VERITAS SOFTWARE CORP /DE/
Form 10-K
March 28, 2003

# 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, 2002**

**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 0-26247**

# VERITAS Software Corporation

*(Exact Name of Registrant as Specified in its Charter)*

| | |
|---|---|
| **Delaware**<br>*(State or Other Jurisdiction of Incorporation or Organization)* | **77-0507675**<br>*(I.R.S. Employer Identification No.)* |
| **350 Ellis Street**<br>**Mountain View, California**<br>*(Address of Principal Executive Offices)* | **94043**<br>*(Zip Code)* |

**Registrant s Telephone Number, including Area Code:**

**(650) 527-8000**

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

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

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

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

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 value of the common stock held by non-affiliates of the Registrant as of June 28, 2002, the last business day of the Registrant s most recently completed second fiscal quarter, was approximately $8.1 billion.

As of February 28, 2003, 413,509,160 shares of the Registrant s common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant s definitive proxy statement, to be delivered to stockholders in connection with the Registrant s 2003 Annual Meeting of Stockholders, are incorporated by reference into Part III of this Form 10-K.

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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 on Form 10-K. All these forward-looking statements are based on information available to us at this time, and we assume no obligation to update any of these statements. Actual results could differ from those projected in these forward-looking statements as a result of many factors, including those identified in the section titled Factors That May Affect Future Results under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere. 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*

**Overview**

VERITAS is a leading independent supplier of storage software products and services. Storage software includes storage management, data protection and high availability software. Today, a key competitive factor for many businesses is whether their critical data and the related software applications are protected and available without interruption 24 hours a day, seven days a week.

VERITAS solutions help solve the problems of today s data-intensive business environments by providing essential storage software that enables customers to protect and access their business-critical data and keeps their applications continuously available. Our products operate across computing environments ranging from the desktop computer to the large enterprise data center to protect critical data, provide high levels of availability, reduce costs and recover from disasters, both locally and across geographically distributed information technology, or IT, facilities.

Demand for storage software products and services is fueled by many factors including the rapid increase in the number of Internet users and the number of businesses doing business online, the continuous automation of business processes, the ever increasing quantity of data being collected, the need for data to be protected and accessible at all times, particularly in the event of a disaster, and the pressure on IT managers to reduce the costs of storage management. Our products help improve the levels of centralization, control, automation and manageability in computing environments, which allows IT managers to be significantly more effective in an environment of constrained human and financial resources. Specifically, our products offer protection against data loss and file corruption, allow rapid recovery after disk or computer system failure, enable IT managers to work efficiently with large numbers of files, and make it possible to manage data distributed on large networks of computer systems without harming productivity or interrupting users. In addition, our products provide continuous availability of data in clustered computer systems that share disk resources, which helps maintain smooth business operations. Our products are highly scalable, allowing our customers to keep up with the growth of data and technologies deployed in their businesses. In summary, our products help our customers manage their data storage in complex and diverse computing environments efficiently and cost-effectively.

We develop and sell products for most popular operating systems, including various versions of Windows, UNIX and Linux. We also develop and sell products that support a wide variety of servers, storage devices, databases, applications and network solutions. Our customers include many leading global corporations and small and medium enterprises around the world operating in a wide variety of industries. In addition to our

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software products we also provide a full range of services to assist customers in assessing, architecting and implementing their storage software solutions.

In early 2003, we launched the VERITAS Enabled Program, an important development and testing program designed to simplify third-party integration and interoperability with VERITAS products. This program includes development, testing, cooperative support and marketing components enabling development and certification of integrated hardware and software storage solutions. The VERITAS Enabled Program encompasses a wide range of hardware and storage software products developed by a global network of partners, providing enhanced manageability, interoperability, availability and efficiency to customers.

***Recent Developments***

On January 27, 2003, we acquired Jareva Technologies, Inc., a privately-held provider of automated server provisioning products based in Sunnyvale, California. Jareva s software products allow businesses to automatically deploy additional servers without manual intervention, which can lower IT costs by making more efficient use of server hardware and reducing the need for dedicated IT staff to perform common administrative tasks. We plan to integrate Jareva s technology into our software products to enable our customers to optimize their investments in server hardware by reducing the labor required to manage it and to cost-effectively maintain high levels of availability by deploying new server resources on demand.

On December 19, 2002, we signed a definitive agreement to acquire Precise Software Solutions Ltd., a public company located in Israel. Precise develops software that monitors and analyzes the performance of network infrastructure such as web and application servers, databases and network storage equipment. We expect to complete this transaction in the second quarter of 2003. Subject to closing, we plan to integrate Precise into our product offering to enable our customers to improve application service levels while also decreasing costs associated with their network infrastructure.

**Products**

We offer a wide range of leading storage software products to manage the rapid growth of data and the increasing complexity and size of networked environments that our customers face. Our products allow businesses to protect their data, to improve the management of their data and to increase the availability of their data. For operating segment information, see Note 18. Segment Information in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

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***Data protection***

We offer products designed to protect, back up and restore data. Our leading data protection products include:

| Product | Description |
|---|---|
| VERITAS NetBackup | VERITAS NetBackup is designed to deliver mainframe-class data protection for the largest UNIX, Windows, Linux and NetWare enterprise environments, especially for corporate data centers and SAN environments. It gives organizations the ability to manage backup and recovery using intuitive graphical user interfaces and allows consistent backup policies to be enforced across the enterprise. In addition to the base product, the NetBackup product family includes licensable options that provide advanced capabilities for disaster recovery, avoiding downtime during backups and restores, migrating data to cheaper storage media and monitoring and reporting from remote sites. |
| VERITAS NetBackup Professional | VERITAS NetBackup Professional is designed specifically as a backup and disaster recovery tool for mobile laptop and desktop computers. It provides centrally administered, non-intrusive backups and allows user-directed data restoration. |
| VERITAS Backup Exec *for Windows* | VERITAS Backup Exec *for Windows* is designed to provide scheduled and automated data backup and restore functions for small, midsize or departmental Windows-focused environments. It supports Windows Server 2003, Microsoft.NET, Windows NT, Windows 2000, Windows XP and Windows 95/98/ME, and has an array of options to provide disaster recovery and to protect data contained in applications such as Microsoft Exchange and Lotus Domino. |
| VERITAS Backup Exec *for NetWare* | VERITAS Backup Exec *for NetWare* is designed to provide backup and restore functions for Novell NetWare environments, including support for NetWare 6. It has an array of options to protect data contained on remote NetWare, Windows NT and Windows 2000 servers. |

***File system and volume management***

We offer storage management products designed to improve the manageability and performance of business critical data for UNIX, Linux and Windows servers. These core technologies are offered both

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standalone and in application solutions, and are often combined with NetBackup or VERITAS Cluster Server to deliver high levels of availability. Our principal storage management products include:

| Product | Description |
| --- | --- |
| VERITAS File System | VERITAS File System is designed to enable fast system recovery, generally within seconds, from operating system failure or disruption for UNIX and Linux servers. It gives servers mainframe-level capabilities by providing superior performance, data integrity, high availability and online manageability. |
| VERITAS Volume Manager | VERITAS Volume Manager is a storage virtualization technology that allows for online disk storage management for UNIX, Linux, and Windows servers. Virtualization helps IT personnel optimize the usage of their storage systems. VERITAS Volume Manager also provides tools to protect against data loss due to hardware failure, to accelerate system performance by allowing files to be spread across multiple disks, to allow IT managers to reconfigure data locations without interrupting users and to create point in time copies of data to improve backup and recovery operations. |

***Clustering and replication***

We offer products that improve availability of key applications in complex computing environments for UNIX, Linux and Windows. Our clustering and replication products include:

| Product | Description |
| --- | --- |
| VERITAS Cluster Server | VERITAS Cluster Server, or VCS, is an availability management solution designed to maximize data and application availability through proactive management of planned and unplanned downtime. VCS supports configurations of up to 32 servers and has licensable options for load balancing server workload, optimizing recovery processes for specific applications and managing data center recovery between multiple sites across widely separated geographies. |
| VERITAS Storage Replicator | VERITAS Storage Replicator delivers data replication for Windows NT/2000 environments. It can duplicate 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. |
| VERITAS Volume Replicator | VERITAS Volume Replicator helps businesses ensure that current data is available at multiple global locations. It is a robust, flexible and multi-purpose data replication tool designed for enterprise disaster recovery. |

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***Storage Resource Management (SRM) Products***

IT organizations are faced with a dramatic increase in the demand for total storage capacity at the same time that their budgets are shrinking. This creates a need to increase significantly the utilization of existing storage devices and reduce the costs of managing and deploying new storage devices. Storage resource management provides tools to determine how much storage is deployed and how it is being used and automates the deployment of new storage resources. This is a well established market for mainframes, but is new to the UNIX, Windows and Linux environments.

The widespread use of business computer applications, coupled with the growth of corporate data, has exceeded the ability of current computing architectures to handle availability, scalability and manageability issues. A storage-centric architecture, called storage area networking, or SAN, has emerged to handle these issues. A SAN is a high-speed computing network that directly connects storage hardware devices, such as storage arrays, clustered servers, disk drives and tape drives, to client and server computers. The typical SAN infrastructure is capable of handling more data and transactions faster than a traditional network, can grow along with a business needs, and is more cost-effective than traditional network architectures. We are a leading innovator in developing SAN software technology designed to reduce the cost and complexity of managing expanding networked storage environments.

Many of our products listed above are enabled to operate in a SAN environment and we have developed the SAN-specific products listed below:

| Product | Description |
| --- | --- |
| VERITAS SANPoint Control | VERITAS SANPoint Control is a centralized SRM management tool designed for enterprise class storage and SAN devices. It provides information on storage assets, centralized control of heterogeneous storage environments and automates complex storage configuration tasks. |
| VERITAS Storage Reporter | VERITAS Storage Reporter is a centralized SRM reporting tool that provides information on how storage assets are being used within a business and application context. |

***Storage Networking Device Software***

The growth of storage area networks, or SANs, has led to the emergence of a new class of intelligent storage networking devices that contain advanced software functionality. VERITAS provides access to its leading software for developers of these devices through the VERITAS Powered program, an important initiative launched in early 2003. Under this program, companies that develop intelligent storage networking devices such as intelligent SAN switches or storage appliances can license VERITAS software to be embedded in their products. As part of the program they must comply with certain branding requirements. One example of this type of software is:

| | |
| --- | --- |
| VERITAS NetVM | VERITAS NetVM provides storage virtualization capability based on VERITAS leading Volume Manager technology to partners that wish to provide virtualization and storage management capability embedded in their network storage devices. |

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***Application solutions***

Businesses need integrated solutions engineered to work with specific databases or applications in order to optimize their data availability strategies. Our application solutions products include:

| Product | Description |
|---|---|
| VERITAS Foundation Suite | VERITAS Foundation Suite combines VERITAS Volume Manager and VERITAS File System for UNIX and Linux servers. These two products together are intended to improve performance, availability and manageability for general purpose servers. We also offer VERITAS Foundation Suite/HA, which includes high availability clustering software. |
| VERITAS SANPoint Foundation Suite | VERITAS SANPoint Foundation Suite includes a parallel cluster file system based on VERITAS File System that provides scalable performance for multiple UNIX servers in a cluster. We also offer VERITAS SANPoint Foundation Suite/HA, which includes high availability clustering software. |
| VERITAS Database Edition | VERITAS Database Edition is an integrated suite of several VERITAS products designed to deliver improved performance, enhanced manageability and continuous database access to support the complex and demanding work of database administrators operating UNIX servers. We also offer Database Edition/HA, which includes high availability clustering software. VERITAS Database Edition is available to support Oracle, Sybase and DB2. |
| VERITAS Database Edition Advanced Cluster *for Oracle 9iRAC* | VERITAS Database Edition Advanced Cluster *for Oracle 9iRAC* is an integrated suite of storage management and clustering technologies designed to optimize performance and availability of Oracle 9i Real Application Cluster UNIX environments. |

**Services**

We provide a full range of services to assist our customers in assessing, architecting and implementing their storage solutions. Our global services organization provides customers with maintenance and technical support, consulting and training services. 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 agreements with us that provide for fixed fee, renewable annual maintenance consisting of technical and emergency support, and product upgrades free of charge.

***Maintenance and technical support***

Our customers can choose from a variety of support packages to address their specific needs. Depending on the product, this can range from one-time incident charges to comprehensive support services with a dedicated single point of contact at VERITAS. We offer seven-day, 24-hour telephone support, as well as electronic mail customer support. During 2002 we implemented email support for some of our products based out of our Pune, India facility. In addition, a relatively new service offering, called Business Critical, is specially designed to meet the demanding needs of our enterprise customers by providing support account

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management, emergency fly-to-sight capability and specialized reporting. Some of the value-added resellers, system integrators and original equipment manufacturers that offer our products also provide customer support for our products.

***Consulting***

We believe that most customers need assistance before product selection and not just for the implementation of purchased products. Therefore, we offer strategy and analysis consulting services for planning the management and control of enterprise computing in specific customer environments, including SAN environments. For example, we can assist our customers with their business continuity readiness evaluation and their disaster recovery planning. In addition, we offer services to assist customers with product implementation.

***Education and training***

We have a worldwide customer education and training organization. We offer training that enables customers to utilize our products, reduces the need for technical support and provides customers with a means to optimize their personnel investment by allowing their technical staff access to high quality, comprehensive instruction. The focus of this organization is aligned with our strategy to offer end-to-end storage software solutions by providing instruction from highly experienced training professionals either at the customer location or at one of our multi-platform classrooms.

**Marketing, sales and distribution**

We market our products and related services through direct sales channels and indirect sales channels such as resellers, value-added resellers, hardware distributors, original equipment manufacturers, application software vendors and systems integrators. Some original equipment manufacturers incorporate our products into their products, some bundle our products with their products and some license our products to third parties as optional products. In general, we receive a fee for each sublicense of our products granted by the original equipment manufacturer to third parties. We provide our software products to customers under non-exclusive license agreements, including shrink-wrap or clickwrap licenses for some products. As is customary in the software industry, in order to protect our intellectual property rights, we do not sell or transfer title to our software products to customers. We enter into both object-code only and when appropriate source-code licenses of our products.

Our principal original equipment manufacturer relationships are with Dell, Hewlett-Packard, IBM, Microsoft and Sun Microsystems.

*Dell.* Under our agreements with Dell, Dell sells a specialized version of VERITAS Volume Manager, branded as Dell OpenManage Array Manager, VERITAS Backup Exec, branded as Dell Backup Software, and clustering software. Dell also serves as an authorized enterprise reseller of our products. Dell is not obligated to sell our products or services under these agreements.

*Hewlett-Packard.* We enable Hewlett-Packard to offer limited functionality versions and full-featured versions of VERITAS Volume Manager and VERITAS File System with copies of the HP-UX operating system that they sell. We do not receive license fees for limited functionality versions of VERITAS Volume Manager, but we do receive license fees for copies of the full-featured versions that are sold. Hewlett-Packard also serves as a reseller of some of our other products and services, but is not obligated to sell our products and services under our reseller agreements. Under agreements entered into with Compaq prior to its merger with Hewlett-Packard, we granted Compaq the right to resell some VERITAS products and services, as well as the right to operate some VERITAS products as a hosting services provider. However, Compaq is not obligated to sell or purchase our products under our agreements with them. Effective January 1, 2003, Hewlett-Packard assumed these agreements as part of its merger with Compaq. Under an agreement with Hewlett-Packard, we integrate our support services with Hewlett-Packard s support services, so Hewlett-Packard may provide the combined services to our joint customers. We have dedicated personnel to define and build versions of our products that meet the needs specific to the Hewlett-Packard marketplace and to focus sales and marketing efforts on the Hewlett-Packard sales channel. We cannot assure you that this strategy will be successful. Our relationship with Hewlett-Packard is governed by numerous agreements, which come up for renewal periodically. We cannot predict whether these agreements will be extended, and if they are, whether they will be extended on the same or different terms.

*IBM.* Under our agreements with IBM, we agreed to port and optimize our set of data availability solutions, including VERITAS Volume Manager, VERITAS File System, VERITAS Cluster Server and VERITAS Database Edition, for AIX, the UNIX-based operating system developed by IBM. This relationship is designed to augment our solutions that are already available from VERITAS for the IBM platform. Under our agreements, IBM is not obligated to sell any of our products.

*Microsoft.* Under our agreements with Microsoft, we agreed to develop a limited functionality version of VERITAS Volume Manager, which Microsoft calls Logical Disk Manager. This product was ported and first embedded in Windows 2000 and is also included in Windows XP Professional. We do not receive user license fees for licenses of Logical Disk Manager by Microsoft. In addition, we authored a few other customized versions of our products that are packaged with Windows 2000 and Windows XP. Microsoft is not required to include our products in future versions of Windows. We cannot assure you that we will realize any benefits from the inclusion of these embedded products in current or future versions of the Windows operating system.

*Sun Microsystems.* We have agreed with Sun Microsystems that Sun Microsystems may bundle a version of VERITAS Volume Manager with some of its storage technologies. We also license full versions of some of our products and add-on modules to Sun Microsystems for bundling with its products. Under these agreements, we granted Sun Microsystems a license to distribute and sub-license VERITAS Volume Manager, VERITAS File System, VERITAS NetBackup, VERITAS NetBackup Storage Migrator and some of the VERITAS Editions. This license is non-exclusive except with respect to certain named resellers for which Sun Microsystems retained exclusive distribution rights. Sun Microsystems is not obligated to sell any of our products under this agreement. Sun Professional Services provides our packaged professional services as well as our custom consulting services. This is designed to enable Sun Microsystems customers and our customers to maximize their system availability through optimal configurations and reliable installations. We cannot assure you that this arrangement will continue to be successful. Our relationship with Sun Microsystems is governed by numerous agreements, which come up for renewal periodically. We cannot predict whether these agreements will be extended, and if they are, whether they will be extended on the same or different terms.

***Seasonality***

As is generally typical in the software industry, we tend to experience a higher volume of license transactions and associated revenue in the fourth quarter of the calendar year as a result of our customers spending patterns.

***Sales, marketing and support organization***

During 2002, we continued to build our sales, marketing and customer support organization, particularly internationally, with a focus on delivering our products to resellers, integrators and end users. We have sales subsidiaries and direct sales personnel in North America, South America, Europe, which also covers the Middle East and Africa, and Asia-Pacific. We also have resellers located in North America, South America, Europe, Asia-Pacific and the Middle East. For geographic information, see Note 18. Segment Information in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

We expect to regularly recruit and hire sales, marketing and customer support employees in the future in order to maintain our direct sales efforts to resellers and to end users. We may not have the necessary resources to accomplish this. It is also possible that we will not be able to establish and maintain these new distribution channels successfully. Competition for qualified sales, technical and other personnel is intense, and we may not be able to attract, assimilate or retain additional highly qualified employees in the future.

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**Customers**

Our software solutions are used by customers in a wide variety of industries, including many leading global corporations and small and medium enterprises around the world, as well as by various governmental entities. We market and sell our products and services to end user customers through a combination of direct sales and indirect sales channels such as resellers, value-added resellers, hardware distributors, application software vendors and systems integrators.

***Concentration of customers***

In 2002, 2001 and 2000 no end-user customer accounted for more than 10% of our net revenue. In 2002, Ingram Micro, Inc, a distributor who sells VERITAS products and services through resellers, accounted for 11% of our net revenue.

**Competition**

The markets in which we compete are intensely competitive and rapidly changing.

We compete with the internal development groups of some of our customers that provide storage functions to support their own products and services. These internal development groups have the resources and capability to develop their own storage solutions. Some of our customers are also our competitors, including EMC, Hewlett-Packard, IBM, Microsoft and Sun Microsystems. Relationships between VERITAS and these competitors are complex. While we may compete with them for a share of the market, they also resell our products, and in some cases incorporate our technology into their products. 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;
- hardware and software vendors that offer file system and volume management products;
- hardware and software vendors that offer clustering and replication products;
- hardware and software vendors that offer storage area networking management solutions and systems management companies that are integrating storage resource management functions into their platforms; and
- hardware and software vendors that offer network attached storage and file serving solutions.

The principal markets in which we compete are: data protection, file system and volume management, clustering, replication, storage area networking and network attached storage management solutions. Our principal competitors in each of these areas include:

- *Data protection.* Commvault Systems, Computer Associates, Hewlett-Packard, IBM and Legato.
- *File system and volume management.* Hewlett-Packard, IBM, Microsoft and Sun Microsystems.
- *Clustering and replication.* EMC, Hewlett-Packard, Hitachi Data Systems, IBM, Legato, Microsoft, Oracle, Quest Software and Sun Microsystems.
- *SRM and storage area networking management.* Computer Associates, EMC, Hewlett-Packard, IBM, Sun Microsystems and network switch vendors.
- *Storage networking device software vendors and storage subsystem vendors.* DataCore, EMC, FalconStor, Hewlett-Packard, Microsoft and Network Appliance.

The principal competitive factors in our industry include price, product functionality, product integration, platform coverage, ability to scale, worldwide sales infrastructure and global technical support. Although many 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 and that our hardware independent approach to storage software gives us an advantaged position in the market.

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Our future anticipated growth and success will depend on our ability to develop superior products more rapidly and less expensively than our competitors, and to educate potential customers as to the benefits of licensing our products rather than developing their own products, and to educate and develop additional routes 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 in order to compete with us. Our competitors could also gain market share by acquiring or forming strategic alliances with our other competitors. Finally, because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies in the software industry, we expect to face additional competition from these companies in the future. 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.

**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 in the existing product line and porting new and existing products to different operating systems.

Our major research and development initiatives include:

- additional integration and innovation within the full family of storage software products, including VERITAS Volume Manager, VERITAS File System, VERITAS Cluster Server, VERITAS Volume Replicator, VERITAS Storage Replicator, VERITAS NetBackup and VERITAS Backup Exec;
- development of additional applications solutions for databases and messaging platforms;
- development of additional Linux and AIX versions of our products;
- development of additional clustering and replication products;
- development of additional SRM products;
- development of additional storage networking device software;
- localization and translation of our products to improve our ability to compete internationally; and
- porting of our technology to additional platforms, such as network switches, to further our heterogeneous storage software strategy.

Each of these initiatives involves technical and competitive challenges, which we may not be able to overcome successfully.

***Development work under original equipment manufacturer agreements***

We devote a substantial amount of development effort to making sure that our products work on our original equipment manufacturer customer s platforms. This is technically challenging, and we may not succeed in our effort.

We have contractual development obligations with some of our original equipment manufacturer customers. Our agreements with EMC, Hewlett-Packard, IBM, and Sun Microsystems require us to commit staffing to our projects with them. We may not have the resources necessary to perform our obligations under these agreements.

***Size and location of research and development group***

As of December 31, 2002, our research and development staff consisted of 1,521 employees located mainly at our Mountain View, California headquarters, and our Roseville, Minnesota, Heathrow, Florida and Pune, India locations.

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***Research and development expenditures***

We had research and development expenses of $273.2 million in 2002, $241.2 million in 2001 and $175.9 million in 2000. These amounts exclude $0.9 million in 2001 for stock-based compensation charges in connection with acquisitions. 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 undisclosed 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.

***Need to hire research and development personnel***

We may need to hire additional research and development personnel to complete new products on a timely basis and to perform our obligations to key original equipment manufacturer partners. The market for these personnel is very competitive and we cannot assure that we can hire them on a timely basis or at all. We may consider acquiring and purchasing technology to achieve some of our objectives, but we may not be able to accomplish this successfully.

***Effect of technological advances***

From time to time, we or our competitors may announce new products, capabilities or technologies that have the potential to replace or shorten the life cycles of our existing products. Announcements of currently planned or other new products could cause customers to defer purchasing our existing products. We have from time to time in the past experienced delays of up to several months due to the complex nature of software developed by us and other software developers for whose systems or applications we offer products. We could experience delays in connection with our current or future product development activities. Any of these delays could harm our business.

**Proprietary rights**

***Measures we take to protect our intellectual property***

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.

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 licenses are generally non-transferable and have a perpetual term.

***Trademarks and patents***

VERITAS is a registered trademark in the United States. VERITAS Software and the VERITAS logo are trademarks or registered trademarks in the United States and other countries. We have used, registered, and/or applied to register specific trademarks and service marks to distinguish genuine VERITAS products, technologies and services from those of its competitors in the U.S. and in foreign countries and jurisdictions. We enforce our trademark, service mark and trade name rights in the U.S. and abroad.

We have a number of U.S. and foreign issued patents and pending patent applications, including patents and rights to patent applications acquired from the NSMG business, TeleBackup Systems, Inc., NuView, Inc., The Kernel Group Incorporated and Jareva Technologies Inc., that relate to various aspects of our products and technology. While we believe that patent protection is important, any patents obtained may not provide substantial protection or be of commercial benefit to us. It is also possible that their validity will be challenged.

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**Employees**

As of December 31, 2002, we had 5,647 full-time employees, including 1,521 in research and development, 3,257 in sales, marketing, consulting, customer support and strategic initiatives and 869 in finance and administrative services. We expect to hire additional employees in 2003, 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.

***Executive Officers***

The names of our executive officers, their ages as of March 1, 2003, and their positions are shown below. The dates given for time of service with VERITAS include, when applicable, time served by each individual with one of our principal predecessor companies.

| Name | Age | Positions |
| --- | --- | --- |
| Gary L. Bloom | 42 | Chairman of the Board, President and Chief Executive Officer |
| Geoffrey W. Squire | 56 | Executive Vice President and Vice-Chairman of the Board |
| Fred van den Bosch | 56 | Chief Technology Officer and Executive Vice President, Advanced Technology Group |
| Edwin Gillis | 54 | Executive Vice President, Finance and Chief Financial Officer |
| Mark Bregman | 45 | Executive Vice President, Product Operations |
| Kristof Hagerman | 38 | Executive Vice President, Strategic Operations |
| Jay A. Jones | 48 | Senior Vice President and Chief Administrative Officer |

*Mr. Bloom* has served as our President and Chief Executive Officer since November 2000. Mr. Bloom became our Chairman of the Board effective January 1, 2002. Mr. Bloom joined us after a 14-year career with Oracle Corporation, where he served as Executive Vice President responsible for server development, platform technologies, marketing, education, customer support and corporate development from May 1999 to November 2000, as Executive Vice President of the systems product division from March 1998 to May 1999, as Senior Vice President of the systems products division from November 1997 to March 1998, as Senior Vice President of the worldwide alliances and technologies division from May 1997 to October 1997, as Senior Vice President of the product and platform technologies division from May 1996 to May 1997, and as Vice President of the mainframe and integration technology division and Vice President of the massively parallel computing division from 1992 to May 1996. Before joining Oracle Corporation in 1986, Mr. Bloom held technical positions in the mainframe area at both IBM Corporation and Chevron Corporation. Mr. Bloom serves on the board of directors of Globespan Virata, Inc., a supplier of communications software and semiconductors.

*Mr. Squire* has served as our Executive Vice President and Vice Chairman of the Board since April 1997, when we merged with OpenVision Technologies, Inc. Mr. Squire became a director of OpenVision in 1994 and was appointed Chief Executive Officer of OpenVision in 1995, after serving as its President and Chief Operating Officer from 1994 to 1995. Mr. Squire was President of the U.K. Computing Services and Software Association in 1994 and, in 1995, was elected as the founding President of the European Information Services Association. Mr. Squire also serves on the board of directors of Industri-Mathematik International Corp., a provider of supply chain and customer service software, and The Innovation Group PLC, a provider of software solutions to the insurance industry.

*Mr. van den Bosch* has served as our Chief Technology Officer and Executive Vice President, Advanced Technology Group since October 2002. Mr. van den Bosch served as our Executive Vice President, Product Strategy and New Product Initiatives from July 1997 to September 2002 and served as our Senior Vice President, Engineering from 1991 to July 1997. Mr. van den Bosch was appointed as a director in 1996. From

1970 until 1990, he served in various positions with Philips Information Systems, including Director of Technology.

*Mr. Gillis* has served as our Chief Financial Officer and Executive Vice President, Finance since November 2002. Before joining VERITAS, Mr. Gillis served as Executive Vice President and Chief Financial Officer of Parametric Technology Corporation, a software company, from October 1996 to October 2002. Mr. Gillis served as Senior Vice President, Finance and Administration and Chief Financial Officer of Parametric from October 1995 to September 1996. Prior to Parametric, Mr. Gillis served for four years as chief financial officer of Lotus Development Corp., a software company. Before joining Lotus, Mr. Gillis spent 15 years with Coopers & Lybrand, an accounting firm, as a CPA and general practice partner.

*Dr. Bregman* has served as our executive vice president of product operations since February 2002. From August 2000 to October 2001, Dr. Bregman served as the Chief Executive Officer of Airmedia, a wireless Internet company. Prior to joining AirMedia, Inc., Dr. Bregman served a 16-year career with IBM, most recently as general manager of IBM s RS/6000 and pervasive computing divisions from 1995 to August 2000.

*Mr. Hagerman* has served as our Executive Vice President, Strategic Operations since March 2003. He served as our Senior Vice President, Strategic Operations from August 2001 to March 2003 and as our Vice President, Strategic Alliances from February 2001 to August 2001. Before joining VERITAS, Mr. Hagerman served as founder and chief executive officer at Affinia Inc, an affiliate marketing network, from September 1998 to September 2000 and as founder and chief executive officer of BigBook, Inc, an Internet yellow pages service, from 1995 until its acquisition by GTE in 1998. Before BigBook, Mr. Hagerman held various management positions in consulting, sales and marketing, business development, and finance.

*Mr. Jones* has served as our Senior Vice President and Chief Administrative Officer since January 1999. Mr. Jones served as our Vice President, General Counsel and Secretary from April 1997 to January 1999. Mr. Jones joined OpenVision as General Counsel in 1993 and was appointed Vice President, General Counsel and Secretary in 1994 and served in those capacities until the merger with VERITAS in April 1997. Mr. Jones is a member of the California Bar Association.

**Available 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 SEC.

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 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 principal facilities are located in Mountain View, California and Heathrow, Florida. Our corporate headquarters consist of approximately 425,000 square feet located in Mountain View, California. Large portions of our facilities are occupied under leases that expire at various times through 2022. The table below shows the approximate square footage of the premises that we lease as of December 31, 2002 in the United States and abroad, excluding approximately 34 executive suites in North America, 14 in Europe, 8 in Asia and 1 in South America.

| Location | Approximate Square Footage |
|---|---|
| United States | 1,668,471 |
| Canada | 78,217 |
| Europe/ Middle East/Africa | 424,133 |
| Asia/Australia | 256,429 |
| South America | 13,391 |
| Total | 2,440,641 |

Total square footage excludes approximately 34,022 square feet of space in the United States that we sublease to third parties.

Our Mountain View, California and Roseville, Minnesota facilities are each governed by operating lease agreements, which were entered into in 1999 and 2000, respectively. In 2000, we entered into an operating lease arrangement for land and a 466,000 square foot facility in Milpitas, California. We expect to begin occupying this facility in the second quarter of 2003. Additionally, we began occupying approximately 150,000 square feet of space at Green Park in Reading, UK. We believe our existing and planned facilities will be suitable for our needs. See Note 11 of the Notes to the Consolidated Financial Statements for information regarding our lease obligations and see Note 8 for information regarding a facility restructuring plan approved in the fourth quarter of 2002.

**Item 3.** ***Legal Proceedings***

In response to subpoenas issued by the Securities and Exchange Commission in the investigation entitled *In the Matter of AOL/Time* Warner, we continue to furnish information requested by the SEC, including information relating to the transactions we entered into with AOL in September 2000. We cannot predict the outcome of this investigation at this time. We will continue our efforts to cooperate with the SEC s investigation.

After we announced in January 2003 that we would restate 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. In addition, several complaints purporting to be derivative actions have been 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. 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 cases 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.

On January 10, 2003, Raytheon Company sued VERITAS Software Corporation 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 is alleging infringement of US Patent No. 5,412,791, entitled Mass Data Storage Library, and is seeking damages and an injunction against all defendants. We believe that we have numerous defenses and counterclaims to the claims of infringement asserted against us and we intend to vigorously defend ourselves. We filed an answer to Raytheon s complaint on March 7, 2003, denying all material allegations in the complaint and asserting counterclaims seeking to have Raytheon s 791 patent declared invalid and not infringed by us.

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On October 23, 2001, Storage Computer Corporation initiated litigation against VERITAS Software Corporation 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 infringe two of their US patents. We have denied all material allegations in the complaints, have filed counterclaims for declaratory judgment of invalidity and non-infringement of the patents-in-suit and have alleged their infringement of one of our patents. Storage Computer Corporation is seeking unspecified damages, treble damages, costs of suit and attorneys fees and a permanent injunction from further alleged infringement. We believe that we have numerous defenses and counterclaims relative to the claims of infringement asserted against us and intend to vigorously defend this action.

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 the net income of 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 legal proceedings could change in the future.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

## 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 VRTS. 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 |
|---|---|---|
| **2001** | | |
| First Quarter | $ 108.75 | $ 42.13 |
| Second Quarter | 80.05 | 38.60 |
| Third Quarter | 68.30 | 17.30 |
| Fourth Quarter | 47.14 | 18.00 |
| **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 February 28, 2003, there were approximately 5,500 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 153,500.

**Dividend Policy**

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

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

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | | (As restated) | (As restated) | | |
| | (In thousands, except per share data) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Total net revenue | $1,506,555 | $1,491,928 | $1,187,441 | $ 596,112 | $210,865 |
| Amortization of developed technology(1) | 66,917 | 63,086 | 62,054 | 35,659 | |
| Amortization of goodwill and other intangibles(1) | 72,064 | 886,651 | 879,032 | 510,943 | |
| Stock-based compensation(2) | | 8,949 | | | |
| Acquisition and restructuring costs (reversals)(3) | 100,263 | (5,000) | (4,260) | 11,000 | |
| In-process research and development(4) | | | | 104,200 | 600 |
| Income (loss) from operations | 128,305 | (548,053) | (567,100) | (475,237) | 53,668 |
| Net income (loss) | 57,376 | (642,329) | (628,385) | (502,958) | 51,648 |
| Net income (loss) per share basic | $ 0.14 | $ (1.61) | $ (1.57) | $ (1.59) | $ 0.24 |
| Net income (loss) per share diluted | $ 0.14 | $ (1.61) | $ (1.57) | $ (1.59) | $ 0.22 |
| Number of shares used in computing per share amounts basic | 409,523 | 399,016 | 400,034 | 316,892 | 211,558 |
| Number of shares used in computing per share amounts diluted | 418,959 | 399,016 | 400,034 | 316,892 | 232,519 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | | (As restated) | (As restated) | | |
| | (In thousands, except per share data) | | | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash, cash equivalents and investments | $ 2,241,321 | $ 1,694,860 | $ 1,255,560 | $ 757,417 | $243,051 |
| Working capital | 1,880,586 | 1,545,276 | 916,084 | 630,440 | 198,069 |
| Total assets | 4,199,633 | 3,798,376 | 4,073,278 | 4,233,277 | 349,117 |
| Convertible subordinated notes | 460,252 | 444,408 | 429,176 | 451,044 | 100,000 |
| Accumulated deficit | (1,745,712) | (1,803,088) | (1,160,759) | (532,374) | (29,416) |
| Stockholders equity | 2,883,767 | 2,723,893 | 2,973,978 | 3,393,061 | 169,854 |

(1) In 1999, we acquired three companies, one of which was the Network & Storage Management Group business of Seagate Software, Inc. ( NSMG ). We accounted for all three of these acquisitions using the purchase method of accounting, and accordingly we recorded developed technology, goodwill and other intangible assets of approximately $3,754.9 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 $234.8 million per quarter. On January 1, 2002, upon adoption of newly issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, the total quarterly charges related to the amortization of developed technology, goodwill and other intangibles decreased.

(2)

In 2001, we recorded a stock-based compensation charge of $8.9 million mainly related to the acceleration of certain stock options held by our former chief executive officer.

(3) 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 $4.3 million was reversed in 2000 as a result of lower actual exit costs than originally estimated with respect to our duplicative facilities. In 2001, we reversed $5.0 million of net attorneys fees originally accrued in relation to the Delaware lawsuit captioned *In Re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit. In 2002, we recorded a restructuring charge of $100.3 million related primarily to our facility restructuring plan to exit and consolidate our worldwide facilities.

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(4) In 1999, we recorded non-cash charges of $104.2 million related to the write-off of in-process research and development which related to the NSMG acquisition.

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

VERITAS is a leading independent supplier of storage software products and services. Storage software includes storage management, data protection, and high availability software. We develop and sell products for most popular operating systems, including various versions of Windows, UNIX and Linux. We also develop and sell products that support a wide variety of servers, storage devices, databases, applications and network solutions. Our customers include many leading global corporations and small and medium enterprises around the world operating in a wide variety of industries. We also provide a full range of services to assist our customers in assessing, architecting and implementing their storage software solutions.

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

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

**International sales and operations**

Our international sales are generated primarily through our international sales subsidiaries. International revenue, most of which is collectible in foreign currencies, accounted for approximately 32% of our total revenue in 2002, 29% of our total revenue in 2001 and 25% of our total revenue in 2000. Our international revenue increased 14% to $488.9 million in 2002 from $430.2 million in 2001, and 46% in 2001 from $294.4 million in 2000. We expect that our international revenue will increase relative to total revenue in 2003 as a result of the lower penetration of our products currently existing in these markets and our increasing focus on developing international revenue opportunities.

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

**Seagate Technology transaction**

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

We issued approximately 109.4 million shares of our common stock to the Seagate stockholders in exchange for approximately 128.1 million shares of our common stock and certain non-operating assets and liabilities held by Seagate. The transaction resulted in a decrease of approximately 18.7 million shares of our outstanding common stock. At the closing of the transaction we recorded the non-operating assets and liabilities assumed from Seagate at their fair values. In addition, we accrued $40.0 million of direct transaction costs, of which $0.3 million are remaining in accrued acquisition and restructuring costs as of December 31, 2002. We anticipate that the remaining $0.3 million of acquisition-related costs will be utilized by the second quarter of 2003.

For the years ended December 31, 2002 and 2000, the transaction had no significant impact on our consolidated statements of operations. For the year ended December 31, 2001, the transaction had the following impacts on our consolidated statement of operations:

- reversal of acquisition and restructuring costs of $5.0 million; and
- additional provision for income taxes of $30.1 million.

As a result of the impact on our consolidated statement of operations, net of tax, and the decrease of approximately 18.7 million shares of our common stock outstanding on the number of shares used in computing the net loss per share, the transaction resulted in an incremental net loss per share of $0.01 for the years ended December 31, 2000 and 2001 and incremental net income per share of $0.01 for the year ended December 31, 2002.

As of December 31, 2002 and 2001, the transaction affected our consolidated balance sheet, as follows:

- other current assets included $21.3 million of indemnification receivable from SAC;
- other non-current assets included $18.0 million of indemnification receivable from SAC;
- income taxes payable included an additional $21.3 million; and
- other income taxes included an additional $113.1 million.

As of December 31, 2002 and 2001, deferred and other income taxes payable recorded in connection with the Seagate transaction totaled $134.4 million, and related to certain tax liabilities that we expect to pay after the merger. Certain of Seagate s federal and state tax returns for various fiscal years are under examination by tax authorities. In 2001, we recorded a reduction of $30.7 million in tax liabilities and indemnification receivable from SAC as a result of certain settlements entered into with tax authorities. Also, we recorded a provision for income taxes of $30.1 million due to changes in estimates of the amount and timing of other tax liabilities for years under examination. We believe that adequate amounts for tax liabilities have been provided for any final assessments that may result from these examinations.

**Business combinations**

***NSMG acquisition***

On May 28, 1999, we acquired the Network & Storage Management Group business of Seagate Software, Inc., which we refer to as NSMG. The NSMG business developed and marketed software products and provided related services enabling information technology professionals to manage distributed network resources and to secure and protect enterprise data. The total NSMG purchase price of $3,464.5 million was accounted for using the purchase method. The purchase price was allocated, based on an independent valuation, to goodwill and assembled workforce of $3,028.6 million, developed technology of $233.7 million, other intangibles of $281.5 million, in-process research and development of $101.2 million, net deferred tax liabilities of $179.5 million and other tangible net liabilities assumed of $1.0 million. For the year ended

December 31, 2002, we recorded $70.4 million and $57.5 million, respectively, for the amortization of other intangibles and developed technology related to this acquisition. For each of the years ended December 31, 2001 and 2000, we recorded $827.6 million for the amortization of goodwill and other intangibles and $58.4 million for the amortization of developed technology related to this acquisition. During the fourth quarter of 2002, $2.2 million of the net book value of developed technology was written off pursuant to the sale of certain technology acquired in this acquisition. Developed technology and other intangibles related to this acquisition will be fully amortized during the second quarter of 2003. We incurred acquisition related costs of $43.4 million. The results of operations of the NSMG business are included in our consolidated financial statements from the date of acquisition.

In addition, as a result of the NSMG acquisition, we recorded a restructure charge of $11.0 million in 1999 related to exit costs associated with duplicative facilities that we planned to vacate. In the fourth quarter of 2000, as a result of lower actual exit costs than originally estimated with respect to duplicative facilities, $4.3 million of the restructuring charge was reversed. In the fourth quarter of 2002, we recorded an additional reserve of $4.2 million due to a decline in real estate market conditions that resulted in higher actual exit costs than estimated associated with these duplicative facilities.

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

| | Direct transaction costs | Duplicative Facility Related Costs | Involuntary termination benefits | Total |
|---|---|---|---|---|
| Provision accrued | $ 20.0 | $ 17.9 | $ 16.5 | $ 54.4 |
| Cash payments | (17.4) | (0.3) | (2.7) | (20.4) |
| Non-cash charges | | (0.9) | (11.7) | (12.6) |
| Balance at December 31, 1999 | 2.6 | 16.7 | 2.1 | 21.4 |
| Cash payments | (1.9) | (2.1) | (0.9) | (4.9) |
| Reversal | | (3.9) | (0.4) | (4.3) |
| Balance at December 31, 2000 | 0.7 | 10.7 | 0.8 | 12.2 |
| Cash payments | (0.7) | (0.2) | (0.3) | (1.2) |
| Balance at December 31, 2001 | | 10.5 | 0.5 | 11.0 |
| Additions | | 4.2 | | 4.2 |
| Cash payments | | (2.5) | | (2.5) |
| Non-cash charges | | (1.7) | | (1.7) |
| Reversal | | | (0.5) | (0.5) |
| Balance at December 31, 2002 | $ | $ 10.5 | $ | $ 10.5 |

The remaining acquisition and restructuring charge accrual of $10.5 million is anticipated to be utilized for servicing operating lease payments or negotiated buyouts of operating lease commitments, the lease terms of which will expire at various times through the year 2013.

***Other Acquisitions***

During 1999, we completed two acquisitions for a total cost of approximately $211.0 million. We accounted for these acquisitions using the purchase method of accounting. Purchase consideration for these two acquisitions was allocated, based on independent valuations, to goodwill and assembled workforce of $196.6 million, developed technology of $9.0 million, other intangibles of $5.6 million, in-process research and development of $3.0 million, and net liabilities assumed of $3.2 million. For the year ended December 31, 2002, we recorded $1.4 million and $2.3 million, respectively, for the amortization of other intangibles and developed technology related to these acquisitions. For each of the years ended December 31, 2001 and 2000, we recorded $51.0 million for the amortization of goodwill and other intangibles and $2.3 million for the amortization of developed technology. Developed technology and other intangibles related to this acquisition

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will be fully amortized during the second quarter of 2003. The results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition. Acquisition costs related to these transactions were $6.4 million, all of which were paid as of December 31, 2002.

During 2001, we completed three acquisitions of privately held companies for a total cost of approximately $78.2 million. We accounted for these acquisitions using the purchase method of accounting. The purchase price was allocated, based on independent valuations to goodwill of $65.9 million, developed technology of $12.7 million, other intangibles of $1.7 million, and net of tangible liabilities assumed of $2.1 million. The total acquisition costs of $1.9 million were paid as of December 31, 2002. During 2002, we recorded $0.3 million related to the amortization of other intangibles and $5.4 million for the amortization of developed technology. During 2001, we recorded $7.5 million for the amortization of goodwill and other intangibles and $1.0 million for the amortization of developed technology. During the fourth quarter of 2002, the remaining net book value of the intangibles related to one of these acquisitions of $8.7 million was written off due to the sale of the related technology. The remaining intangibles are being amortized over the estimated useful life of 24 months. The results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition.

During 2002, we acquired most of the assets of a privately held company for a total purchase price of $4.7 million, paid in cash, which was allocated to developed technology that will be amortized over the estimated useful life of 4 years. Amortization of developed technology related to this transaction was $0.2 million for the year ended December 31, 2002. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

***Acquisitions completed, or expected to be completed, subsequent to December 31, 2002***

Effective January 27, 2003, we acquired all of the outstanding capital stock of Jareva Technologies, which we refer to as Jareva, for purchase consideration of approximately $62.0 million, primarily paid in cash. The acquisition was accounted for using the purchase method of accounting and is not expected to have a material impact on our financial position or cash flows in 2003. Jareva is a provider of automated server provisioning products. The results of operations of Jareva will be included in our consolidated financial statements from the date of acquisition.

On December 19, 2002, we announced that we signed an agreement to acquire Precise Software Solutions, which we refer to as Precise, for an aggregate preliminary purchase price of approximately $590 million, including approximately $497 million of cash and common stock to be issued, $85 million of fair value of stock options to be assumed and $8 million of acquisition-related costs. Precise, which is publicly traded on the Nasdaq National Market, is a provider of application performance management products. We expect to complete this acquisition during the second quarter of 2003.

***Accounting pronouncements affecting the accounting treatment of previous business combinations***

For the years ended December 31, 2001, 2000 and 1999, we incurred net losses due to the amortization of developed technology, goodwill and other intangibles related to acquisitions during these years. From all of our acquisitions, we incurred charges of $949.7 million in 2001, $941.1 million in 2000 and $546.6 million in 1999 related to the amortization of developed technology, goodwill and other intangibles. On January 1, 2002, upon adoption of newly issued Statement of Financial Accounting Standards, or SFAS, 141, *Business Combinations,* and SFAS 142, *Goodwill and Other Intangible Assets,* the total quarterly charges related to the amortization of developed technology, goodwill and other intangibles has changed. Under SFAS 142, we are no longer required to amortize goodwill.

**Global Facility Restructure**

In the fourth quarter of 2002, our board of directors approved a facility restructuring plan to exit and consolidate certain of our facilities located in 17 metropolitan areas worldwide. The facility restructuring plan was adopted to address overcapacity in our facilities as a result of lower than planned headcount growth in these metropolitan areas. In connection with this facility restructuring plan, we recorded a restructuring charge

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to operating expenses of $98.2 million. This restructuring charge is comprised of (i) $86.9 million associated with terminating and satisfying remaining lease commitments, partially offset by sublease income net of related sublease costs and (ii) write-offs of $11.3 million for leasehold improvements and other fixed assets. Total cash outlays under this restructuring plan are expected to be approximately $86.9 million.

Restructuring costs will generally be paid over the remaining lease terms, ending at various dates through 2021, or over a shorter period as we may negotiate with our lessors. We expect the majority of costs will be paid by the year ended December 31, 2008.

During the fourth quarter of 2002, we began vacating excess facilities and expect to vacate all excess facilities associated with this restructuring by September 30, 2003. We anticipate realizing savings beginning during the third quarter of 2003. We are in the process of seeking suitable subtenants for these facilities. Our estimates of the facility restructure charge may vary significantly depending, in part, on factors that are beyond our control, including the commercial real estate market in the applicable metropolitan areas, our ability to obtain subleases related to these facilities and the time period to do so, the sublease rental market rates and the outcome of negotiations with lessors regarding terminations of certain leases. Adjustments to the facility restructure reserve will be made if actual lease exit costs or sublease income differ from amounts currently expected. Because a portion of the facilities restructure reserve relates to international locations, the reserve will be affected by exchange rate fluctuations.

The components of the restructuring reserve and movements within these components through December 31, 2002 were as follows:

| | Net Rent Commitments | Asset Write-Offs | Total |
|---|---|---|---|
| Provision accrued | $86.9 | $11.3 | $98.2 |
| Cash payments | (0.2) | | (0.2) |
| Impact of exchange rates | 0.6 | 0.1 | 0.7 |
| Balance at December 31, 2002. | $87.3 | $11.4 | $98.7 |

**Restatement of Our Financial Statements for the Years Ended December 31, 2000 and 2001**

In March 2003, we restated our accounting for transactions with AOL Time Warner, or AOL, entered into in September 2000. The transactions involved a software and services purchase by AOL at a stated value of $50.0 million and the purchase by us of advertising services from AOL at a stated value of $20.0 million. We originally recorded $36.9 million of revenue in 2000 and had been recognizing the remaining $13.1 million in revenue over a three-year support period. The purchase of advertising services at a stated value of $20.0 million was recorded as an expense as the services were provided in 2000 and 2001.

We have conducted an internal review of the AOL transactions and other contemporaneous customer-vendor transactions to determine if the fair value of goods and services purchased and sold could be reasonably determined. We have determined that the fair value of the goods and services purchased and sold in the AOL transactions could not be reasonably determined and have accordingly restated our financial results to reflect a reduction in revenues and expenses of $20.0 million. We also restated two additional contemporaneous transactions involving software licenses and the purchase of on-line advertising services entered into in 2000 to reflect an additional reduction in revenues and expenses of $977,000. The periods affected by the restatement include fiscal years ended December 31, 2000 and 2001. In fiscal 2000, the restatement reduced revenue by $19.9 million and increased net loss and net loss per share by $8.6 million and $0.02, respectively. In fiscal 2001, the restatement reduced revenue by $0.4 million and decreased net loss and net loss per share by $9.0 million and $0.02, respectively. Additionally, as of December 31, 2001, the deferred revenue balance was reduced by $0.7 million. The restatement had no impact on our quarterly financial statements for the quarters ended March 31, 2002 to September 30, 2002.

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

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**Critical Accounting Policies**

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

Revenue recognition;

Impairment of long-lived assets;

Restructuring expenses and related accruals; and

Accounting for income taxes.

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

***Revenue Recognition***

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

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

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

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

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

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

We define revenue recognition criteria as follows:

*Persuasive Evidence of an Arrangement Exists.* It is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order prior to recognizing revenue on an arrangement.

*Delivery Has Occurred.* Our software is usually physically delivered to our customers with standard transfer terms as FOB shipping point. It is occasionally delivered electronically, through an FTP download or a load and leave , where a VERITAS employee physically loads the software and does not leave any tangible property with the customer. If undelivered products or services exist that are essential to the functionality of the delivered product in an arrangement, delivery is not considered to have occurred.

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

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

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

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

Certain 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 identify and review the significant transactions to confirm that they are separately negotiated at terms we considered to be arm s length. In cases where the transactions are not separately negotiated, we assess the fair value of either of the goods or services involved in the transaction to support the recognition of the transaction at the amounts stated in the arrangements. If we can not determine fair value of either of the goods or services involved within reasonable limits, we record the transaction on a net basis.

***Impairment of Long-Lived Assets.***

We review our goodwill for impairment when events indicate that its carrying amount may not be recoverable or, at least once a year. 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 needed.

Step 2- We compare the implied fair value of our reporting unit 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 2002 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 when 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;

Significant decrease in the market value of the asset;

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

Significant changes to the asset since we acquired it.

We do not expect to record an impairment loss on our long-lived assets in the near future.

***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, 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 restructuring activities initiated on January 1, 2003 or after, we will apply the provisions of SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities,* outlined in our *New Accounting Pronouncements* section in this Item 7.

We accrue for the costs related to a restructuring plan when the following criteria are met:

our board of directors or management having the appropriate level of authority approves the restructuring plan;

the plan specifically identifies all significant actions to be taken;

actions required by the plan begin soon after the approval date of the plan and would be completed within one year of the approval date; and

significant changes to the plan are not likely.

If a restructuring plan includes the involuntary termination of employees, the plan must be communicated to the employees who are at risk of being terminated and specifically identify:

- the number of employees to be terminated;
- the employees functions and locations; and
- the formula to calculate the termination payment for all employees to be terminated.

Under a restructuring plan, we accrue only for costs that:

- are not associated with activities to be continued;
- are not generating revenue after the approval date of the plan; and
- are incremental to our other costs incurred and are direct results of the restructuring plan, or, are incurred under an existing contractual obligation.

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 terminations costs, and timing and market conditions 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 actual proceeds from sublease agreements were to differ from our estimate of proceeds from sublease agreements included in our facility restructuring plan by 10%, the facility restructuring charge recorded in operating expenses during the fourth quarter of 2002 would have been different by approximately $6 million.

***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. We must also assess the likelihood that deferred tax assets will be realized from future taxable income and, based on this assessment, establish a valuation allowance if required. In 2002, we determined the valuation allowance to be $80.1 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.

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.

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**Results of Operations (As restated for years ended December 31, 2001 and 2000)**

***Net Revenue***

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Total Net Revenue | $1,506.6 | $1,491.9 | $1,187.4 |
| Percentage increase (decrease) over prior period | 1% | 26% | |

In 2002, our total net revenue was impacted by weaker general economic and industry conditions resulting in reduced capital spending by our customers, partially offset by international growth in license and service revenue. During 2002, our customers tended to purchase our products on a conservative as-needed basis due to limited capital spending budgets and economic uncertainty, particularly during the first three quarters of 2002. In 2001, our total net revenue increased more slowly than expected because of reduced capital spending by our customers due to weaker general economic and industry conditions and due to the events of September 11, 2001. Reductions in capital spending may stagnate or reduce the demand for our user licenses and services until economic and industry conditions improve significantly. While we believe that the slight percentage increase in total revenue achieved in recent periods is not necessarily indicative of future results, we expect total net revenue to increase slightly in 2003 reflecting increased penetration of international markets, the benefit of new product offerings and continued growth of service revenue, as well as our expectation that general economic conditions will begin to stabilize in the second half of 2003. Our revenue consists of user license fees and service revenue.

*User License Fees*

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| User License Fees | $1,006.7 | $1,110.1 | $967.6 |
| As a percentage of Net Revenue | 67% | 74% | 81% |
| Percentage increase (decrease) over prior period | (9)% | 15% | |

The decline in user license fees in 2002 reflects 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 of spending 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. The increase in user license fees in 2001 was primarily the result of continued growth in market acceptance of our software products, a greater volume of large end-user transactions, and increased revenue from original equipment manufacturers during the first half of 2001. We expect user license fees as a percentage of total net revenue to remain relatively constant or decline slightly in 2003, reflecting increased penetration of international markets, the benefit of new product offerings and continued growth of service revenue relative to total net revenue, as well as our expectation that general economic conditions will begin to stabilize in the second half of 2003.

We market and distribute our software products both as individual software products and as integrated product suites, which we also refer to as application solutions. We derive our user license fees from the sale of our core technologies, including data protection and file system and volume management products, from our emerging technologies, including cluster and replication, storage area networking and network attached storage products, and from our application solutions, which include technologies from both our core and emerging technologies.

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| User License Fees | | | |
| Core technologies | $ 877.0 | $ 951.1 | $830.7 |
| Emerging technologies | 129.7 | 159.0 | 136.9 |
| Total user license fees | $1,006.7 | $1,110.1 | $967.6 |
| As a percentage of user license fees | | | |
| Core technologies | 87% | 86% | 86% |
| Emerging technologies | 13% | 14% | 14% |
| Total percentage of user license fees | 100% | 100% | 100% |
| Percentage increase (decrease) over prior period | | | |
| Core technologies | (8)% | 14% | |
| Emerging technologies | (18)% | 16% | |
| Total user license fees | (9)% | 15% | |

The decrease in user license fees from both core technologies and emerging technologies during 2002 is commensurate with the overall decrease in user license fees from 2001 to 2002 reflecting weaker general economic and industry conditions. Revenue growth from emerging technologies has been more sensitive to general economic conditions than revenue growth from core technologies, reflecting the tendency of our customers to purchase our core technologies on an as-needed basis rather than invest in emerging technologies when weaker economic conditions exist.

Our user license fees from original equipment manufacturers decreased 14% in 2002 to $156.3 million from $181.9 million in 2001, when it increased 8% from $169.1 million in 2000. The user license fees from original equipment manufacturers accounted for 16% of user license fees in each of 2002 and 2001 and 17% in 2000. The decrease in 2002 reflects reduced hardware sales by original equipment manufacturers as their customers reduced technology spending in the weaker economic environment.

*Service Revenue*