $0.1 million of accrued interest. In connection with this cash redemption, we recorded a loss on extinguishment of debt of $4.7 million representing the unamortized portion of debt issuance costs at the time of redemption.

Gain (Loss) on Strategic Investments

For 2004, we recognized a gain on strategic investments of $9.5 million related to two of our investments. For 2003, we recognized impairment losses of $3.5 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. For 2002, we recognized impairment losses of $14.8 million partially offset by a gain on strategic investments of $3.0 million. The losses represented write-downs of the carrying amount of our investments.

Provision for Income Taxes

	2004	2003	2002
	(In millions, except percentages)		
Provision for income taxes	$ 177.9	$ 38.2	$ 70.8
Effective tax rate	30%	10%	55%
Percentage increase (decrease) over prior period	366%	(46)%	

Our effective tax rate in 2004 and 2003 differed from the combined federal and state statutory rates due primarily to the tax effect of international operations. Income taxes in 2003 also includes a benefit of $95.1 million due to the settlement of certain tax audits relating to our 2000 multi-party transaction with Seagate Technology, Inc. Excluding the impact of the Seagate settlement, our effective tax rate would have been approximately 34%. Our effective tax rate in 2002 differed from the combined federal and state statutory rates due primarily to the tax effect of international restructuring charges and losses on strategic investments for which tax benefits were not realized, as well as the amortization of intangible assets other than goodwill.

Cumulative Effect of Change in Accounting Principle, Net of Tax

As of December 31, 2004, we had three build-to-suit operating leases, commonly referred to as synthetic leases, which were entered into prior to February 1, 2003. Each synthetic lease was owned by a trust that had no voting rights, no employees, no financing activity other than the lease with us, no ability to absorb losses and no right to participate in gains realized on the sale of the related property. We have determined that the trusts under the leasing structures qualified as variable interest entities for purposes of FIN 46, *Consolidation of Variable Interest Entities*. Consequently, we were considered the primary beneficiary and consolidated the trusts into our financial statements beginning July 1, 2003. As a result of consolidating these entities in the third quarter of 2003, we reported a cumulative effect of change in accounting principle in accordance with APB Opinion No. 20, *Accounting Changes*, with a charge of $6.2 million which equals the amount of depreciation expense that would have been recorded had these trusts been consolidated from the date the properties were available for occupancy, net of tax.

Accrued Acquisition and Restructuring Costs

In the fourth quarter of 2002, our board of directors approved a facility restructuring plan to exit and consolidate certain of our facilities located in 17 metropolitan areas worldwide. The facility restructuring plan was adopted to address overcapacity in our facilities as a result of lower than planned headcount growth in these metropolitan areas. In connection with this facility restructuring plan, we recorded a net restructuring charge, or the 2002 Facility Accrual, to operating expenses of $96.1 million in the fourth quarter of 2002. The 2002 Facility Accrual was originally comprised of (i) $86.9 million associated with terminating and satisfying remaining lease commitments, partially offset by sublease income net of related sublease costs and (ii) write-offs of $9.2 million for net assets.

In the third quarter of 2004, we acquired KVS and, as a result, reversed $9.6 million of the 2002 Facility Accrual related to previously restructured facilities to be occupied by KVS personnel. In addition, cash outlays of $14.9 million and the impact of foreign exchange rates of $1.1 million were recognized in 2004. As of December 31, 2004, the remaining balance of the 2002 Facility Accrual was $52.4 million. Restructuring costs will be paid over the remaining lease terms, ending at various dates through 2022, or over a shorter period as we may negotiate with our lessors. The majority of costs are expected to be paid by the year ending December 31, 2010.

We are in the process of seeking suitable subtenants for these facilities. The estimates related to the 2002 Facility Accrual may vary significantly depending, in part, on factors that are beyond our control, including the commercial real estate market in the applicable metropolitan areas, our ability to obtain subleases related to these facilities and the time period to do so, the sublease rental market rates and the outcome of negotiations with lessors regarding terminations of some of the leases. Adjustments to the 2002 Facility Accrual will be made if actual lease exit costs or sublease income differ materially from amounts currently expected. Because a portion of the 2002 Facility Accrual relates to international locations, the accrual will be affected by exchange rate fluctuations.

As of December 31, 2004, accrued acquisition and restructuring costs consisted of the 2002 Facility Accrual discussed above, acquisition-related costs discussed in Note 3 of the Notes to Consolidated Financial Statements and other accrued acquisition and restructuring charges incurred from 1999 through 2004, net of cash payments made.

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The components of the accrued acquisition and restructuring costs and movements within these components through December 31, 2004 were as follows:

	Direct Transaction Costs	Involuntary Termination Benefits	Facility Related Costs	Net Asset Write-offs	Total
			(In millions)		
Balance at December 31, 2002	$ 1.0	$	$ 97.7	$ 11.4	$ 110.1
Additions	9.5	0.4	6.1		16.0
Cash payments	(9.9)	(0.4)	(16.3)		(26.6)
Asset write-offs				(8.9)	(8.9)
Adjustment			0.8	(0.8)	
Impact of exchange rates			3.1	0.4	3.5
Balance at December 31, 2003	0.6		91.4	2.1	94.1
Additions	6.0	11.3	2.1		19.4
Cash payments	(6.0)	(11.2)	(19.8)		(37.0)
Asset write-offs				(2.1)	(2.1)
Restructuring reversals, net			(9.6)		(9.6)
Adjustments	(0.2)		(0.4)		(0.6)
Impact of exchange rates			1.9		1.9
Balance at December 31, 2004	$ 0.4	$ 0.1	$ 65.6	$	$ 66.1

Recent Accounting Pronouncements

See Note 1, Organization and Summary of Significant Accounting Policies Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements.

Liquidity and Capital Resources

Cash Flows

Our cash, cash equivalents and short-term investments totaled $2,553.2 million at December 31, 2004 and represented 68% of our tangible assets. Our cash, cash equivalents and short-term investments totaled $2,503.0 million at December 31, 2003 and represented 71% of our tangible assets. Cash and cash equivalents are highly liquid with original maturities of 90 days or less. Short-term investments consist mainly of commercial paper, auction market securities, asset-backed securities, government securities (taxable and non-taxable) and corporate notes.

Cash flows provided by operating activities decreased $43.8 million for 2004 compared to 2003, due to higher net income offset by lower non-cash charges in aggregate, including amortization of developed technology and other intangibles and write-off of in-process research and development in addition to a significant increase in our accounts receivable balance. In addition, there was a higher amount of cash paid for income taxes for 2004 compared to 2003.

Cash flows provided by operating activities increased $38.6 million for 2003 compared to 2002 due to significantly higher net income offset by lower non-cash charges such as amortization of developed technology and other intangibles, a significant increase in our accounts receivable balance and a decrease in our long-term deferred tax liability related to the settlement of the federal tax liabilities associated with the Seagate Technology transaction.

Cash flows used for investing activities included net purchases of investments of $174.4 million for 2004 compared to $87.6 million for 2003 and $321.7 million for 2002. Purchases of property and equipment for 2004 increased by $36.6 million over 2003 to $117.7 million and decreased by $27.0 million over 2002 to

$81.2 million. In addition, purchases of businesses and technology were $324.9 million for 2004, primarily related to the acquisitions of Ejasent, Invio and KVS, $400.2 million for 2003, primarily related to the acquisitions of Jareva and Precise and $13.0 million for 2002 primarily related to the purchase of various technologies.

Cash flows from financing activities consisted primarily of proceeds related to the issuance of common stock under our employee stock plans of $122.3 million in 2004 compared to $178.9 million in 2003 and $85.6 million in 2002 offset by $250.0 million for the repurchase of common stock in 2004 and $316.2 million for the repurchase of common stock in 2003. In addition, in 2003 we generated $116.5 million of cash from the issuance of new convertible subordinated notes, net of the redemption of the then-outstanding convertible subordinated notes.

In July 2004, our board of directors authorized a program to repurchase our common stock in an amount of up to $500.0 million over the following 12 to 18 months. We are authorized to purchase these shares of common stock from time to time on the open market or in privately negotiated transactions. Depending on market conditions and other factors, these purchases may be commenced or suspended from time to time without prior notice. The stock repurchase program is primarily intended to reduce the dilution resulting from our employee stock plans. Through December 31, 2004, we repurchased 13.0 million shares of common stock for an aggregate purchase price of $250.0 million.

Convertible Subordinated Notes

In August 2003, we issued $520.0 million of 0.25% convertible subordinated notes due August 1, 2013, or 0.25% Notes, for which we received net proceeds of approximately $508.2 million, to several initial purchasers in a private offering. The 0.25% Notes were issued at their face value and provide for semi-annual interest payments of $0.7 million each February 1 and August 1, beginning February 1, 2004. Effective as of January 28, 2004, the 0.25% Notes began accruing additional interest at a rate of 0.25% per annum as a result of our registration statement having not been declared effective by the SEC on or before the 180th day following the original issuance of the 0.25% Notes and the 0.25% Notes continued to accrue additional interest at that rate until April 27, 2004, the 90th day following such registration default. On April 27, 2004, the 0.25% Notes began to accrue additional interest at a rate of 0.50% per annum and continued to accrue such additional interest until November 24, 2004, the date on which the registration statement was declared effective. Effective as of January 30, 2005, the 0.25% Notes began to accrue additional interest at a rate of 0.25% per annum as a result of our registration statement having been suspended by us beyond our permitted grace period. The 0.25% Notes will continue to accrue additional interest at this rate until the suspension of our registration statement is lifted and this rate will increase to 0.50% per annum if the suspension has not been lifted by April 30, 2005. The 0.25% Notes are convertible, under specified circumstances, into shares of our common stock at a conversion rate of 21.6802 shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $46.13 per share. Pursuant to the terms of a supplemental indenture dated as of October 25, 2004, we will be required to deliver cash to holders upon conversion, except to the extent that our conversion obligation exceeds the principal amount of the notes converted, in which case, we will have the option to satisfy the excess (and only the excess) in cash and/or shares of common stock. If our proposed merger with Symantec Corporation is consummated, each $1,000 of notes will become convertible, under specified circumstances, into 24.3729 shares of Symantec common stock. This amount is equal to the current conversion rate of 21.6802 multiplied by the exchange ratio in the proposed merger of 1.1242 shares of Symantec common stock for each share of our common stock.

In August 2003, all of our outstanding 5.25% convertible subordinated notes due 2004, or 5.25% Notes, converted into 6.7 million shares of common stock at a conversion price of $9.56 per share. In August 2003, a portion of our outstanding 1.856% convertible subordinated notes due 2006, or 1.856% Notes, converted into 0.5 million shares of common stock at an effective conversion price of $31.35 per share. The remaining outstanding principal amount of the 1.856% Notes was redeemed in August 2003 for $391.8 million in cash, including $0.1 million of accrued interest. In connection with the redemption of the 1.856% Notes for cash, we recorded a loss on extinguishment of debt of approximately $4.7 million in the third quarter of 2003 related to the unamortized portion of debt issuance costs. This charge is classified as a non-operating expense in our consolidated statement of operations.

At December 31, 2004, we had a ratio of long-term debt to total capitalization of approximately 12%. The degree to which we are 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, future capital expenditures and any increased working capital requirements.

Long-Term Debt

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, and began occupying the Milpitas facility in April 2003. A syndicate of financial institutions financed the acquisition and development of these properties. Prior to July 1, 2003, we accounted for these properties as operating leases in accordance with SFAS No. 13, *Accounting for Leases*, as amended. On July 1, 2003, we adopted FIN 46. Under FIN 46, the lessors of the facilities are considered variable interest entities, and we are considered the primary beneficiary. Accordingly, we began consolidating the variable interest entities on July 1, 2003 and have included the property and equipment and long-term debt on our balance sheet at December 31, 2004 and 2003 and the results of their operations in our consolidated statement of operations from July 1, 2003. As of December 31, 2004, approximately $380.6 million of debt has been classified as current as the lease terms for the Mountain View and Roseville facilities expire in March 2005 and the lease term for the Milpitas facilities expires in July 2005.

Interest only payments under our debt agreements relating to the facilities are paid quarterly and are equal to the termination value of the outstanding debt obligations multiplied by our cost of funds, which is based on London Inter Bank Offered Rate, or LIBOR, using 30-day to 180-day LIBOR contracts and adjusted for our credit spread. The termination values of the debt agreements are approximately $145.2 million, $41.2 million and $194.2 million for the Mountain View, Roseville and Milpitas leases, respectively. The terms of these debt agreements are five years with an option to extend the lease terms for two successive periods of one year each, if agreed to by the financial institutions that financed the facilities. The terms of these debt agreements began March 2000 for the Mountain View and Roseville facilities and July 2000 for the Milpitas facility. We have the option to purchase the three facilities for the aggregate termination value of $380.6 million or, at the end of the term, to arrange for the sale of the properties to third parties while we retain an obligation to the financial institutions that financed the facilities in an amount equal to the difference between the sales price and the guaranteed residual value up to an aggregate $344.6 million if the sales price is less than this amount, subject to the specific terms of the debt agreements. In addition, we are entitled to any proceeds from a sale of the facilities in excess of the termination values. Payment of the purchase price for these properties would reduce the amount of cash, cash equivalents and short-term investments available for funding our research and development efforts, geographic expansion and strategic acquisitions in the future.

In January 2002, we entered into two three-year pay fixed, receive floating, interest rate swaps for the purpose of hedging the cash payments related to the Mountain View and Roseville agreements. Under the terms of these interest rate swaps, we make payments based on the fixed rate and will receive interest payments based on the 3-month LIBOR rate. For the year ended December 31, 2004 and six months ended December 31, 2003, our aggregate payments on the debt agreements, including the net payments on the interest rate swaps, were $16.9 million and $8.5 million, respectively, and were included in interest expense in the consolidated statement of operations in accordance with FIN 46. For the six months ended June 30, 2003 and the year ended December 31, 2002, our aggregate payments were $8.3 million and $17.0 million, respectively, and were classified as rent expense and included in cost of revenue and operating expenses in the consolidated statement of operations, in accordance with SFAS No. 13.

The agreements for each of the facilities described above require that we maintain specified financial covenants, all of which we were in compliance with as of December 31, 2004. The specified financial covenants as of December 31, 2004 require us to maintain a minimum rolling four quarter earnings before

interest, taxes, depreciation and amortization, or EBITDA, of $500.0 million, a minimum ratio of cash, cash equivalents, short-term investments and accounts receivable to current liabilities plus the debt consolidated under the build-to-suit lease agreements of 1.2 to 1, and a leverage ratio of total funded indebtedness to rolling four quarter EBITDA of not more than 2 to 1. For purposes of these financial covenants, EBITDA represents our net income for the applicable period, plus interest expense, taxes, depreciation and amortization and all non-cash restructuring charges, less software development expenses classified as capital expenditures. In February 2005, we received a waiver from Bank of America, N.A. as agent for the syndicate of banks that funded the development of the Mountain View and Roseville facilities, and ABN AMRO Bank, N.V. as agent for the syndicate of banks that funded the development of the Milpitas facility, with regard to certain negative covenants prohibiting a change in control and our proposed merger with Symantec. In order to secure the obligations under each agreement, each of the facilities is subject to a deed of trust in favor of the financial institutions that financed the acquisition and development of the respective facility. Bank of America, N.A. was the agent for the syndicate of banks that funded the development of the Mountain View and Roseville facilities, and ABN AMRO Bank, N.V. was the agent for the syndicate of banks that funded the development of the Milpitas facility.

In February 2005, our board of directors authorized the purchase of the properties subject to each of the build-to-suit lease agreements. In March 2005, we acquired beneficial ownership of the Mountain View, California, Milpitas, California, and Roseville, Minnesota properties for an aggregate cash purchase price of approximately $384 million. As a result, our cash and debt balances will decrease by this amount.

Credit Facility

During 2002, our Japanese subsidiary entered into a short-term credit facility with a multinational Japanese bank in the amount of 1.0 billion Japanese yen ($9.6 million USD). At December 31, 2004, no amount was outstanding. The short-term credit facility was renewed in March 2005 and is due to expire in March 2006. Borrowings under the short-term credit facility bear interest at Tokyo Inter Bank Offered Rate plus 0.5%. There are no covenants on the short-term credit facility and the loan has been guaranteed by VERITAS Software Global LLC, one of our wholly owned subsidiaries.

Acquired Technology Commitments

On October 1, 2002, we acquired volume replicator software technology for $6.0 million and contingent payments of up to another $6.0 million based on future revenues generated by the acquired technology. The contingent payments will be paid quarterly over 40 quarters, in amounts between $150,000 and $300,000. We issued a promissory note payable in the principal amount of $5.0 million, representing the present value of our minimum payment obligations under the purchase agreement for the acquired technology, which are payable quarterly commencing in the first quarter of 2003 and ending in the fourth quarter of 2012. The contingent payments in excess of the quarterly minimum obligations will be paid as they may become due. The outstanding balance of the note payable was $4.1 million as of December 31, 2004 and $4.6 million as of December 31, 2003 and is included in other long-term liabilities.

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Contractual Commitments

The following table is a summary of the contractual commitments, including principal and interest payments, associated with our obligations as of December 31, 2004:

	December 31,						
	2005	2006	2007	2008	2009	Thereafter	Total
	(In thousands)						
Operating lease commitments	$ 55,472	$ 46,735	$ 40,775	$ 35,840	$ 29,763	$ 142,407	$ 350,992
Current debt obligations	385,705						