

VERITAS SOFTWARE CORP /DE/

Form 10-Q

November 14, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

or

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

For the transition period from to .

Commission file number: 000-26247

VERITAS Software Corporation

(Exact name of registrant as specified in its charter)

Delaware

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

77-0507675

*(I.R.S. Employer
Identification No.)*

350 Ellis Street

Mountain View, California 94043

(650) 527-8000

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

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

The number of shares of the Registrant's common stock outstanding as of October 31, 2002 was 411.6 million shares.

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****VERITAS SOFTWARE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 831,571	\$ 538,419
Short-term investments	1,291,467	1,156,441
Accounts receivable, net of allowance for doubtful accounts of \$13,438 at September 30, 2002 and \$12,616 at December 31, 2001.	115,128	176,635
Deferred income taxes	122,834	124,527
Other current assets	67,457	66,466
	<hr/>	<hr/>
Total current assets	2,428,457	2,062,488
Property and equipment, net	230,799	225,763
Other intangibles, net	102,159	209,722
Goodwill, net	1,202,814	1,202,814
Other non-current assets	28,383	52,451
Deferred income taxes	84,840	45,375
	<hr/>	<hr/>
Total assets	\$ 4,077,452	\$ 3,798,613
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 30,016	\$ 32,244
Accrued compensation and benefits	81,562	89,637
Accrued acquisition and restructuring costs	10,786	12,093
Other accrued liabilities	78,099	80,833
Income taxes payable	124,305	63,735
Deferred revenue	256,773	239,110
	<hr/>	<hr/>
Total current liabilities	581,541	517,652
Convertible subordinated notes	456,007	444,408
Deferred and other income taxes	113,100	113,100
	<hr/>	<hr/>
Total liabilities	1,150,648	1,075,160
Stockholders equity:		
Common stock	431	423
Additional paid-in capital	6,329,420	6,228,914
Accumulated deficit	(1,696,791)	(1,803,528)
Accumulated other comprehensive loss	(4,192)	(292)
Treasury stock, at cost; 18,675 shares at September 30, 2002 and at December 31, 2001	(1,702,064)	(1,702,064)
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Total stockholders' equity	<u>2,926,804</u>	<u>2,723,453</u>
Total liabilities and stockholders' equity	<u>\$ 4,077,452</u>	<u>\$ 3,798,613</u>

See accompanying notes to the condensed consolidated financial statements.

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(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Net revenue:				
User license fees	\$ 240,699	\$ 240,014	\$ 742,286	\$ 842,711
Services	124,985	100,217	358,537	275,184
	<u>365,684</u>	<u>340,231</u>	<u>1,100,823</u>	<u>1,117,895</u>
Total net revenue				
Cost of revenue:				
User license fees	8,250	7,919	26,222	28,298
Services	46,686	33,952	132,693	99,983
Amortization of developed technology	16,457	15,791	50,264	47,295
	<u>71,393</u>	<u>57,662</u>	<u>209,179</u>	<u>175,576</u>
Total cost of revenue				
Gross profit	294,291	282,569	891,644	942,319
Operating expenses:				
Selling and marketing	122,042	138,659	375,736	427,180
Research and development	69,182	61,636	202,067	177,742
General and administrative	35,179	29,687	102,905	84,077
Amortization of other intangibles	18,016	18,076	54,048	54,304
Amortization of goodwill		203,725		610,466
Acquisition and restructuring costs (reversals)		(5,000)		(5,000)
	<u>244,419</u>	<u>446,783</u>	<u>734,756</u>	<u>1,348,769</u>
Total operating expenses				
Income (loss) from operations	49,872	(164,214)	156,888	(406,450)
Interest and other income, net	10,619	15,697	37,480	51,537
Interest expense	(7,606)	(7,552)	(22,988)	(21,847)
Loss on strategic investments		(16,074)	(14,802)	(16,074)
	<u>52,885</u>	<u>(172,143)</u>	<u>156,578</u>	<u>(392,834)</u>
Income (loss) before income taxes				
Provision (benefit) for income taxes	16,659	(10,157)	49,841	54,227
	<u>36,226</u>	<u>(161,986)</u>	<u>106,737</u>	<u>(447,061)</u>
Net income (loss)				
Net income (loss) per share basic	\$ 0.09	\$ (0.40)	\$ 0.26	\$ (1.12)
	<u>410,898</u>	<u>400,455</u>	<u>408,827</u>	<u>397,783</u>
Number of shares used in computing per share amounts basic				
Net income (loss) per share diluted	\$ 0.09	\$ (0.40)	\$ 0.25	\$ (1.12)
	<u>416,587</u>	<u>400,455</u>	<u>418,823</u>	<u>397,783</u>
Number of shares used in computing per share amounts diluted				



See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2002	2001
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 106,737	\$ (447,061)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	80,087	69,500
Amortization of other intangibles	54,048	54,304
Amortization of goodwill		610,466
Amortization of developed technology	50,264	47,295
Amortization of original issue discount on convertible notes	12,099	11,343
Provision for doubtful accounts	4,017	4,374
Acquisition and restructuring costs (reversals)		(5,000)
Tax benefits from stock plans	19,593	83,005
Loss on strategic investments	14,802	16,074
Gain on sale of assets	(62)	
Deferred income taxes	(39,437)	(45,687)
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	57,490	21,151
Other assets	9,980	7,629
Accounts payable	(2,228)	(12,348)
Accrued compensation and benefits	(8,075)	2,936
Accrued acquisition and restructuring costs	(1,414)	(27,528)
Other accrued liabilities	4,533	(12,711)
Income taxes payable	60,570	7,383
Deferred revenue	17,663	24,572
	<u>440,667</u>	<u>409,697</u>
Cash flows from investing activities:		
Purchases of investments	(1,258,682)	(1,195,468)
Sales and maturities of investments	1,122,807	579,156
Purchases of property and equipment	(83,704)	(124,318)
Business acquisitions		(24,000)
Strategic investments in businesses		(17,110)
Payments made for 2001 business acquisitions	(7,267)	
	<u>(226,846)</u>	<u>(781,740)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	80,422	85,114
	<u>80,422</u>	<u>85,114</u>
Net cash provided by financing activities	80,422	85,114
Effect of exchange rate changes	(1,091)	3,727
	<u>293,152</u>	<u>(283,202)</u>
Net increase (decrease) in cash and cash equivalents	293,152	(283,202)
Cash and cash equivalents at beginning of period	538,419	886,558

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Cash and cash equivalents at end of period	\$ 831,571	\$ 603,356
Supplemental disclosures:		
Cash paid for interest	\$ 10,304	\$ 10,318
Cash paid for income taxes	\$ 14,000	\$ 8,461
Supplemental schedule of non-cash financing transactions:		
Issuance of common stock for conversion of notes	\$ 500	\$ 82

See accompanying notes to condensed consolidated financial statements.

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VERITAS SOFTWARE CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the consolidated financial statements and accompanying notes included in VERITAS Software Corporation's Annual Report on Form 10-K for the year ended December 31, 2001.

2. Use of Estimates

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

3. Comparative Information

The Company has reclassified certain comparative information to conform with current period financial presentation.

4. Change in Accounting Principles

On January 1, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) 142, *Goodwill and Other Intangible Assets*, SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and the Financial Accounting Standards Board (FASB) staff issued Topic No. D-103, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* (Topic D-103).

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144. In the second quarter of 2002, the Company completed the transitional goodwill impairment test required by SFAS 142 and did not record an impairment charge upon completion of the test. In the future, the Company will perform the annual impairment test during the fourth quarter of each fiscal year or when a change in facts and circumstances indicate that the fair value of the reporting unit may be below its carrying amount. The Company does not expect to record an impairment charge upon completion of the next annual impairment test to be performed during the fourth quarter of 2002, but there can be no assurance that at the time the test is completed a significant impairment charge may not be recorded.

SFAS 144 supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, and APB Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale, whether they were previously held and used or newly acquired, and it also broadens the presentation of discontinued operations to include more disposal transactions. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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VERITAS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Topic D-103 requires companies to record certain reimbursements received for out-of-pocket expenses as revenue instead of an offset to the related expense. Upon application of Topic D-103, comparative financial statements for prior periods must be reclassified to comply with the guidance in this announcement. The adoption of Topic D-103 did not have a material impact on the Company's financial position, results of operations or cash flows, and as a result the Company did not reclassify prior period results.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 supersedes Emerging Issues Task Force Issue (EITF) No. 94-3 *Li*