VERITAS SOFTWARE CORP /DE/
Form 10-K
June 14, 2004

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, 2003

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 o No þ

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, 2003, the last business day of the Registrant s most recently completed second fiscal quarter, was $12.2 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 5% 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 May 28, 2004, 431,842,356 shares of the Registrant s common stock were outstanding.

VERITAS SOFTWARE CORPORATION

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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 and competition. 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 reliance on 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*

Restatement of Consolidated Financial Statements

We have restated our financial statements for the years ended December 31, 2002 and 2001, including the corresponding interim periods for 2002 and 2001, and the interim periods ended March, June and September 2003. We have also revised our previously announced financial results for the fourth quarter and year ended December 31, 2003. Except as otherwise stated, all financial information contained in this annual report on Form 10-K gives effect to this restatement and revision. For information concerning the background of these matters, the specific adjustments made and management s discussion and analysis of our results of operations for periods giving effect to the restated results, see Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Financial Statements and Supplementary Data Selected Quarterly Results of Operations, Controls and Procedures and Note 2 of the Notes to Consolidated Financial Statements.

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 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 and tape 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.

Utility Computing Infrastructure: products for managing 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 Windows, UNIX and Linux. We also develop and sell software products that support a wide

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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 also 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 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 2003, we completed the acquisitions of Precise Software Solutions Ltd. and Jareva Technologies, Inc. These strategic acquisitions provided us with essential components for utility computing, including software that monitors, analyzes and improves the performance of application infrastructure, and automated server provisioning technology that allows businesses to automatically deploy additional servers without manual intervention. In January 2004, we acquired Ejasent, Inc. to add important application migration technology, which allows IT personnel to move an application from one server to another without disrupting or terminating the application, to our growing utility computing portfolio.

With revenue of $1.75 billion in 2003, VERITAS ranks among the top 10 software companies in the world and, as of December 31, 2003, had 6,518 employees in 39 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.

Products

VERITAS offers a wide range of 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 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 doing business online, the continuous automation of business processes, increased pressures on companies to lower storage and server management costs and increase the utilization and performance of existing heterogeneous IT assets and the increasing scrutiny on document retention and regulatory compliance. Our products offer our customers scalability for managing the rapid growth of data and the increasing complexity and size of IT environments.

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Data Protection

We offer software products designed to protect, back up, 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 for 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 is designed to deliver enterprise-class data protection for the most complex UNIX, Windows, Linux and NetWare environments, including corporate data centers, network attached storage and storage area network environments. It gives organizations the ability to manage all aspects of backup and recovery and allows consistent backup policies to be deployed across the enterprise. NetBackup software provides application- and database-aware backup and recovery solutions for certain data-intensive applications and all major databases. NetBackup software incorporates many advanced capabilities including disk-based data protection and multiple snapshot-based technologies for rapid recovery and improved backup performance. The product is tiered to provide solutions for a range of customers, from Global 1000 companies to medium-sized businesses and remote offices. In addition to the base product, the NetBackup product family includes options that provide advanced capabilities for disaster recovery, avoiding downtime during backups and restores, migrating data to cheaper storage media, protecting desktop and laptop PCs and monitoring and reporting from remote sites.
VERITAS Backup Exec	VERITAS Backup Exec™ software is designed to provide scheduled and automated data backup and restore functions for small- to medium-sized businesses or departments in larger corporations. VERITAS Backup Exec *for Windows Servers* supports Windows Server 2003, Windows Storage Server 2003, Windows Small Business Server, Windows NT, Windows 2000, Windows XP and Windows 98/ME. Backup Exec software has an array of options to provide disaster recovery and to protect data contained in applications such as Microsoft Exchange, Microsoft SQL and Lotus Domino. In addition to the base product, the Backup Exec family includes options that provide advanced data backup and restore capabilities. VERITAS Backup Exec *for NetWare* is designed to provide backup and restore functions for Novell NetWare environments, including support for NetWare 6.5, and has an array of options to protect data contained on remote NetWare, Windows NT, Windows 2000 and Windows 2003 servers.

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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 UNIX, Linux and Windows servers, and include replication and a storage resource management suite. They are offered in both standalone and application solutions, as agents and 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
Online Storage Management	VERITAS online storage management solutions are based on VERITAS Volume Manager and VERITAS File System, which are the major components in VERITAS Storage Foundation™ product. VERITAS Volume Manager is a storage virtualization technology that provides online disk storage management for UNIX, Linux and Windows servers as well as storage network devices. By creating virtual storage devices from physical disks and disk arrays, VERITAS Volume Manager removes the physical limitations of disks so administrators can dynamically allocate resources where they are needed most. VERITAS File System provides superior performance, data integrity, online manageability and fast recovery from operating system failure or disruption for UNIX and Linux servers. We offer integrated suites of these solutions, which improve performance, availability and manageability of databases and other mission-critical business application environments like Oracle, IBM DB2, Sybase and Microsoft SQL Server and Exchange.
Replication	VERITAS replication products ensure that enterprise-class application data is consistently and continuously recoverable. VERITAS Volume Replicator is a robust, flexible and multi-platform data replication tool designed for enterprise disaster recovery. VERITAS Storage Replicator for Microsoft Windows duplicates files or file systems at multiple locations for complete data protection or information distribution. It is used for centralizing branch office data to data centers for backup and disaster recovery and publishing file system content from one to many servers. We also supply various point-in-time copy features for application data on local disks.
Storage Resource Management	VERITAS storage resource management solutions are focused on reducing storage management costs by optimizing storage resource utilization and simplifying administration. VERITAS SANPoint Control™ software is a centralized management tool designed for enterprise-class storage and storage area networks. It provides information on storage assets, centralized control of heterogeneous environments and automation of complex configuration tasks across multiple operating systems. VERITAS Storage Reporter is a centralized reporting tool that provides information on how storage assets are being used within a business and application context. VERITAS StorageCentral™ software is a storage resource management tool that automatically controls Windows storage. It increases control of Windows server environments to ensure that only business-appropriate files are being stored on corporate resources.

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Utility Computing Infrastructure

Our utility computing infrastructure products include tools for managing application availability and performance service level agreements, maximizing server and storage utilization and automating IT processes for enterprise data centers. These products include clustering/ high availability, application performance management and centralized 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
Clustering/ High Availability	Clustering/high availability products include VERITAS Cluster Server, VERITAS Storage Foundation/HA, VERITAS Database Edition/HA and VERITAS Database Edition Advanced Cluster *for Oracle 9iRAC*, and provide high availability for heterogeneous servers. These products use clustering and application workload management technology to automate server failover in the event of planned or unplanned downtime, distribute application workload to maximize efficiency and performance and are designed to meet local area, campus or wide area IT datacenter availability requirements. VERITAS Global Cluster Manager adds an easy to use Web-based interface to manage failover scenarios across geographically distributed sites and centrally monitor application up-time. Using automated server provisioning, VERITAS OpForce™ software automates server discovery and deployment, provisioning servers to meet varying workload demand and reduce administrative cost. These products are supported across multiple operating systems, database vendors and many major software applications.
Application Performance Management	VERITAS i^{3}™ products optimize application performance by rapidly detecting, correlating, diagnosing and enabling correction of application performance problems. This software enables application managers to monitor transactions in real-time as they traverse the IT infrastructure. i^3 software is available for all major application environments including J2EE, Oracle applications, PeopleSoft, SAP, Siebel and Web-based applications. i^3 software also provides in-depth database performance analysis tools for databases such as Oracle, IBM DB2 and Microsoft SQL Server.
Service Level Management	VERITAS CommandCentral™ software is a centralized management Web portal that enables service level management for IT departments and their customers through a business measurement of IT operations and process automation. CommandCentral software enables customers to create service levels, map them to business units or departments, measure and report on IT resource consumption by the department or business unit and allocate cost of resource usage, which are integral elements of utility computing. CommandCentral Service is integrated with VERITAS data protection, storage management and utility computing infrastructure products and can collect information from third-party vendor products as well.

For information regarding revenue and long-lived assets by geographic areas, see Note 21, 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 Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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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.

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, systems 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

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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 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 the partner s 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, BEA Systems, Inc., Novell, Oracle, 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 system integrators, or 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 IBM Global Services, Accenture Ltd, Electronic Data Systems Corporation, Computer Sciences Corporation, Cap Gemini Ernst & Young Group and BearingPoint, Inc. Some SIs are authorized resellers of our products and some use our products and services to deliver consultative services or managed services. 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 product 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, International Business Machines Corporation (or IBM), Microsoft Corporation and Sun Microsystems, Inc. In addition, we have recently entered into strategic relationship with other OEMs, including Cisco Systems, Inc., Fujitsu Ltd., Hitachi Ltd., Intel 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 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 100 established and emerging companies, specializing in storage management, data protection or utility computing infrastructure, participate in our technology partner program and interoperability lab services, some gaining access to software development kits, special purpose testing programs and protocols, as well as development support services. By providing configuration guidance to the market, we help reduce customer s implementation time and the total cost of ownership of our products. We support a large and diverse number of hardware and software technology vendors, and, as a leader in storage and infrastructure software, we make significant contributions to industry standards and support them through our technology partner program, an approach consistent with our core strength in heterogeneous, open computing. 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 2003, 2002 and 2001, no end-user customer accounted for more than 10% of our net revenue. In 2003 and 2001, 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 Corporation 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. We also may be involved with them in collaborative efforts to address interoperability issues and to set standards for evolving technology.

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 revenues generally reflect 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

At the end of any quarter, we typically have unfilled license orders. Because we generally ship our software products within 30 days after acceptance of customer orders and revenues in a given quarter are generally dependent upon the amount of customer orders received during such quarter, we do not believe that unfilled license orders are a consistent or reliable indicator of future results.

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. Our customers generally do not cancel orders for our software products. Unfilled license orders, which represent an unaudited operating measure, were approximately $96 million and $76 million at December 31, 2003 and 2002, respectively.

Deferred license revenue represents license orders for our software products that have been billed to and paid by the customer and for which revenue has not yet been earned, but is generally earned within the next year. Deferred license revenue was approximately $12 million and $2 million at December 31, 2003 and 2002, respectively.

Our unfilled license orders and quarterly license revenue will vary, depending primarily on the amount and timing of orders received and orders shipped. For additional information regarding factors that affect the timing of the recognition of software license revenue, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Revenue Recognition Delivery of Software Products.

Total deferred revenue includes, in addition to deferred license revenue described above, deferred services revenue related to maintenance and technical support contracts and professional services training and consulting contracts. Deferred service revenue, which in the case of maintenance and technical support is generally recognized over the maintenance and support period of twelve months, or in the case of professional services, training or consulting services is generally recognized over the period the specific services are rendered, was approximately $387 million and $260 million at December 31, 2003 and 2002, respectively.

Research and Development

Our research and development efforts have been directed toward developing new products for UNIX, Linux 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 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 UNIX, Windows and Linux 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 embedded storage networking software and next generation virtualization technology. During 2003, 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. We also have formal development partnerships with Cisco Systems, Inc. and Brocade Communications Systems, Inc. in which we are embedding our industry leading volume management and replication software in their networking devices. Lastly, we are developing a new architecture for our volume manager that helps customers manage storage across a large number of servers.

New data protection technologies for disk-based data protection, regulatory compliance and disaster recovery. 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. We also announced an archiving product in the fourth quarter of 2003, the Data Lifecycle Management Option, that helps existing NetBackup and Backup Exec customers comply with corporate governance and industry regulations for long-term data retention and reporting. The development for this product is complete and we commenced shipment of this product in the first quarter of 2004. Both of these areas will continue to be priorities for new technology development and we will increasingly integrate these products and our storage management offerings into comprehensive solutions for data lifecycle management.

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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 $301.9 million in 2003, $274.9 million in 2002 and $240.5 million in 2001. 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.

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.

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Employees

As of December 31, 2003, we had 6,518 employees, including 1,848 employees in research and development, 3,727 in sales, marketing, consulting, customer support and strategic initiatives and 943 in general and administrative services. We expect to hire additional employees in 2004, particularly in research and development and in sales, marketing, consulting and customer support. 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. We may not be able to retain our key employees and may not be successful in attracting and retaining sufficient numbers of qualified personnel to conduct our business in the future.

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 incorporated into 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 that contains reports, proxy and information statements and other information regarding issuers, such as VERITAS, that file electronically with the SEC. The SEC s Internet site is located at http://www.sec.gov.

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, 2003 in the U.S. and abroad, excluding approximately 32 executive suites in North America, 16 in Europe, 10 in Asia and one in South America.

Location	Approximate Total Square Footage(1)
United States	2,041,113
Canada	43,090
Europe/Middle East/Africa	422,387
Asia/ Australia	278,411
South America	15,091
Total	2,800,092

(1) Total square footage excludes approximately 63,003 square feet of space in the U.S. and 28,515 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 9, 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 11, Long-Term Debt of the Notes to Consolidated Financial Statements for information regarding our three build-to-suit lease agreements and Note 13, Commitments of the Notes to Consolidated Financial Statements for information regarding our operating lease obligations.

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Item 3. ***Legal Proceedings***
SEC Related Matters

SEC Investigation. As previously disclosed, 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 on-line advertising services.

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. We voluntarily disclosed to the staff of the SEC past accounting practices applicable to our 2002 and 2001 financial statements that we determined were not in compliance with GAAP. For more information regarding the restatement of our financial statements for 2002 and 2001, including the corresponding interim periods for 2002 and 2001, and the interim periods ended March, June and September 2003, and the revision of our previously announced financial results for 2003, see Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Financial Statements and Supplementary Data Selected Quarterly Results of Operations and Note 2 of the Notes to Consolidated Financial Statements.

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.

Securities Class Actions. 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 was filed by the lead plaintiff on July 18, 2003. On December 10, 2003, the District Court granted the defendants motion to dismiss the consolidated complaint, with leave to amend. On May 19, 2004, the District Court granted the defendants motion to dismiss the plaintiffs first amended complaint, with leave to amend. In addition, in 2003 several complaints purporting to be derivative actions were filed in California state court against some of our directors and officers. These complaints are based on the same facts and circumstances as the class actions and generally allege that the named directors and officers breached their fiduciary duties by failing to oversee adequately our financial reporting. The state court complaints have been 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 and is currently pending. All of the complaints generally seek an unspecified amount of damages. The cases 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.

Other Litigation

On January 10, 2003, Raytheon Company sued VERITAS along with Brocade Communications Systems, Oracle Corporation, Overland Storage Inc., Qualstar Corp., QLogic Corporation, Ricoh Corporation and Spectra Logic Corporation in the United States District Court for the Eastern District of Texas. Raytheon alleged infringement of a patent entitled Mass Data Storage Library and sought damages and an injunction against all defendants. On February 26, 2004, a confidential settlement was agreed to by Raytheon and VERITAS, and on March 17, 2004, the case was dismissed with prejudice pursuant to the settlement agreement. The settlement agreement did not have a material impact on our financial position or overall results of operations.

On October 23, 2001, Storage Computer Corporation sued VERITAS in the United States District Court for the Northern District of Texas alleging infringement of one of Storage Computer Corporation s patents. Currently, Storage Computer Corporation is alleging we infringed two of their U.S. patents. We have denied all material allegations in the complaints, filed counterclaims for declaratory judgment of invalidity and non-infringement of the patents-in-suit and alleged their infringement of one of our patents. Storage Computer Corporation is seeking damages of approximately $50.0 million, treble damages, costs of suit and attorneys fees and a permanent injunction from further alleged infringement. On March 12, 2004, the Court granted VERITAS motions for summary judgment of non-infringement of the two patents at issue, and denied Storage Computer s motion for partial summary judgment. The Court did not address additional matters raised in VERITAS motion. Storage Computer Corporation recently filed a notice of appeal.

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 2003, there were no matters submitted to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters***

Price Range of Common Stock

Our common stock is listed on the Nasdaq National Market under the symbol VRTSE .

Due to our inability to timely file this annual report on Form 10-K, Nasdaq notified us on March 17, 2004 that our securities would be subject to delisting from the Nasdaq National Market and changed our trading symbol from VRTS to VRTSE . After a hearing before The Nasdaq Listing Qualifications Panel, or the Panel, on April 22, 2004, we received a written determination from the Panel that our common stock would continue to be listed on the Nasdaq National Market provided that, among other things, we file with the SEC and Nasdaq this Form 10-K and our quarterly report on Form 10-Q for the quarter ended March 31, 2004 on or before June 22, 2004. The Panel determination further stated that the trading symbol for our common stock would be changed back to VRTS after Nasdaq receives confirmation that we have remedied our filing delinquencies.

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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
2004		
First Quarter	$40.68	$26.00
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
2002		
First Quarter	$49.89	$32.55
Second Quarter	$44.50	$17.93
Third Quarter	$22.00	$13.18
Fourth Quarter	$20.61	$10.29

As of May 28, 2004, there were approximately 4,928 holders of record of our common stock. Brokers and other institutions hold many of such shares on behalf of stockholders. We estimate the total number of stockholders represented by these record holders to be approximately 217,000.

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.

Recent Sales of Unregistered Securities

In August 2003, we issued $520.0 million of 0.25% convertible subordinated notes due August 1, 2013, for which we received net proceeds of approximately $508.2 million, to several initial purchasers in a private offering. For more information regarding the terms of the 0.25% convertible subordinated notes due August 1, 2013, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Convertible Subordinated Notes.

The offer and sale of securities in the transaction described above was deemed to be exempt from registration under the Securities Act of 1933 in reliance upon Section 4(2) of the Securities Act and Regulation D promulgated thereunder, as a transaction by an issuer not involving any public offering. The securities were resold by the initial purchasers upon reliance on Rule 144A. Each initial purchaser made representations that it was an accredited investor, as defined in Rule 501 promulgated under the Securities Act, and as to its compliance with Rule 144A.

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

The following selected consolidated financial data has been derived from our consolidated financial statements. All financial information set forth below reflect the restatement of our financial statements for fiscal years 2002 and 2001, including the corresponding interim periods for 2002 and 2001, and the interim periods ended March, June and September 2003, and revisions to our previously announced financial information as of and for the fourth quarter and year ended December 31, 2003, as discussed below under Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Financial Statements and Supplementary Data Selected Quarterly Results of Operations and Note 2 of the Notes to Consolidated Financial Statements. The restatement also affects periods prior to 2001 and, accordingly, we have revised our selected consolidated financial data for fiscal years 2000 and 1999 on an unaudited basis. 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.

We have not amended our annual reports on Form 10-K or quarterly reports on Form 10-Q for the quarterly periods affected by the restatement. The information that has been previously filed or otherwise reported for these periods is superseded by the information in this annual report, and the financial statements and related financial information contained in such reports should no longer be relied upon.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
		(As Restated)	(As Restated)	(Unaudited) (7)	(Unaudited) (7)
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Total net revenue	$1,747,087	$1,505,998	$1,489,225	$1,190,114	$ 602,405
Amortization of developed technology	35,267	66,917	63,086	62,054	35,954
Amortization of goodwill and other intangibles(1)	35,249	72,064	885,397	878,050	510,943
Stock-based compensation(2)	2,680	435	8,079		
Restructuring costs (reversals)(3)		99,308		(4,440)	11,000
In-process research and development(4)	19,400				104,200
Income (loss) from operations	386,985	129,369	(536,810)	(555,804)	(468,196)
Income (loss) before cumulative effect of change in accounting principle(6)	353,722	58,266	(635,791)	(620,131)	(498,478)
Cumulative effect of change in accounting principle, net of tax(5)	(6,249)				
Net income (loss)	$ 347,473	$ 58,266	$ (635,791)	$ (620,131)	$(498,478)
Income (loss) per share before cumulative effect of change in accounting principle basic	$ 0.84	$ 0.14	$ (1.59)	$ (1.55)	$ (1.57)
Income (loss) per share before cumulative effect of change in accounting principle diluted	$ 0.81	$ 0.14	$ (1.59)	$ (1.55)	$ (1.57)
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	$ 0.83	$ 0.14	$ (1.59)	$ (1.55)	$ (1.57)
Net income (loss) per share diluted	$ 0.80	$ 0.14	$ (1.59)	$ (1.55)	$ (1.57)
Number of shares used in computing per share amounts basic	420,754	409,523	399,016	400,034	316,892

Number of shares used in computing per share amounts diluted	434,446	418,959	399,016	400,034	316,892

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	December 31,				
	2003	2002	2001	2000	1999
		(As Restated)	(As Restated) (In thousands)	(Unaudited) (7)	(Unaudited) (7)
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	$ 2,503,015	$ 2,241,321	$ 1,687,936	$ 1,255,109	$ 757,417
Working capital	2,032,095	1,905,752	1,566,977	1,066,223	702,935
Total assets(5)	5,348,466	4,199,335	3,780,329	4,061,196	4,227,693
Long-term debt obligations(5)	905,209	465,252	444,408	429,176	451,044
Accumulated deficit	(1,378,076)	(1,725,549)	(1,783,815)	(1,148,024)	(527,893)
Stockholders equity	3,543,594	2,902,991	2,741,042	2,986,636	3,397,543

(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 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 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 2003 and 1999, we recorded non-cash charges of $19.4 million and $104.2 million, respectively, related to the write-off of in-process research and development that related to two acquisitions in 2003 and one acquisition in 1999.

(5) In July 2003, we adopted Financial Accounting Standards Board Interpretation Number 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.

(6) Income before cumulative effect of change in accounting principle for the year ended December 31, 2003 includes 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.

(7) The unaudited selected consolidated financial data for 2000 and 1999 have been revised to reflect adjustments related to the restatement described below under Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements and Note 2 of the Notes to Consolidated Financial Statements. The adjustments increased revenue and decreased net loss for 2000 by $2.7 million and $8.2 million, respectively, and increased revenue and decreased net loss for 1999 by $6.3 million and $4.5 million, respectively. In the accompanying audited financial statements for the year ended December 31, 2001 these adjustments are reflected as opening adjustments to the Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss).

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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 and competition. 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 reliance on 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.

Restatement of Consolidated Financial Statements

We have restated our financial statements for the years ended December 31, 2002 and 2001, including the corresponding interim periods for 2002 and 2001, and the interim periods ended March, June and September 2003. We have also revised our previously announced financial results for the fourth quarter and year ended December 31, 2003.

In March 2004, we announced our intention to restate our financial statements for 2002 and 2001 and revise our previously announced 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 past accounting practices, and the audit committee s counsel retained independent accountants to assist with the investigation. The independent investigation included the performance of a number of forensic accounting procedures, a review of internal documents and communications and interviews with both current and former employees.

The independent investigation concluded on March 12, 2004 and identified certain accounting practices under the direction of former financial management that were determined not to be in compliance with Generally Accepted Accounting Principles, or GAAP. These practices included the incorrect deferral of professional services revenue for 2002 and 2001, the unsubstantiated accrual of certain expenses in periods prior to 2003, and the overstatement of accounts receivable and deferred revenue by approximately $7 million (unaudited) at June 30, 2002. Upon conclusion of the investigation, we announced on March 15, 2004 our decision to restate our financial statements for 2002 and 2001. We also announced that our previously announced financial results for the year ended December 31, 2003 would be revised to reflect the impact of having made the corrections of the prior periods and to reflect the settlement finalized on March 15, 2004 of tax audits related to our 2000 acquisition of Seagate Technology.

Following the investigation and our determination to restate our financial statements, we performed additional procedures to ensure the accuracy of our financial information. These additional procedures included a further review of internal documents, tests of certain system controls, cut-off procedures and a review of revenue transactions and other cost and expense accounts. As a result, we determined to correct additional errors made in 2003 and prior periods, including errors that were previously not recorded because in each such case and in aggregate we believed the amount of any such error was not material to our consolidated financial statements. We also made certain revenue, expense and balance sheet reclassifications.

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As a result of the foregoing, we have adjusted our financial results as follows:

For the year ended December 31, 2003, total net revenue decreased from $1.771 billion to $1.747 billion and net income increased from $274 million to $347 million, of which $95 million related to the March 15, 2004 settlement of certain tax audits associated with our 2000 acquisition of Seagate Technology. Diluted earnings per share for the year ended December 31, 2003, increased from $0.63 to $0.80 as a result of these adjustments. Excluding the effect of the Seagate settlement, net income would have decreased from $274 million to $252 million and diluted earnings per share would have decreased from $0.63 to $0.58.(1)

For the year ended December 31, 2002, total net revenue decreased from $1.507 billion to $1.506 billion; net income increased from $57 million to $58 million and diluted earnings per share remained constant at $0.14.

For the year ended December 31, 2001, total net revenue decreased from $1.492 billion to $1.489 billion; net loss decreased from $642 million to $636 million; and diluted loss per share decreased from $(1.61) to $(1.59).

The restatement also resulted in a $12.7 million decrease to our accumulated deficit at December 31, 2000.

The restatement adjustments did not materially affect our reported cash, cash equivalents and short-term investments balance as of December 31, 2003.

See Item 6 Selected Financial Data for additional information regarding adjustments to our accumulated deficit at December 31, 2000 and December 31, 1999; Item 8 Financial Statements and Supplementary Data Selected Quarterly Results of Operations for additional information regarding our restated quarterly results for the years ended December 31, 2003, 2002 and 2001; and Note 2 Restatement of Consolidated Financial Statements for additional information regarding the impact of the restatement as of December 31, 2002 and for the years ended December 31, 2002 and 2001.

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. MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and the accompanying notes.

Our Business

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 PCs and workgroup servers to enterprise servers and networking platforms in corporate data centers. Our products protect, archive and recover business-critical data, provide high levels of application availability, enhance and tune system and application performance and enable recovery from disasters. Our solutions enable businesses to reduce costs by efficiently and effectively managing their IT infrastructure as they seek to maximize value from their IT investments. See Item 1, Business for a more complete description of our business.

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 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

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(1) Net income and diluted earnings per share for the year ended December 31, 2003, excluding the impact of the Seagate settlement, represent non-GAAP financial measures. We have included these non-GAAP financial measures because we believe they provide useful information to our investors regarding the impact of the restatement to our financial results for 2003.

channel mix for 2003 was 59% from sales to end-users and through VARs, and 41% from other indirect sales channels, which includes 10% from our OEM partners.

We invest significantly in research and development activities and in 2003 we spent $301.9 million on research and development, exclusive of in-process research and development associated with acquisitions. Our research and development efforts have been directed toward developing new products for UNIX, Linux 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 application performance management, server provisioning and centralized service level management.

In the fourth quarter of 2003, we revised our revenue reporting categories to more closely align with how we manage our business. Historically, we categorized our revenue between Core and Emerging technologies. We believe the new revenue categories will provide investors with better insight into our results. These new categories are Data Protection, Storage Management and Utility Computing Infrastructure. Our revenue performance in these categories is described in the User License Fees section of MD&A.

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 offering across key operating system platforms, including UNIX, Linux and Windows, and to continue to invest for growth in international markets.

We expect to continue to grow the company organically and through acquisitions. In 2003, we completed two key acquisitions that provided us with essential components of our utility computing infrastructure product strategy, including application performance management software and server provisioning technology. In January 2004, we completed the acquisition of Ejasent, Inc., which added application migration technology to our utility computing infrastructure portfolio. We will continue to evaluate new strategic acquisitions in the future.

In 2003, revenue from international sales, consisting of sales of license and services to customers located outside the United States, was $633.5 million, up 29% from 2002, and represented 36% of our total net 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 Position

In the fiscal year ended December 31, 2003, our operating results were impacted by several factors, including IT spending trends, the growing need of enterprises to effectively manage storage and computing infrastructure, the strength of our product offerings and the contribution of our recent acquisitions. In 2003, we experienced stronger IT spending in our customer base, resulting in stronger demand for our products and growth in our user license fees. The acquisition of 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.

Net revenue and net income per share are key measurements of our financial condition. For fiscal 2003, net revenue was a record $1,747.1 million, an increase of 16% from 2002. Revenue from user license fees was $1,092.7 million, an increase of 11% from 2002 and representing 63% of total revenue. Services revenue in 2003 was $654.4 million, an increase of 26% from 2002, and representing 37% of total net revenue. Diluted net income per share was $0.80 in 2003, up significantly from $0.14 in 2002, as a result of earnings leverage from revenue growth and also due to significant restructuring charges taken in 2002 as a result of both exiting and consolidating certain facilities, as well as the impact on 2003 of the recent settlement of tax audits relating to our 2000 acquisition of Seagate.

We continue to retain a significant balance of cash and short-term investments and to generate cash from operations. As of December 31, 2003, we had approximately $2,503.0 million in cash, cash equivalents and short-term investments, which represented approximately 71% of our tangible assets. We generated cash of approximately $628.0 million from operating activities for the year ended December 31, 2003. We utilize cash in ways that management believes provides an optimal return on investment. Principal uses of our cash include purchases of property and equipment, acquisition of businesses and technologies and the repurchase of our common stock.

Recent Acquisitions

In June 2003, we acquired Precise Software Solutions Ltd., or Precise, a provider of application performance management products. We acquired Precise to expand our product and service offerings into application performance management. We accounted for the Precise acquisition using the purchase method of accounting for total purchase consideration of $715.1 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 approximately $15.3 million of the purchase price to in-process research and development, or IPR&D, that has not yet reached technological feasibility and has no alternative future use. We have expensed this amount as a non-tax deductible charge in our statements of operations for the year ended December 31, 2003.

In January 2003, we acquired Jareva Technologies, Inc., or Jareva, 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. We accounted for the Jareva acquisition using the purchase method of accounting for total purchase consideration of $68.7 million. We have expensed the acquired IPR&D of $4.1 million in our statement of operations for the year ended December 31, 2003.

During 2001, we completed three acquisitions of privately held companies for total purchase consideration of approximately $75.6 million using the purchase method of accounting. We have included the results of operations of the acquired businesses in our consolidated financial statements from the respective dates of acquisition.

Critical Accounting Policies and Estimates

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

- revenue recognition;
- restructuring expenses and related accruals;
- impairment of 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 collectibility is probable. We also make significant judgments when accounting for concurrent transactions with our suppliers and in our accounting for potential product returns and, in some cases, we have discretion over the timing of product shipments. 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 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 fees 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 invoice date. Arrangements with payment terms extending beyond 90 days after invoice date 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, 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. 29, *Accounting for Nonmonetary Transactions*, and Emerging Issues Task Force Issue, or EITF, No. 01-02, *Interpretations of APB Opinion 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.

Product Returns

We estimate potential future product returns based on our analysis of historical return rates and reduce current period product revenue accordingly. Actual returns may vary from estimates if we experience a change from historical sales and returns patterns or if there are unanticipated changes in competitive or economic conditions that affect our actual returns.

Delivery of Software Products

Delivery of our software products is a prerequisite to the recognition of software license revenue. We consider delivery complete when the software products have been shipped and the customer has access to license keys. If arrangements include an acceptance provision, we defer the revenue and recognize it upon the earlier of receipt of written customer acceptance or expiration of the acceptance period. 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 impact 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 a quarter; and our operational capacity to fulfill software license orders at the end of a quarter.

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 Emerging Issues Task Force, or EITF, Issue 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 estimate we included in our facility restructuring plan, the facility restructuring charge recorded in operating expenses during the fourth quarter of 2002 would have been different by approximately $6 million.

Impairment of Long-Lived 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. 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 2003 and were not required to record an impairment loss on goodwill.

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 underperformance of our company relative to expected operating results;

our net book value compared to our market capitalization;

significant adverse economic and industry trends;

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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.

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. Based on our assumptions and estimates, we do not expect to record an impairment loss on our long-lived assets in the near future.

Accounting for Income Taxes

We are required to estimate our income taxes in each federal, state and international jurisdiction in which we operate. This process requires that we estimate the current tax exposure as well as assess temporary differences between the accounting and tax treatment of assets and liabilities, including items such as 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, 2003, we determined the valuation allowance to be $138.4 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 or are related to losses on strategic investments that will only be realized with the generation of future capital gains within a limited time period. 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 it is not practicable to determine if we will need to establish an additional valuation allowance and if it will have a material impact on our financial statements.

Results of Operations

Net Revenues

	2003	2002	2001
		(As restated)	(As restated)
	(In millions, except percentages)		
Net revenues	$1,747.1	$1,506.0	$1,489.2
Percentage increase over prior period	16%	1%	

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 2003, as part of our strategy to increase our net revenues, we continued expanding our product portfolio and offerings, increased the computer platforms supported by our software 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 license and services revenue. In 2001, our total net revenue increased more slowly than expected because of reduced capital spending by our customers due to weak general economic and industry conditions and due to the events of September 11, 2001. 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 2004 as a result of

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increased penetration of international markets, the benefit of new product offerings and continued growth of services revenue, as well as improved general economic conditions.

International Sales and Operations

Our international sales consist of sales of licenses and services to customer locations outside the United States and are generated primarily through our international sales subsidiaries. International revenue, a majority of which is collectible in foreign currencies, accounted for approximately 36% of our total revenue in 2003, 32% of our total revenue in 2002 and 29% of our total revenue in 2001. Our international revenue increased 29% to $633.5 million in 2003 from $489.3 million in 2002 and 15% in 2002 from $427.2 million in 2001. During 2003, our international revenue increased across all geographic areas and we saw greater strength in the emerging markets in Europe and Asia-Pacific. Additionally, during 2003 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 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 2004 because of the continued expansion of international markets and the focus and increased investment by our company in these markets.

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 and Israel. International expansion will require us to establish additional foreign offices, hire additional personnel and recruit new international resellers, resulting in the diversion of management attention and the expenditure of financial resources.

User License Fees

We market and distribute our software products both as standalone software products and as integrated product suites, which we also refer to as application solutions. We derive our user license fees from the licensing of our technology, segregated into three product areas: Data Protection, which includes our NetBackup and Backup Exec product families; Storage Management, which includes our File Systems, Volume Manager, replication, Database Editions and storage resource management product families; and Utility Computing Infrastructure, which includes our clustering, high-availability offerings, application performance management, or APM, OpForce and CommandCentral Service product families.

	2003	2002	2001
		(As restated)	(As restated)
		(In millions, except percentages)	
User license fees:			
Data protection	$ 624.7	$599.0	$ 666.3
Storage management	264.8	251.5	279.0
Utility computing infrastructure	203.2	136.3	143.8
Total user license fees	$1,092.7	$986.8	$1,089.1
As a percentage of user license fees:			
Data protection	57%	61%	61%
Storage management	24	25	26
Utility computing infrastructure	19	14	13
Total user license fees	100%	100%	100%
As a percentage of total net revenue	63%	66%	73%
Percentage increase (decrease) over prior period:			
Data protection	4%	(10)%	
Storage management	5%	(10)%	

Utility computing infrastructure	49%	(5)%
Total user license fees	11%	(9)%

During 2003, user license fees increased by $105.9 million or 11% due to increases across each product category. Data protection increased by $25.7 million due primarily to increases in 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. Storage management increased $13.3 million due primarily to increases in our replication and storage resource management products. Utility computing infrastructure 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 clustering, and Database Editions/ Advanced Cluster. During 2002, user license fees decreased by $102.3 million or 9% due primarily to weaker general economic and industry conditions resulting in a reduction of capital spending by our customers, mainly during the first three quarters of 2002, and fewer large end-user transactions. The reduction in demand during the first three quarters of 2002 was partially offset by an increase in demand during the fourth quarter of 2002, particularly in Europe and emerging international markets. Data protection decreased by $67.3 million due to decreases in user license revenue in both our core backup products, NetBackup and Backup Exec. Storage management decreased by $27.5 million due primarily to decreases in license fees from our File System and Database Edition products.

Historically, we have segregated our products into the categories of Core and Emerging technologies. Core technology products include data protection, file system and volume management products. Emerging technology products include clustering and replication, storage area networking and application performance management products. Revenues from core technology products comprise the majority of user license fees and were 84%, 89% and 90% of total user license fees in 2003, 2002 and 2001, respectively. Core technology products as a percent of total user license fees decreased during 2003 as revenue from our emerging technology increased 64% in 2003 when compared to 2002. The increase was primarily due to increased penetration in clustering and replication products as well as application performance management products acquired with Precise.

Our user license fees from OEMs decreased 15% to $129.7 million in 2003 and 23% in 2002 to $152.1 million from $197.0 million in 2001. The user license fees from OEMs accounted for 12% of user license fees for 2003 and 15% and 18% for 2002 and 2001, respectively. The decreases in 2003 and 2002 reflect reduced hardware sales by OEMs as their customers reduced technology spending in the weaker economic environment as well as our focus on expanding direct and reseller sales.

During 2003, we completed 51 transactions valued at over $1.0 million, including services, and 948 transactions valued at over $100,000. During 2002 and 2001, we completed 50 and 70 transactions valued over $1.0 million and 938 and 1,137 transactions valued over $100,000, respectively.

Services Revenue

	2003	2002	2001
		(As restated)	(As restated)
	(In millions, except percentages)		
Services revenue	$654.4	$519.2	$400.1
As a percentage of net revenue	37%	34%	27%
Percentage increase over prior period	26%	30%	

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 2003 and 2002 was due primarily to the increase in services and support contracts of 30% and 38% for 2003 and 2002, respectively. The increase in renewals during 2003 was the result of a larger installed base of customers and a greater focus on renewing customer support contracts, particularly internationally.

Our professional services revenue, which consists of training and consulting services, grew by 6% and 2% in 2003 and 2002, respectively. These growth rates are below our objectives. We are investing in professional services and believe that it is important to establish current relationships with our customers. 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 an increasing demand for our consulting and education services.

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Cost of Revenue

	2003	2002	2001
		(As restated)	(As restated)
		(In millions, except percentages)	
Cost of revenue	$313.6	$305.6	$271.6
As a percentage of net revenue	18%	20%	18%
Percentage increase over prior period	3%	13%	

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)

	2003	2002	2001
		(As restated)	(As restated)
		(In millions, except percentages)	
Cost of user license fees:			
User license fees	$48.7	$ 36.2	$ 41.7
Amortization of developed technology	35.3	66.9	63.1
Total cost of user license fees	$84.0	$103.1	$104.8
Percentage decrease over prior period			