Letter to Stockholders

Notice of 2003 Annual Meeting and Proxy Statement

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VA SOFTWARE

Proxy Statement and 2003 Annual Report to Stockholders

October 27, 2003

To our Stockholders:

Fiscal year 2003 saw the completion of the evolution of VA Software from a hardware company to an enterprise software and online media company. About two years ago, we made the decision to exit our hardware-related lines of business and focus on two properties that we built and acquired during the hardware days — SourceForge and OSDN.

Our commercial software, SourceForge Enterprise Edition ("SourceForge") helps coordinate and accelerate global software team efforts by improving communication and collaboration among distributed team members, and gives managers real-time visibility and better control over their projects. With the growing popularity of offshore development, we believe SourceForge has tremendous potential as companies seek better tools and processes for managing and improving the efficiency of in-house and outsourced teams and for maximizing the anticipated costs savings of globally-sourced development.

SourceForge reduces the risks and costs associated with software development by improving efficiency, collaboration, and project manageability. SourceForge provides a centralized and secure repository for all project documentation, code, discussions and emails, issues and bugs, project news, current task assignments and status. We integrate with and enhance many third-party tools to allow our customers to build on the investment that they have made in software and training. The result is significantly improved operational efficiency and project manageability, with little disruption to current processes.

During fiscal year 2003, 31 new accounts selected SourceForge; as of July 31, 2003, our installed base totaled 55 customers, including: Advanced Reservation Systems, Agilent Technologies, Bluetooth Special Interest Group, Cadence Design Systems, CGI Atlantic, CNA Trust, Cometa Networks, Cornell University, Creative Advanced Technology Center, Detroit Edison, Diversa, Emic Networks, Enbridge Pipelines, Euclid Discoveries, General Atomics, Global Grid Forum, Harris Corporation, Hewlett-Packard Company, IBM, Infravio, Lawrence Livermore National Laboratory, LEGATO Systems, Los Alamos National Laboratory, Lockheed Martin, Montage DMC, Myrio, National Singapore University, Nexterna, Open SystemC Initiative, Osaka Gas Information System and Dataline, Panhandle-Plains Student Loan Center, Persist Technologies, Pfizer, Planet Group, Pratt & Whitney, RSA Security, Sandia National Laboratories, Singlestep Technologies, Singingfish, SPAWAR, Spectel, Spirent Communications, Sun Microsystems, U. S. Army Research Lab and the USDA Forest Service. With sales to new accounts and follow-on sales to existing accounts, revenue from our software business increased by over 168% to $2.9 million during fiscal year 2003.

We began and ended fiscal year 2003 with announcements about our relationship with IBM. In August 2002, we announced a significant commercial agreement with IBM focused on joint marketing and sales of the next generation of SourceForge. In January, we announced the successful integration of SourceForge with IBM's DB2 Universal database, WebSphere Studio Application Developer and Tivoli management software. In early August 2003, we announced that IBM had selected SourceForge Enterprise Edition 3.3 for its internal open source community, supporting more than 2,000 registered IBM open source developers. Our software will help IBM coordinate internal, community-based development activity in its labs around the world to increase developer productivity and performance. In addition to gaining a strong new customer, IBM's validation of the value of SourceForge gives us a great reference to both our prospects and customers and to IBM's sales force who are working with their VA counterparts to sell joint IBM/VA solutions.

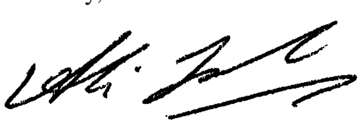
OSDN (www.osdn.com), the leading network of technology-focused sites serving the open source, developer and IT communities, and media sites serving Web designers and consumers, really came into its own during fiscal year 2003. OSDN sites, including SourceForge.net, Slashdot.org, Linux.com, NewsForge.com, DevChannel.org, and freshmeat.net collectively receive more than 180 million page views, and more than 10 million unique visitors, every month. With the emergence of Linux and open source software as an accepted IT standard, the business community is increasingly interested in reaching technology drivers and influencers within the Linux and open source community. OSDN advertisers such as IBM, Oracle, Google, Microsoft, Dell, HP, Legato, eBay, Interland and Rackspace, reach a targeted audience of professionals who make hardware and software purchasing decisions, as well as determine platform migration strategies, for their enterprise. OSDN advertising revenues are supplemented with sales of retail goods of interest to the software development and IT communities through ThinkGeek.com and subscriptions for and licensing of animations and presentation templates at AnimationFactory.com.

The success of OSDN can be measured by the number of visitors, up from 6.5 million at the beginning of fiscal year 2003 to 10 million at the end of the fiscal year; by the number of projects being developed on SourceForge.net, up from 45,000 at the beginning of the fiscal year to over 67,000 as we closed our fiscal year 2003; and by revenue which increased by over 28% to $20.6 million. We believe that our unique editorial approach and product offerings will continue to resonate with a growing open source community and provide continued growth opportunity for us.

Finally, our financial results showed substantial improvement. During fiscal year 2003, revenue totaled $24.2 million, compared to $20.4 million in fiscal year 2002. Our ongoing software and online revenues increased by 38% to $23.5 million in fiscal year 2003 from $17.1 million in fiscal year 2002. On a GAAP basis, our net loss declined to $13.8 million, or $0.25 per share, during fiscal year 2003 compared to $91.0 million, or $1.72 per share, during fiscal year 2002.

As we enter fiscal year 2004, we are optimistic about the opportunities ahead. We see more and more companies outsourcing their development and we believe that SourceForge delivers the visibility and control needed to manage the costs and risks of decentralized software development. We believe that the market for OSDN will continue to grow as the movement toward Linux and open source continues to accelerate. We believe that we have right-sized our organization and cost structure and with $39.7 million in cash and marketable securities at the end of fiscal year 2003, we believe that we have adequate funds available to support our ongoing investments in product development, sales and marketing.

Sincerely,



Ali Jenab

President and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
December 3, 2003

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of VA Software Corp. (the "Company"), a Delaware corporation, will be held on Wednesday, December 3, 2003 at 9:00 a.m., local time, at the Company's principal executive offices located at 47071 Bayside Parkway, Fremont, CA 94538, for the following purposes:

1. To elect three (3) Class I directors to serve for a three year term and until their successors are duly elected and qualified (Proposal One);
2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent accountants for the fiscal year ending July 31, 2004 (Proposal Two); and
3. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on October 6, 2003 are entitled to notice of and to vote at the meeting.

Fremont, California
October 27, 2003

Sincerely,

Bret M. DiMarco
Secretary

YOUR VOTE IS IMPORTANT

This Proxy Statement is furnished in connection with our solicitation of proxies, on behalf of the Board of Directors, for the 2003 Annual Meeting of Stockholders. The Proxy Statement and the related proxy form are being distributed on October 27, 2003. You can vote your shares using one of the following methods:

- **Vote through the Internet at the website shown on the proxy card**
- **Vote by telephone using the toll-free number shown on the proxy card**
- **Complete and return a written proxy card**
- **Attend our 2003 Annual Meeting of Stockholders and vote**

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on December 2, 2003. Internet and telephone voting are available 24 hours per day; if you vote via Internet or telephone, you do not need to return a proxy card.

All stockholders are cordially invited to attend the meeting, however, to ensure your representation at the meeting, you are urged to vote via Internet or telephone, or mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person even if he or she has voted via the Internet or telephone, or returned a proxy card.

VA SOFTWARE CORP.
47071 Bayside Parkway
Fremont, California 94538

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed Proxy is solicited on behalf of the Board of Directors of VA Software Corp. (the "Company") for use at our Annual Meeting of Stockholders (the "Meeting") to be held at the Company's principal executive offices located at 47071 Bayside Parkway, Fremont, California 94538, on Wednesday, December 3, 2003, at 9:00 a.m., local time, and at any adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Our telephone number is (510) 687-7000.

Our Annual Report on Securities and Exchange Commission ("SEC") Form 10-K, containing financial statements for the fiscal year ended July 31, 2003, is being mailed together with these proxy solicitation materials to all stockholders entitled to vote. This Proxy Statement, the accompanying Proxy and our Annual Report on Form 10-K were first mailed on October 27, 2003 to all stockholders entitled to vote at the Meeting.

YOU MAY RECEIVE A COPY OF THE COMPANY'S 2003 FORM 10-K NOT INCLUDING EXHIBITS AT NO CHARGE. IF YOU PREFER A COPY OF THE 2003 FORM 10-K INCLUDING EXHIBITS, YOU WILL BE CHARGED A REASONABLE FEE (WHICH SHALL BE LIMITED TO OUR REASONABLE EXPENSES IN FURNISHING SUCH EXHIBITS) BY SENDING A WRITTEN REQUEST TO VA SOFTWARE CORP., 47071 BAYSIDE PARKWAY, FREMONT, CALIFORNIA, 94538, ATTN: INVESTOR RELATIONS.

Record Date and Share Ownership

Stockholders of record at the close of business on October 6, 2003 (which we will refer to as the "Record Date" throughout this Proxy Statement) are entitled to notice of and to vote at the Meeting and at any adjournment(s) thereof. We have one series of Common Shares issued and outstanding, designated as Common Stock, $0.001 par value per share, and one series of undesignated Preferred Stock, $0.001 par value per share. As of the Record Date, 250,000,000 shares of our Common Stock were authorized and 57,047,405 shares of our Common Stock were issued and outstanding. As of the Record Date, 10,000,000 shares of our Preferred Stock were authorized and no shares of our Preferred Stock were outstanding.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by:

1. Delivering to us at our principal offices (Attention: Investor Relations) a written notice of revocation; or

2. Delivering subsequent proxy instructions as follows:

— **By Phone:** Use the toll free telephone number provided on the proxy card to vote again prior to 11:59 p.m. EST on December 2, 2003 (specific instructions for using the telephone voting system are on the proxy card);

— **By Internet:** Use the Internet **voting** site listed on the proxy card to vote again prior to 11:59 p.m. EST on **December** 2, 2003 (specific instructions for using the Internet voting system are on the proxy card);

— **By Mail:** Sign, **date** and mail another proxy card bearing a later date and deliver such proxy card to our principal offices (Attention: Investor Relations); or

— **In Person:** Attend the Meeting and vote your shares in person.

Voting

On all matters, each share has one vote. See "Proposal One — To Elect Three (3) Class I Directors To Serve For A Three Year Term And Until Their Successors Are Duly Elected And Qualified — Vote Required."

Solicitation of Proxies

We will bear the cost of soliciting proxies and have retained the services of ADP Brokerage Services Group ("ADP") to aid in the solicitation of proxies from brokers, bank nominees and other institutional owners. We estimate that we will pay ADP a fee of approximately $25,000 for its services and will reimburse it for certain out of pocket expenses estimated to be approximately $25,000. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of our directors, officers and regular employees, without additional compensation, personally or by telephone or facsimile.

Quorum; Abstentions; Broker Non-Votes

Votes cast by proxy or in person at the Meeting ("Votes Cast") will be tabulated by the Inspector of Elections (the "Inspector") who will be one of our employees. The Inspector will also determine whether or not a quorum is present. Except in certain specific circumstances, the affirmative vote of a majority of shares present in person or represented by proxy at a duly held meeting at which a quorum is present is required under Delaware law for approval of proposals presented to stockholders. In general, Delaware law provides that a quorum consists of a majority of shares entitled to vote and present or represented by proxy at the Meeting.

The Inspector will treat shares that are voted WITHHELD or ABSTAIN, or "broker non-votes," as being present and entitled to vote for purposes of determining the presence of a quorum but will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. "Broker non-votes" will not be counted for purposes of determining the number of Votes Cast with respect to a particular proposal. When proxies are properly dated, executed and returned, the shares represented by such proxies will be voted at the Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted for (i) the election of the nominees for directors set forth herein; (ii) the ratification of PricewaterhouseCoopers LLP as our independent accountants for the fiscal year ending July 31, 2004; and (iii) such other business as may properly come before the Meeting or any adjournment thereof in the discretion of the proxy holder.

If a broker indicates on the enclosed proxy or its substitute that such broker does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), those shares will not be considered as present with respect to that matter. We believe that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

Deadline for Receipt of Stockholder Proposals

Proposals of stockholders that are intended for inclusion in our proxy statement relating to our 2004 Annual Meeting of Stockholders must be received by us at our principal executive offices at 47071 Bayside Parkway, Fremont, CA 94538, Attention: General Counsel, not later than June 19, 2004 and must satisfy the conditions established by the SEC for stockholder proposals in order to be included in our proxy statement for that meeting. Stockholder proposals that are not intended to be included in our proxy materials for such meeting but that are intended to be presented by the stockholder from the floor are subject to the advance notice procedures described below under "Transaction of Other Business."

Transaction of Other Business

At the date of this Proxy Statement, the only business that the Board of Directors intends to present or knows that others will present at the Meeting is as set forth in this Proxy. If any other matter or matters are properly brought before the Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their discretion.

Any stockholder may present a matter from the floor for consideration at a meeting so long as certain procedures are followed. Under our bylaws, as amended, in order for a matter to be deemed properly presented by a stockholder for consideration at this year's Meeting, timely notice must have been delivered to, or mailed and received by, us not later than 120 days nor more than 150 days before October 28, 2003, the month and day that our proxy statement was released to the stockholders in connection with last year's annual meeting. The stockholder's notice must set forth, as to each proposed matter, the following: (a) the name and address of the stockholder proposing such business; (b) a representation that the stockholder is a holder of record of our stock entitled to vote at the meeting and intends to appear in person or by proxy to introduce the business specified in the notice; (c) if the proposal is for the nomination of directors, a description of all arrangements or understandings between the stockholder and the nominee(s) pursuant to which the nomination(s) are to be made by the stockholders; (d) such other information regarding the proposal as would be required to be included in a proxy statement filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), had the matter been proposed by our Board of Directors; and (e) if the proposal is for the nomination of directors, the consent of each nominee to serve as a director. The chairman of the meeting may refuse to acknowledge any matter not made in compliance with the foregoing procedure.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of October 6, 2003, certain information with respect to the beneficial ownership of our Common Stock by (i) any person, known by us to be the beneficial owner of more than 5% of our Common Stock, (ii) each of our directors and each nominee seeking to become one of our directors, (iii) each of our current executive officers named in the Summary Compensation Table appearing herein, and (iv) all of our current executive officers and directors as a group. The number and percentage of shares beneficially owned are based on the aggregate of 57,047,405 shares of Common Stock outstanding as of October 6, 2003. We do not know of any arrangements, including any pledge of our securities by any person, the operation of which may at a subsequent date result in a change of control of the Company.

Names and Addresses of Beneficial Owners[1]	Number of Shares	Percent of Common Stock Outstanding
Larry M. Augustin[2]	5,810,187	10.0%
Ali Jenab[3]	847,082	1.5%
Greg Orzech[4]	401,872	*
Carl Redfield[5]	385,002	*
Richard French[6]	187,080	*
Douglas Leone[7]	147,714	*
John Villadsen[8]	121,790	*
David B. Wright[9]	40,000	*
Robert M. Neumeister, Jr.[10]	28,332	*
Colin Bodell[11]	22,917	*
Kathleen R. McElwee[12]	22,916	*
Andre Boisvert[13]	13,333	*
Ram Gupta[14]	4,584	*
All directors and officers as a group (13 persons)[15]	8,032,809	13.4%

* Represents less than 1% of the outstanding shares Common Stock.

(1) Unless otherwise indicated, the address of each officer, director or 5% stockholder is c/o VA Software Corp., Attention: Stock Plan Manager, 47071 Bayside Parkway, Fremont, California 94538.

(2) Includes 213,000 shares owned by Mr. Augustin's wife and 1,700 shares owned by Mr. Augustin's father. Also includes 854,999 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(3) Includes 847,082 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(4) Includes 401,872 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(5) Includes 103,333 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(6) Includes 187,080 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(7) Includes 142,499 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(8) Includes 117,290 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(9) Includes 40,000 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(10) Includes 28,332 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(11) Includes 22,917 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(12) Includes 22,916 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(13) Includes 13,333 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(14) Includes 4,584 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

(15) Includes the shares beneficially owned by the directors and officers set forth on the above table as well as 2,786,237 shares subject to options that are exercisable within sixty (60) days of October 6, 2003.

PROPOSAL ONE

TO ELECT THREE (3) CLASS I DIRECTORS TO SERVE FOR A THREE YEAR TERM AND UNTIL THEIR SUCCESSORS ARE DULY ELECTED AND QUALIFIED

Our Board of Directors has eight authorized directors and currently consists of eight members. We have a classified Board of Directors, which is divided into three classes and whose terms expire at different times. The three classes are currently comprised of the following directors:

— Class I consists of Larry M. Augustin, Andre Boisvert and Douglas Leone, who will serve until the annual meeting of stockholders to be held in 2003;

— Class II consists of Ram Gupta and Carl Redfield, who will serve until the annual meeting of stockholders to be held in 2004; and

— Class III consists of Ali Jenab, Robert M. Neumeister, Jr., and David B. Wright, who will serve until the annual meeting of stockholders to be held in 2005.

At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election and until their successors have been duly elected and qualified. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors.

Nominees

The term of the three Class I directors will expire on the date of the Meeting. The Board of Directors does not have a standing Nominating Committee. The independent members of the Board of Directors unanimously resolved to nominate the three Class I directors for election to the Board. The nominees for election by the stockholders to these three positions are:

— Larry M. Augustin;

— Andre Boisvert; and

— Douglas Leone.

We are not aware of any reason that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a Class I Director at the Meeting will continue until our annual meeting of stockholders held in 2006 or until a successor has been elected and qualified. There are no arrangements or understandings between any of our directors or executive officers and any other person pursuant to which he or she is or was to be selected as one of our directors or officers.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for our three nominees named above, each of whom is currently one of our directors. Each nominee has consented to be named a nominee in the proxy statement and to continue to serve as a director if elected. If any nominee becomes unable or declines to serve as a director or if additional persons are nominated at the Meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible (or, if new nominees have been designated by the Board of Directors, in such a manner as to elect such nominees), and the specific nominees to be voted for will be determined by the proxy holders.

Vote Required

Directors will be elected by a plurality vote of the shares of our Common Stock present or represented and entitled to vote on this matter at the Meeting. Accordingly, the three candidates receiving the highest number of affirmative votes of shares represented and voting on this proposal at the Meeting will be elected directors of the

Company. Votes withheld from a nominee and broker non-votes will be counted for purposes of determining the presence or absence of a quorum but, because directors are elected by a plurality vote, will have no impact once a quorum is present. See "Information Concerning Solicitation And Voting — Quorum; Abstentions; Broker Non-Votes."

Information About The Directors, Nominees And Executive Officers

The following table sets forth for each of our Class I Directors, Class II Directors, Class III Directors and executive officers, their ages and present positions with the Company as of the Record Date.

Name	Age	Position
Executive Officers		
Ali Jenab	40	President, Chief Executive Officer and Class III Director
Colin Bodell	41	Senior Vice Present, Product Development
Richard French	49	Senior Vice President and General Manager, OSDN
Kathleen R. McElwee	48	Vice President and Chief Financial Officer
Greg Orzech	46	Senior Vice President, Sales
John Villadsen	51	Vice President, Operations
Directors		
Larry M. Augustin	41	Chairman and Class I Director
Andre Boisvert(1)	50	Class I Director
Ram Gupta(2)	41	Class II Director
Douglas Leone(1)	46	Class I Director
Robert M. Neumeister, Jr.(2)	53	Class III Director
Carl Redfield(2)	56	Class II Director
David B. Wright(1)	52	Class III Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

There is no family relationship between any of our directors or executive officers.

Ali Jenab has served as our Chief Executive Officer and President since July 2002 and as a member of our Board of Directors since June 2001. Mr. Jenab was our President and Chief Operating Officer from February 2001 until July 2002. From August 2000 through February 2001, Mr. Jenab served as Senior Vice President and General Manager of our Systems Division. From 1983 through August 2000, Mr. Jenab held various positions at Amdahl Corporation, a provider of high-end integrated computing solutions. From October 1999 through August 2000, he was group president of Amdahl's technology division. From October 1998 through October 1999, Mr. Jenab was Amdahl's vice president of strategic business, and from January 1997 through October 1998, Mr. Jenab was vice president of worldwide marketing. From July 1995 through January 1997, Mr. Jenab was director of marketing at Amdahl. Mr. Jenab is a member of the board of directors of Tower Automotive Inc. and Sagent Technology, Inc.

Colin Bodell has served as our Senior Vice President of Product Development since October 2001. From August 2001 through September 2001, Mr. Bodell served as general manager of Talkway Communications, a provider of video messaging products. Mr. Bodell was a private investor in July 2001. From August 2000 through June 2001, Mr. Bodell served as executive vice president of engineering and product management for Webgain, Inc., a provider of enterprise Java application development tools. Mr. Bodell served as chief operating officer and vice president of product development for Intellicorp, Inc., a technology firm focused on optimizing enterprise business processes, from December 1995 through July 2000.

Richard French has served as our Senior Vice President and General Manager of OSDN since January 2001. From October 2001 until June 2002, Mr. French also served as our Senior Vice President of Marketing. From April 2000 through January 2001, Mr. French was founder, chairman of the board of directors and chief technical officer of Tekrati, Inc., a web-based industry analyst relations consulting services company. Mr. French was a private investor from January 2000 through March 2000. From December 1998 through December 1999, Mr. French served as senior vice president and general manager of the emerging technology group at Netmanage, Inc., a provider of host access and host integration solutions. From February 1998 through August 1998, Mr. French served as the chief executive officer of Infoscape, Inc., an information systems consulting company. From January 1997 through February 1998, Mr. French was vice president of the enterprise platforms division of Oracle Corporation, a software company offering database, application server, collaboration, developer and e-business software. Mr. French served as Oracle's vice president of the Digital Equipment, Hewlett-Packard and power platforms division from March 1996 through January 1997. Mr. French is currently chairman of the board of directors of Tekrati, Inc.

Kathleen R. McElwee has served as our Vice President and Chief Financial Officer since January 2002. From July 2000 until January 2002, Ms. McElwee was senior vice president of finance and chief financial officer of The 3DO Company, developer, publisher and distributor of interactive entertainment software for advanced entertainment systems. She was the chief financial officer of Lightspan, Inc., a developer of educational software, from January 1999 until July 2000. Ms. McElwee was with Galoob Toys, Inc., a developer and marketer of toys, from November 1995 until January 1999, where in November 1998 she was promoted to chief financial officer from her position as vice president of planning and analysis.

Greg Orzech has served as our Senior Vice President of Sales since February 2001. From July 2000 until February 2001, Mr. Orzech served as our Vice President of North American Sales. Mr. Orzech served as our Director of Strategic Planning from November 1999 through June 2000. From August 1999 through November 1999, Mr. Orzech was vice president, worldwide territories for Synopsys, Inc., a provider of semiconductor design software. From October 1998 until August 1999, Mr. Orzech was Synopsys's senior director, central area, and from October 1997 until October 1998, Mr. Orzech was Synopsys's director, northern area. From October 1995 until October 1997, Mr. Orzech was Synopsys's regional manager, central region.

John R. Villadsen has served as our Vice President of Operations, since April 2001. From August 1999 until April 2001, Mr. Villadsen served as vice president of manufacturing operations at GaSonics International Corporation, a supplier of photoresist and residue removal technologies for the semiconductor industry, which was acquired by Novellus Systems, Inc. in January 2001. From April 1998 through July 1999, Mr. Villadsen served as the vice president, customer service and manufacturing, semiconductor equipment group at Watkins-Johnson Company, a designer and manufacturer of microwave components, subsystems, and systems for the defense industry. From May 1995 through April 1998, Mr. Villadsen served as Watkins-Johnson's director, assembly and test semiconductor equipment group.

Larry M. Augustin, one of our founders, served as our Chief Executive Officer from March 1995 until July 2002 and has been a member of our Board of Directors since March 1995. From March 1995 through January 2001, Mr. Augustin also served as our President. Mr. Augustin has served as Chairman of our Board of Directors since October 2001. From September 1989 through December 1995, Mr. Augustin was a consultant for Fintronic USA, Inc., a provider of high performance electronic design automation tools, and was a research associate at Stanford University. Mr. Augustin is a director of Linux International, a Linux vendor and advocacy association, and a director of the Open Source Development Lab, Inc., which provides open source developers with resources and guidance to build enhancements into Linux. Since December 2002, Mr. Augustin has served as a director of the Free Standards Group, a nonprofit organization dedicated to accelerating the use of free and open source software by developing and promoting standards. Since January 2003, Mr. Augustin has been a venture partner at Azure Capital Partners, a venture capital firm, where he specializes in software, systems, and related IT infrastructure technologies.

Andre Boisvert has served on our Board of Directors since March 2002. Since April 2001, Mr. Boisvert has served on the board of directors of Sagent Technology, Inc., a provider of business intelligence software. Mr. Boisvert was elected Chairman of Sagent's Board in January 2002 and since July 2002 has served as Sagent's interim chief executive officer. On October 1, 2003, Group 1 Software Inc. completed the purchase of substantially all of Sagent's operating assets. Since February 2002, Mr. Boisvert has been a partner in a European holding company, Corporate Application Services Holding A/S, which owns several software and services companies throughout continental Europe, the United Kingdom and the United States. From January 2000 through February

2001, Mr. Boisvert served as president and chief operating officer of SAS Institute, Inc., a provider of business-intelligence software and services. From January 1998 through December 1999, Mr. Boisvert worked as an independent consultant for Microsoft Corporation, an operating system and application software company. From December 1995 through December 1997, Mr. Boisvert worked as special general partner of Southeast Interactive Technology Funds, a venture capital firm, where he served as interim chief executive officer for two of the fund's portfolio companies.

Ram Gupta joined our board in February 2002. Since August 2000, Mr. Gupta has been executive vice president, products and technology for PeopleSoft, Inc. From December 1997 until July 2000, Mr. Gupta was senior vice president and general manager for Healtheon|WebMD Corp, a provider of services that link physicians, consumers, providers and health plans online. Before that, from December 1994 until November 1997, Mr. Gupta served as director of the multimedia networking group at Silicon Graphics, Inc., a provider of high-performance computing, visualization and storage equipment.

Douglas Leone has served on our Board of Directors since October 1998. He has been at Sequoia Capital, a venture capital firm, since July 1988 and has been a general partner since 1993. He is a member of the board of directors of several private corporations.

Robert M. Neumeister, Jr., has served on our Board of Directors since June 2001. Since January 2003, Neumeister has served as chief financial officer for Dex Media, Inc., a company providing local and national advertisers with directory, Internet and direct marketing solutions. From September 2001 through December 2002, Mr. Neumeister served as chief financial officer for Myriad Proteomics, Inc., a company engaged in mapping the human proteome. From July 2001 through September 2001, Mr. Neumeister was a private investor. Mr. Neumeister was chief financial officer of Aerie Networks, Inc., a telecommunications network company, from January 2000 through June 2001. Mr. Neumeister served as vice president and director of finance of Intel Corporation, a leading supplier of microprocessors used in the computing and communications industries, from December 1998 through December 1999. Prior to joining Intel, Mr. Neumeister served as chief financial officer of Sprint Corporation's PCS group, a mobile telephone service provider, from September 1995 through November 1998. Mr. Neumeister is a member of the board of directors of Symmetricom, Inc.

Carl Redfield has served on our Board of Directors since October 1998. He has served as senior vice president, manufacturing and logistics of Cisco Systems, Inc., a provider of Internet Protocol-based (IP) networking solutions, since February 1997. From September 1993 until February 1997, Mr. Redfield was vice president of manufacturing of Cisco Systems. Mr. Redfield is a member of the board of directors of Cincinnati Bell Inc.

David B. Wright has served on our Board of Directors since December 2001. Mr. Wright has served as president and chief executive officer of Legato Systems, Inc., which develops, markets and supports enterprise class storage software products and services, since October 2000. On October 20, 2003, Legato's stockholders approved a merger agreement with EMC Corporation. Mr. Wright has been a director of Legato since March 2001. Mr. Wright joined Legato following a thirteen-year career with Amdahl Corporation, a provider of high-end integrated computing solutions, where he served as president and chief executive officer from September 1997 through September 2000. Before joining Amdahl, Mr. Wright spent eleven years with International Business Machines Corporation, a developer and manufacturer of advanced information technologies, serving in a variety of staff and management positions. Mr. Wright serves on the Board of Directors of Aspect Communications Corporation and Insurance Services Office, Inc.

Director Compensation

We reimburse our directors who are not officers or employees for expenses incurred in attending any Board of Directors or committee meeting. Directors who are also our officers or employees are not reimbursed for expenses incurred in attending Board of Directors or committee meetings. Since August 2002, we compensate our directors who are not our officers or employees $2,500 for each Board meeting such director attends in person for the entire meeting, and $1,250 for each Board meeting such director attends telephonically for the entire meeting. Since August 2002, we compensate our Audit Committee members $1,500 for each regularly scheduled Audit Committee meeting such member attends in person or telephonically for the entire meeting.

Our non-employee directors are eligible to participate in our 1999 Director Option Plan (the "Director Plan"). Under the Director Plan, each non-employee director who joins our Board of Directors will automatically receive a grant of an option to purchase 80,000 shares of our Common Stock on the date on which such person becomes a director. The shares subject to the options granted to non-employee directors will vest over a three year period following the date of grant with one quarter vesting on the date of grant and one thirty-sixth vesting each month thereafter. Additionally, at each successive annual stockholder meeting, each non-employee director who has previously served at least six consecutive months prior thereto (including our current non-employee directors) will receive an option to purchase 20,000 shares of our Common Stock. The shares subject to the options granted to non-employee directors will vest over a three year period following the date of grant with one quarter vesting on the date of grant and one thirty-sixth vesting each month thereafter. The vesting of these options will automatically accelerate upon a change of control of the Company. The exercise price per share for all options automatically granted to directors under the Director Plan will be equal to the market price of our Common Stock on the date of grant and will have a ten year term, but will generally terminate within a specified time, as defined in the Director Plan, following the date the option holder ceases to be a director or consultant.

Employee directors, including Mr. Jenab, are eligible to participate in our 1999 Employee Stock Purchase Plan ("ESPP") and to receive discretionary grants under our 1998 Stock Plan (the "1998 Plan"). Non-employee directors are also eligible to participate in the 1998 Plan.

We also maintain directors and officers indemnification insurance coverage which covers directors and officers individually where exposures exist other than those for which we are able to provide direct or indirect indemnification.

Board Meetings and Committees

Our Board of Directors held a total of four meetings during the fiscal year ended July 31, 2003 ("Fiscal Year 2003"). With the exception of Ram Gupta, who attended 60% of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which Mr. Gupta served, no director serving throughout Fiscal Year 2003 attended fewer than 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which such director served. Mr. Augustin attended all meetings of the Board of Directors and does not serve on any committees of the Board. Mr. Boisvert attended all of the meetings of the Board of Directors and the committees of the Board upon which Mr. Boisvert served. Mr. Leone attended 83% of the meetings of the Board of Directors and the committees of the Board upon which Mr. Leone served.

The Board of Directors has two standing committees: the Audit Committee and the Compensation Committee. The Board of Directors does not have a standing Nominating Committee. The independent members of the Board of Directors unanimously nominated the three Class I directors for election to the Board.

The Audit Committee consists of Messrs. Neumeister, Gupta and Redfield. Our Board has determined that Mr. Neumeister is an independent director and qualifies as the "audit committee financial expert" as that term is defined in Item 401(h) of Regulation S-K of the Exchange Act. The Audit Committee reviews our internal accounting procedures, consults with, reviews the services provided by and selects our independent accountants. In particular, the Audit Committee is responsible for overseeing the engagement, independence, and services of our independent auditors. The Audit Committee also serves to: (i) act as an independent and objective party to monitor our financial reporting process and internal control system, (ii) review and appraise the audit efforts of our independent auditors, (iii) evaluate our quarterly financial performance as well as our compliance with laws and regulations, (iv) oversee management's establishment and enforcement of financial policies and business practices, and (v) provide an open avenue of communication among the independent auditors, financial and senior management, counsel and the Board of Directors. The Audit Committee held six (6) meetings during Fiscal Year 2003.

The Compensation Committee consists of Messrs. Leone, Boisvert and Wright. The Compensation Committee reviews and recommends to the Board of Directors the salaries, incentive compensation and benefits of our officers and employees and administers our stock plans and employee benefit plans. The Compensation Committee held two (2) meetings during Fiscal Year 2003.

Compensation Committee Interlocks and Insider Participation

Our Board of Directors established the Compensation Committee in October 1999. Prior to establishing the Compensation Committee, our Board of Directors as a whole performed the functions delegated to the Compensation Committee. No member of our Compensation Committee has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee. Since the formation of our Compensation Committee, none of its members has been our officer or employee.

Statement on Corporate Governance

We regularly monitor developments in the area of corporate governance. We are studying the new federal laws affecting this area, including the Sarbanes-Oxley Act of 2002, as well as rules proposed and promulgated by the SEC and the National Association of Securities Dealers. We will comply with all applicable new rules and will implement other corporate governance "best practices" as we deem appropriate. We believe that we already have procedures in place to safeguard our stockholders' interests, including the following:

Board of Directors

Our Board is composed of seven non-employee directors and one employee director, our Chief Executive Officer. The non-employee members of our Board hold regular executive sessions.

Committees. Our Compensation and Audit Committees are comprised solely of independent directors as determined pursuant to the listing requirements of The Nasdaq Stock Market. Each committee reviews its mandate as legislative and regulatory developments and business circumstances warrant. The Audit Committee re-examined and revised its charter early in Fiscal Year 2003. The Audit Committee's revised charter appears as Appendix A to our 2002 Proxy Statement, which we filed with the SEC on October 28, 2002. The Audit Committee may make additional recommendations to our Board for further revision of the Audit Committee charter to reflect evolving best practices.

Employee Matters

In October 2002, we adopted a Code of Business Conduct and Ethics (the "Code of Conduct"), which has been executed by all of the Company's employees. We require all employees to adhere to the Code of Conduct in addressing the legal and ethical issues encountered in conducting their work. Employees are required to report to our General Counsel any conduct that they believe in good faith to be an actual or apparent violation of the Code of Conduct.

In accordance with the Sarbanes-Oxley Act of 2002 and rules promulgated thereunder by the SEC, the Audit Committee has established procedures to receive, retain and treat complaints received by us or the Audit Committee regarding accounting, internal accounting controls or auditing matters and to allow for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. We are monitoring developments in this field and, if necessary or appropriate, will adopt new procedures consistent with new legislation or regulations.

Other Matters

Disclosure. We have established a disclosure committee comprised of certain senior executives and managers to specify, coordinate and oversee the review procedures that we use each quarter to prepare our periodic SEC filings.

Equity Plans. Our standard practice is to obtain stockholder approval before implementing equity compensation plans.

**THE BOARD OF DIRECTORS
RECOMMENDS THAT STOCKHOLDERS VOTE
FOR THE CLASS I NOMINEES LISTED ABOVE.**

PROPOSAL TWO

TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT ACCOUNTANTS FOR THE FISCAL YEAR ENDING JULY 31, 2004

Our Audit Committee has selected PricewaterhouseCoopers LLP ("PwC"), independent accountants, to audit our financial statements for our fiscal year ending July 31, 2004 ("Fiscal Year 2004"), and based on this selection, our Board of Directors has unanimously recommended that stockholders vote for ratification of such appointment. Although action by stockholders is not required by law, the Board of Directors has determined that it is desirable to request approval of this selection by our stockholders. Notwithstanding the selection or a ratification, the Audit Committee, in its discretion, may direct the appointment of new independent accountants at any time during the fiscal year, if the Audit Committee determines that such a change would be in our best interest and the interest of our stockholders. In the event of a negative vote or ratification, the Audit Committee may reconsider its selection.

Replacement of Arthur Andersen LLP with PricewaterhouseCoopers LLP in Fiscal Year 2002

On April 17, 2002, at the recommendation of the Audit Committee, the Board of Directors dismissed Arthur Andersen LLP ("AA") as our independent accountants for the fiscal year ended July 27, 2002 ("Fiscal Year 2002") and engaged PwC as our independent accountants for Fiscal Year 2002. PwC reviewed our financial statements for our third quarter ended April 27, 2002 and audited our financial statements for Fiscal Year 2002 and Fiscal Year 2003.

During the two fiscal years ended July 28, 2000 ("Fiscal Year 2000") and July 28, 2001 ("Fiscal Year 2001"), and the subsequent interim period through April 17, 2002, there were no disagreements between us and AA on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to AA's satisfaction, would have caused AA to make a reference to the subject matter of the disagreement in connection with its reports. The audit reports of AA on our consolidated financial statements as of and for Fiscal Year 2000 and Fiscal Year 2001 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During Fiscal Year 2000 and Fiscal Year 2001, and the subsequent interim period through April 17, 2002, we did not consult with PwC regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

Attendance at the Annual Meeting

The Board of Directors expects that representatives of PwC will be present at the Meeting, afforded the opportunity to make a statement if they desire to do so and available to respond to appropriate questions from stockholders.

New Auditor Fee Disclosure Rules

We have elected to early adopt the SEC's new proxy disclosure requirements relating to auditor fees, implemented pursuant to the Sarbanes-Oxley Act of 2002. Under the new requirements, the audit fee categories have been expanded from three categories to the following four categories:

- Audit Fees;
- Audit-Related Fees;
- Tax Fees; and
- All Other Fees.

The audit fee categories under the previous rules were reported as Audit Fees, Financial Information Systems Design and Implementation Fees, and All Other Fees. In addition, under the new disclosure rules, "Audit" has been expanded to include audit and attest services provided in connection with statutory and regulatory filings and SEC consent letter.

The SEC also requires that comparative information be provided for the previous fiscal year. Therefore, auditor fee information from our 2002 proxy is being restated here, after taking into account the new categories and definitions that have been implemented.

Audit Fees

The aggregate fees billed or to be billed by PwC for Fiscal Year 2003 and Fiscal Year 2002 for professional services rendered for (i) the audit of the Company's annual financial statements set forth in the Company's Annual Report on Form 10-K, (ii) the review of the Company's quarterly financial statements set forth in the Company's Quarterly Reports on Form 10-Q, and (iii) services related to statutory and regulatory filings or engagements were approximately $177,500 and $130,000, respectively.

Audit-Related Fees

The aggregate fees billed by PwC for assurance and related services related to the accounting consultations and audits in connection with acquisitions for Fiscal Year 2003 and Fiscal Year 2002, were approximately $0 and $0.

Tax Fees

The aggregate fees billed by PwC for professional services related to tax compliance and tax consulting services for Fiscal Year 2003 and Fiscal Year 2002, were approximately $220,000 and $58,320, respectively.

All Other Fees

The aggregate fees billed by PwC for services other than those described above, including, but not limited to, publications and consulting services on special projects, for Fiscal Year 2003 and Fiscal Year 2002, were approximately $0 and $0, respectively.

Pre-approval Policies and Procedures

The Audit Committee has adopted a policy regarding non-audit services provided by PwC, our independent accountants. First, the policy ensures the independence of our auditors by expressly naming all services that the auditors may not perform and reinforcing the principle of independence regardless of the type of service. Second, certain non-audit services such as tax-related services are permitted but limited in proportion to the audit fees paid. Third, the Chair of the Audit Committee pre-approves non-audit services not specifically permitted under this policy and the Audit Committee reviews the annual plan and any subsequent engagements. Thus, all of the services described above under audit-related fees, tax fees and all other fees were approved by the audit committee pursuant to its pre-approval policies and procedures.

Independence Assessment by Audit Committee

The Company's Audit Committee considered and determined that the provision of the services provided by PwC as set forth herein are compatible with maintaining PwC's independence.

Vote Required

If a quorum is present and voting, the affirmative vote of the Votes Cast is needed to ratify the appointment of PwC as the Company's independent accountants, to audit the consolidated financial statements of the Company for our Fiscal Year 2004.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOOPERS LLP AS INDEPENDENT ACCOUNTANTS FOR FISCAL YEAR 2004.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all compensation paid or accrued during Fiscal Years 2003, 2002 and 2001 to: (i) our Chief Executive Officer during Fiscal Year 2003, (ii) each of our four other most highly compensated executive officers whose annual compensation exceeded $100,000 for Fiscal Year 2003, and (iii) an additional individual for whom disclosure would have been necessary under item (ii) above, but for the fact the that such individual was not serving as an executive officer of the Company at the end of Fiscal Year 2003.

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Positions	**Fiscal Year**	**Salary**	**Bonus**	**Securities Underlying Options**	**All Other Compensation**
Ali Jenab	2003	$400,000	—	200,000	—
Chief Executive Officer,	2002	$400,000	—	2,000,000	$158,823(1)
President and Director	2001	$353,077	—	793,750(1)	$255,702(1)
David M. Appelbaum	2003	$164,768	$ 5,000	20,000	$110,000(2)
Former Sr. Vice President, Marketing	2002	$ 8,462	—	400,000	—
	2001	—	—	—	—
Colin Bodell	2003	$250,000	$25,000	100,000	—
Senior Vice President,	2002	$192,308	$20,000	400,000	—
Product Development	2001	—	—	—	—
Richard French	2003	$250,000	$25,000	100,000	—
Senior Vice President and	2002	$250,000	—	400,000	—
General Manager, OSDN	2001	$134,615	—	400,000	—
Greg Orzech	2003	$197,692	—	200,000	$ 70,436(3)
Senior Vice President, Sales	2002	$180,000	—	200,000	$ 37,156(3)
	2001	$304,005	—	370,000	—
Kathleen R. McElwee	2003	$200,000	$25,000	100,000	—
Vice President and	2002	$102,308	—	400,000	—
Chief Financial Officer	2001	—	—	—	—

(1) In June 2003, Mr. Jenab voluntarily cancelled options to purchase 1,006,250 shares of the Company's common stock granted to Mr. Jenab by the Company in Fiscal Year 2001. In August 2000, we loaned Mr. Jenab $400,000 (the "Loan"). The Loan bore interest at a rate of six and three-tenths percent per annum and had an eighteen month term that ended in February 2002. During Fiscal Year 2001, we forgave $244,444 of principal and $11,258 of interest on the Loan. During Fiscal Year 2002, we forgave the remaining $155,556 of principal and $3,267 of interest on the Loan.

(2) Pursuant to a separation agreement we entered into with Mr. Appelbaum in Fiscal Year 2003, we paid Mr. Appelbaum $110,000. Mr. Appelbaum ceased serving as our Sr. Vice President, Marketing, and his employment with the Company terminated, on April 14, 2003.

(3) Pursuant to a Fiscal Year 2003 compensation agreement we entered into with Mr. Orzech at the commencement of Fiscal Year 2003, we paid Mr. Orzech $70,436 in commission payments. Pursuant to a Fiscal Year 2002 compensation agreement we entered into with Mr. Orzech at the commencement of Fiscal Year 2002, we paid Mr. Orzech $37,156 in commission payments.

Option Grants in Last Fiscal Year

The following table sets forth information concerning grants of stock options to each of the executive officers named in our compensation table above during Fiscal Year 2003. All options granted to these executive officers in the last fiscal year were granted under our 1998 Stock Plan. The grants of stock options set forth below are subject to change of control and separation provisions described hereinafter in the section entitled "Change of Control and Severance Agreements." The percent of the total options set forth below is based on an aggregate of 1,464,600 options granted to employees during Fiscal Year 2003. All options were granted at the then fair market value as determined by our Board of Directors on the date of grant.

Potential realizable value represents hypothetical gains that could be achieved for the options if exercised at the end of the option term assuming that the fair market value of the Common Stock on the date of grant appreciates at 5% and 10% over the option term (ten years) and that the option is exercised and sold on the last day of its option term for the appreciated stock price. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Securities and Exchange Commission and do not represent our estimate or projection of our future Common Stock price. The calculation includes the difference, if any, between the fair market value on the date of grant and the exercise price for such options. Actual gains, if any, on stock option exercises will depend on the future performance of our Common Stock.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees During Fiscal Year	Exercise Price Per Share	Expiration Date	5%	10%
Ali Jenab	200,000(1)	13.66%	$1.2700	12/04/2012	$159,739	$404,811
David M. Appelbaum	20,000(1)	1.37%	$1.2700	12/04/2012	$ 15,974	$ 40,481
Colin Bodell	100,000(1)	6.83%	$1.2700	12/04/2012	$ 79,870	$202,405
Richard French	100,000(1)	6.83%	$1.2700	12/04/2012	$ 79,870	$202,405
Greg Orzech	200,000(1)	13.66%	$1.2700	12/04/2012	$159,739	$404,811
Kathleen R. McElwee	100,000(1)	6.83%	$1.2700	12/04/2012	$ 79,870	$202,405

(1) One forty-eighth of the shares subject to each option vest and become exercisable each month following the date of grant.

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values

The following table sets forth information concerning option exercises in Fiscal Year 2003 and exercisable and unexercisable stock options held by our executive officers named in the summary compensation table at July 31, 2003. The value of unexercised in-the-money options is based on a value of $1.88 per share, the fair market value of our Common Stock as of July 31, 2003, the last trading day of Fiscal Year 2003, less the actual per share exercise prices, multiplied by the number of shares underlying the option. All options were granted under our 1998 Stock Plan.

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values
Under Our 1998 Stock Plan

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at July 31, 2003		Value of Unexercised In-the-Money Options at July 31, 2003[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ali Jenab	300,000	$404,010	1,126,249	1,487,501	$458,341	$1,105,458
David M. Appelbaum	124,999	$176,249	4,166	—	$ 2,541	—
Colin Bodell	160,000	$187,489	25,416	310,418	$ 16,670	$ 205,105
Richard French	150,000	$208,250	268,748	481,252	$ 31,146	$ 252,354
Greg Orzech	20,000	$ 23,200	396,038	443,962	$ 77,866	$ 204,334
Kathleen R. McElwee	12,500	$ 16,000	152,082	335,418	$ 1,271	$ 52,104

(1) Total value of vested options based on fair market value of Company's Common Stock of $1.88 per share as of July 31, 2003.

Change of Control and Severance Agreements

On February 27, 2001, the Compensation Committee directed management to amend the employment letters of our President and Vice Presidents to insert change of control and termination of employment provisions. On September 10, 2003, the Compensation Committee directed management to amend the employment letters of three (3) additional members of the Company's senior management (the "Senior Managers") to insert change of control and termination of employment provisions.

If we elect to terminate Mr. Jenab's employment at any time for any reason not deemed by us to be for cause as determined under the agreement, Mr. Jenab will be entitled to receive compensation equal to twelve (12) months of his annual base salary and bonus and twelve (12) months of accelerated vesting. Mr. Jenab may, at any time during a twelve (12) month extended exercise period, exercise his options with respect to shares that have accelerated pursuant to a termination not deemed for cause. The awarding of these benefits will be contingent, however, upon Mr. Jenab entering into a separation and release of claims agreement prepared by us.

If we elect to terminate any Vice President or Senior Manager at any time for any reason not deemed by us to be for cause, such Vice President or Senior Manager will be entitled to receive compensation equal to six (6) months of such Vice President's or Senior Manager's annual base salary and six (6) months of accelerated vesting. Such Vice President or Senior Manager may, at any time during a six (6) month extended exercise period, exercise his or her options with respect to shares that have accelerated pursuant to a termination not deemed for cause. The awarding of these benefits will be contingent, however, upon such Vice President or Senior Manager entering into a separation and release of claims agreement prepared by us.

In the event of a change of control, Mr. Jenab will receive an additional twelve (12) months of vesting and our Vice Presidents and Senior Managers will receive an additional six (6) months of vesting.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The following is the report of the Compensation Committee of the Board of Directors with respect to the compensation earned by our executive officers during the fiscal year ended July 31, 2003. Some compensation amounts earned by our executive officers during the fiscal year ended July 31, 2003 were paid during Fiscal Year 2004. Actual compensation paid during Fiscal Year 2003 to the named executive officers is shown in the Summary Compensation Table above.

Introduction

The Compensation Committee of the Board of Directors establishes our general compensation policies, and establishes the compensation plans and specific compensation levels for executive officers. The Compensation Committee strives to ensure that our executive compensation programs will enable us to attract and retain key people and motivate them to achieve or exceed certain of our key objectives by making individual compensation directly dependent on our achievement of certain financial goals, such as profitability and asset management, and by providing rewards for exceeding those goals.

Compensation Programs

Base Salary. The Compensation Committee establishes base salaries for executive officers. Base pay increases vary according to individual contributions to our success and comparisons to similar positions within the Company and at other comparable companies.

Bonuses. The Compensation Committee evaluates each executive officer individually to determine a bonus for the fiscal year based on performance criteria given to each executive officer at the commencement of the fiscal year. These criteria include milestones aligned with our financial performance. In September 2003, based upon the performance criteria listed above, the Compensation Committee awarded a Fiscal Year 2003 bonus of $34,200 to Ms. McElwee, $42,750 to Mr. Bodell, $42,750 to Mr. French and $32,490 to Mr. Villadsen.

Stock Options. The Compensation Committee believes that stock options provide additional incentive to officers to work towards maximizing stockholder value. The Compensation Committee views stock options as one of the more important components of our long-term, performance-based compensation philosophy. These options are provided through initial grants at or near the date of hire and through subsequent periodic grants. We generally grant options that become exercisable over a four year period as a means of encouraging executives and other employees to remain with us and to promote our success. Options granted to our executive officers and other employees have exercise prices equal to the fair market value at the time of grant. This approach is designed to focus executives on the enhancement of stockholder value over the long term and encourage equity ownership in the Company. Options vest and become exercisable at such time as determined by the Board. The initial option grant is designed to be competitive with those of comparable companies for the level of the job that the executive holds and motivate the executive to make the kind of decisions and implement strategies and programs that will contribute to an increase in our stock price over time. Periodic additional stock options within the comparable range for the job are granted to reflect the executives' ongoing contributions to the Company, to create an incentive to remain at the Company and to provide a long-term incentive to achieve or exceed our financial goals.

Other Compensation Programs. In addition to the foregoing, officers participate in compensation plans available to all employees, such as participation in both our 401(k) retirement plan and employee stock purchase plan. We do not make matching contributions to either the 401(k) or employee stock purchase plans.

Compensation Limitations

We have considered the potential future effects of Section 162(m) of the Internal Revenue Code on the compensation paid to our executive officers. Under Section 162(m) of the Internal Revenue Code, adopted in August 1993, and regulations adopted thereunder by the Internal Revenue Service, publicly-held companies may be precluded from deducting certain compensation paid to an executive officer in excess of $1 million in a year. The regulations exclude from this limit performance-based compensation and stock options provided certain requirements, such as stockholder approval, are satisfied. The Compensation Committee has decided that it is not appropriate at this time to take any actions that would disqualify the Company's stock option plan and executive annual cash bonus plans from deduction.

Compensation for the Chief Executive Officer

Ali Jenab is our Chief Executive Officer, President and a member of our Board of Directors. The Compensation Committee's criteria for determining Mr. Jenab's compensation are driven by several factors: the competitive marketplace, our position in the rapidly evolving technology sector in which we operate, his relative ownership interest in the Company and, most importantly, his performance and the performance of the Company.

The Compensation Committee believes that Mr. Jenab performed well throughout Fiscal Year 2003, providing valuable assistance and leadership as we grew our online and application software businesses. In September 2003, the Compensation Committee granted Mr. Jenab a bonus of $68,400 for his performance during Fiscal Year 2003. In addition, during Fiscal Year 2003, the Compensation Committee granted Mr. Jenab an option to purchase 200,000 shares of our Common Stock.

In determining Mr. Jenab's Fiscal Year 2003 salary, bonus and option grant, the Compensation Committee considered the same criteria, set forth above, it used to evaluate the other executive officers, as well as his contribution to the execution of our strategic plan.

Conclusion

All aspects of the Company's executive compensation are subject to change at the discretion of the Compensation Committee in reaction to and in recognition of the rapidly changing circumstances of the current marketplace. The Compensation Committee will monitor our executive compensation on an ongoing basis to ensure that it continues to support a performance-oriented environment and remains properly integrated with our annual and long-term strategic objectives.

Respectfully Submitted By:

MEMBERS OF THE COMPENSATION COMMITTEE

Douglas Leone, Chairman
Andre Boisvert
David B. Wright

REPORT OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The Audit Committee is comprised solely of independent directors, as defined in the Marketplace Rules of the NASDAQ Stock Market, and operates under a written charter adopted by the Board of Directors (which was attached as Appendix A to the Company's 2002 Proxy Statement). As described more fully in its charter, the purpose of the Audit Committee is to oversee our accounting and financial reporting processes and audits of our financial statements; approve the hiring and firing of the independent auditors; assist the Board in oversight and monitoring of (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance, and (iv) our internal accounting and financial controls; prepare the report that the rules of the SEC require be included in our annual proxy statement; provide the Board with the results of its monitoring and recommendations derived therefrom; and provide to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

Our management has primary responsibility for the preparation, presentation and integrity of our financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the consolidated financial statements in the Annual Report on Form 10-K with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

Review of Our Audited Financial Statements for Fiscal Year 2003

The Audit Committee discussed with PricewaterhouseCoopers LLP ("PwC"), our independent accountants, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, PwC's judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed with the Audit Committee under Statement on Auditing Standards No. 61, (Communication with Audit Committees). The Audit Committee has received the written disclosures and the letter from PwC required by Independence Standards Board Standard No. 1, (Independence Discussions with Audit Committees) and has discussed with PwC its independence.

The Audit Committee discussed with PwC the overall scope and plans for the audit. The Audit Committee meets with the independent accountants, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting. The Audit Committee held six meetings during Fiscal Year 2003.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended, and the Board of Directors approved, including the audited financial statements in the Annual Report on Form 10-K for Fiscal Year 2003 for filing with the Securities and Exchange Commission. The Audit Committee and the Board have also recommended, subject to stockholder ratification, the selection of PwC as our independent accountants for Fiscal Year 2004.

Respectfully Submitted By:

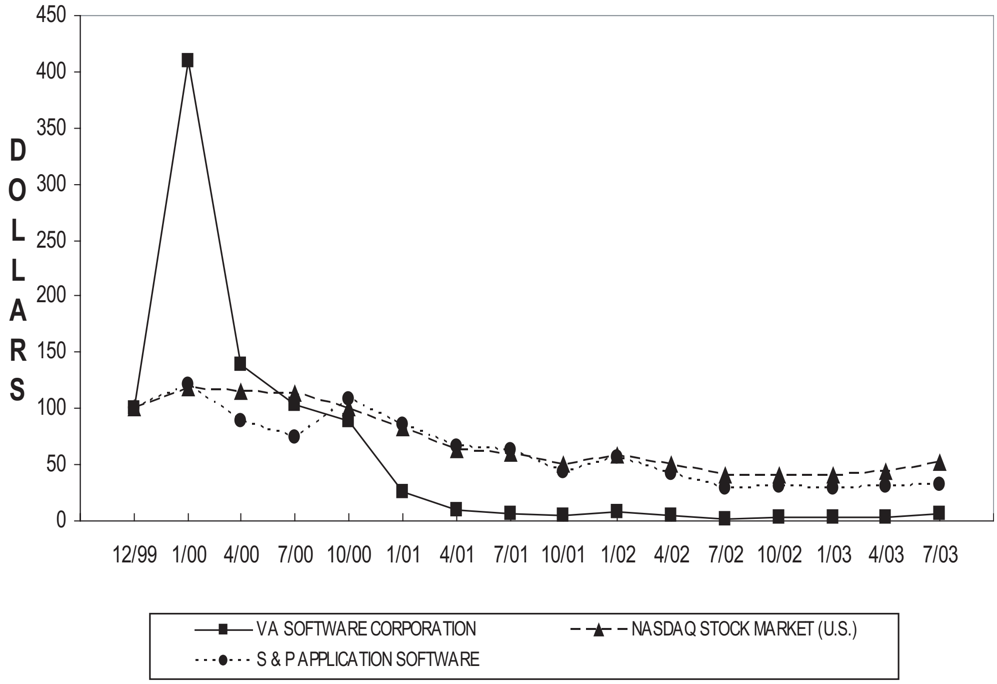
MEMBERS OF THE AUDIT COMMITTEE

Robert M. Neumeister, Jr., Chairman
Ram Gupta
Carl Redfield

Performance Graph

Set forth below is a line graph comparing the percentage change in the cumulative return to the stockholders of our Common Stock with the cumulative return of the NASDAQ Stock Market (U.S.) Index and the Standard & Poors ("S&P") Application Software Index for the period commencing December 9, 1999 and ending on July 31, 2003. Returns for the indices are weighted based on market capitalization at the beginning of each measurement point.

COMPARISON OF 4 YEAR CUMULATIVE TOTAL RETURN*
AMONG VA SOFTWARE CORPORATION,
THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE S & P APPLICATION SOFTWARE INDEX



* The graph assumes that $100 was invested on December 9, 1999, in our Common Stock, at the offering price of $30.00 per share, and $100 was invested on November 30, 1999, in the NASDAQ Stock Market (U.S.) Index and the S&P Application Software Index, and that all dividends were reinvested. We have not declared or paid any dividends on our Common Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

CUMULATIVE TOTAL RETURN AT PERIOD ENDED

	12/9/99	7/28/00	7/28/01	7/27/02	7/31/03
VA Software Corporation	100.00	103.75	6.00	2.20	6.27
NASDAQ Stock Market (U.S.) Index	100.00	112.96	60.66	40.09	52.38
S&P Application Software Index	100.00	74.74	63.16	28.47	32.46

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Such officers, directors and ten-percent stockholders are also required by SEC rules to furnish us with copies of all forms that they file pursuant to Section 16(a). Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during Fiscal Year 2003 all of our executive officers and directors complied with all applicable filing requirements.

RELATED PARTY TRANSACTIONS

In our last fiscal year, there has not been nor is there currently proposed any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds $60,000 and in which any director, executive officer, holder of more than 5% of our Common Stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest other than (1) compensation agreements and other arrangements, which are described under "Change of Control and Severance Agreements" and (2) as described below.

Investor Rights Agreement

The Company has entered into an agreement with the former holders of our preferred stock, including Carl Redfield and Larry M. Augustin, pursuant to which former preferred stockholders will have registration rights with respect to their shares of Common Stock. The registration rights provide that if we propose to register any securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, they are entitled to notice of the registration and are entitled to include shares of their Common Stock in the registration. This right is subject to conditions and limitations, including the right of the underwriters in an offering to limit the number of shares included in the registration. The holders of these shares may also require us to file up to two registration statements under the Securities Act at our expense with respect to their shares of Common Stock. The Company is required to use its best efforts to effect these registrations, subject to conditions and limitations. Furthermore, the holders of these shares may require us to file additional registration statements on Form S-3, subject to conditions and limitations. These rights terminate on the earlier of five years after the effective date of our December 9, 1999 initial public offering, the date on which all shares subject to these registration rights have been sold to the public, or when a holder is able to sell all its shares pursuant to Rule 144 under the Securities Act in any 90-day period.

Upon the completion of our initial public offering, all shares of our outstanding preferred stock were automatically converted into an equal number of shares of Common Stock. Larry M. Augustin, Chairman of our Board of Directors, is a more than 5% stockholder.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its directors and officers. Such indemnification agreements will require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

OTHER MATTERS

The Company knows of no other matters to be submitted to the Meeting. If any other matters properly come before the Meeting, it is the intention of the persons named in the enclosed form Proxy to vote the shares they represent as the Board of Directors may recommend.

THE BOARD OF DIRECTORS

Dated: October 27, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2003

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: 000-28369

VA Software Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**77-0399299**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

47071 Bayside Parkway, Fremont, California, 94538

(Address, including zip code, of principal executive offices)

(510) 687-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value

(Title of Class)

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 [X] No [ ]

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 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. [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [ ] No [X]

As of September 30, 2003, there were 57,047,288 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of September 30, 2003 (based on the closing price for the Common Stock on the NASDAQ National Market for such date) was approximately $213,418,950. Shares of common stock held by each of our officers and directors and by each person or group who owns 5% or more of our outstanding common stock have been excluded in that such persons or groups may be deemed to be our affiliate. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2003 Annual Meeting of Stockholders ("Proxy Statement") to be held on December 3, 2003, and to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year ended July 31, 2003, are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. *Business*

Special Note Regarding Forward-Looking Statements

This Form 10-K contains forward-looking statements that involve risks and uncertainties. Words such as "intend," "expect," "believe," "in our view," and variations of such words and similar expressions, are intended to identify such forward-looking statements, which include, but are not limited to, statements regarding our expectations and beliefs regarding future revenue growth; gross margins; financial performance and results of operations; technological trends in, and emergence of the market for collaborative software development applications; the future functionality, business potential, demand for, efficiencies created by and adoption of SourceForge; demand for online advertising; management's strategy, plans and objectives for future operations; the impact of our restructuring, reductions in force and new business model on our operating expenses and the amount of cash utilized by operations; our intent to continue to invest significant resources in development; competition, competitors and our ability to compete; liquidity and capital resources; the outcome of any litigation to which we are a party; our accounting policies; and sufficiency of our cash resources, cash generated from operations and investments to meet our operating and working capital requirements. Actual results may differ materially from those expressed or implied in such forward-looking statements due to various factors, including those set forth in the Risk Factors contained in the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." We undertake no obligation to update the forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-K.

Overview

We were incorporated in California in January 1995 and reincorporated in Delaware in December 1999. We develop, market and support a software application known as SourceForge Enterprise Edition ("SourceForge") and also own and operate the Open Source Development Network, Inc. ("OSDN"), a network of Internet Web sites.

SourceForge is proprietary software designed for corporate and public-sector information technology ("IT") professionals and software engineering organizations. SourceForge is a Web-based application that enables IT and software engineering organizations to manage application development more effectively. SourceForge combines software development and collaboration tools with the ability to track, measure, and report on software project activity in real-time. With SourceForge, developers and project managers gain access to the information they need to reduce risk and become more productive. SourceForge is a relatively new product and additional development and enhancements are expected in the future.

OSDN is a network of media and e-commerce Internet sites serving the IT professionals and software development communities. As of September 30, 2003, OSDN reaches 10 million unique visitors and serves more than 180 million page views per month. Our OSDN Web sites include:

- *SourceForge.net,* our flagship Web site and software development center. As of September 30, 2003, SourceForge.net was the development home for more than 68,000 software development projects and had more than 707,000 registered users.
- *Slashdot.org,* our leading discussion site for technically-inclined individuals. Slashdot is dedicated to providing the IT and software development communities with cutting-edge technology, science and culture news and interactive commentary.
- *ThinkGeek.com,* our e-commerce site, which provides online sales of a variety of retail products of interest to the software development and IT communities.
- *Linux.com,* our comprehensive Web site for Linux and open source news and information. Linux.com caters to business and IT managers looking for migration strategies to Linux.
- *freshmeat.net,* one of the Internet's most comprehensive indices of downloadable Linux, Unix and cross-platform software.
- *NewsForge.com,* the online newspaper of record for Linux and open source software.

- *Animation Factory.com,* a source for three-dimensional art, animations and presentations. Animation Factory offers a dynamic collection of easy to use animations that work in email, Web pages and presentations.

SourceForge

Software application development organizations are increasingly under pressure to manage software development more efficiently and effectively — controlling costs and risks while improving software quality and process. We believe that SourceForge will help our target IT and software engineering customers efficiently address challenges associated with software process improvement; quality standards certification; and software development outsourcing in various sectors such as financial services, defense and aerospace, technology, manufacturing and government. By aligning software development with business goals, SourceForge helps organizations improve operational efficiency and build better quality software.

SourceForge is a comprehensive solution: a single application integrating software development, collaboration and management tools. It provides organizations with a central repository for all software development activity and information. SourceForge supports software development process improvement initiatives by capturing and archiving software development code, documentation and communication in a central location. SourceForge helps companies outsource software development more effectively by providing a standard set of development tools for in-house and third-party development teams, a central repository, and a secure environment for managing and safeguarding intellectual property.

SourceForge is designed to integrate with, and enhance, best-of-breed development tools from other vendors, and extend them with enhanced functionality.

SourceForge helps companies build better quality software by providing managers and developers with improved visibility into software development activity, enabling better resource and requirements management, as well as better defect tracking. SourceForge helps companies manage the costs and risks associated with software development by enabling managers to gain insight into project status and to resolve critical problems earlier in the development cycle. Organizations with distributed teams and offshore development centers can achieve improved productivity, communication, coordination, collaboration, project clarity and insight. We therefore believe that adoption of SourceForge can significantly improve our customers' operational efficiency.

OSDN

We believe that OSDN is the most dynamic community-driven media network on the Web. The cornerstone of the open source software development community, OSDN attracts every level of IT decision-maker and buyer, from chief technology officers (CTOs) to project managers. Technologists, developers and system administrators turn to OSDN sites to create, debate, and make or break IT news. OSDN is supported by sponsors and advertisers who want to reach the unique demographic of IT professionals and developers that visit the Web sites monthly. In addition, OSDN runs e-commerce sites to allow its visitors to buy a variety of retail goods of interest to the software development and IT communities.

Sales and Marketing

SourceForge

We primarily market and sell our products (software, professional services, maintenance and support and training) directly to our end users through our SourceForge field sales organization, on the Internet at vasoftware.com and on our various OSDN Web sites. Our direct sales organization includes a telesales operation to augment our direct sales presence.

We maintain a complete customer service and support organization for SourceForge, which provides support for installation, software usage, updates and system administration. Customer service and support are typically provided as part of the SourceForge maintenance contract to ensure end user productivity. We also release periodic bug or security fix updates and version upgrades.

OSDN

We primarily market and sell our Internet advertisements via OSDN's direct sales organization and its Web sites. We primarily market and sell our e-commerce products online via OSDN's Web sites. In addition, we have entered into co-marketing agreements with certain third parties with respect to marketing OSDN Web sites.

Research and Development

SourceForge

We believe that the success of SourceForge will depend partly on our ability to enhance our product to meet the needs of a rapidly evolving marketplace and increasingly sophisticated and demanding customers. Therefore, we have devoted the majority of our research and development budget to the goal of improving SourceForge. We intend to extend and strengthen our software by enhancing existing features, adding additional features and offering higher levels of integration with popular software development tools. Although we primarily develop SourceForge technology internally, we may, based on timing and cost considerations, acquire technologies or products from third parties.

In addition to our internal SourceForge software engineering efforts, we also utilize an independent contractor, Cybernet Software Solutions, Inc. ("CSS"), for certain aspects of our SourceForge product development. CSS utilizes software-engineering resources in India and the United States to perform software development projects and consulting services for us on a contractual time and material basis. We coordinate our internal software engineering with ongoing development at CSS using SourceForge.

OSDN

We believe that the success of OSDN will depend partly on our ability to enhance our Web sites and underlying technology to meet the needs of a rapidly evolving marketplace and increasingly sophisticated and demanding customers. We intend to extend and strengthen the software underlying our online sites by enhancing existing features and adding additional features. These include adding the ability to deliver new ad types as they are developed, as well as enhancing our ability to track ads as they run. We continue to invest in improving the E-commerce customer service, order processing, shipping and tracking systems. We also continually develop new animations to meet the needs of Animation Factory's markets.

Competition

SourceForge

We believe SourceForge gives us an opportunity to operate in the collaborative software development market without an entrenched competitor. However, we face competition from software development tools and processes developed internally by customers, including ad hoc integrations of commercial software development tools and applications as well as open source software. There are also many entrenched competitors in closely related markets who compete for customer budget allocations. Such competition could arise from, among others, Collab.Net, Inc., IBM Corporation, Merant plc, Microsoft Corporation, Oracle Corporation, Borland Software Corporation, as well as numerous other public and privately held software application development and tools suppliers. Additionally, recent and future business combinations among companies in the software industry will permit the resulting consolidated companies to offer more extensive suites of software products and broader arrays of software solutions, some of which may compete directly with SourceForge. Changes resulting from current and future software industry consolidation may negatively impact our competitive position and operating results.

Many of these potential competitors are likely to have substantial competitive advantages including greater resources that can be devoted to the development, promotion and sale of their products; more established sales forces and channels; greater software development experience; and greater name recognition.

OSDN

The market for Internet products and services provided by OSDN is highly competitive. Advertisers have many alternatives available to reach their target audience, including print (e.g., Ziff Davis Media's *eWeek* and

Computerworld, Inc.'s *Computerworld*), general portal sites (e.g., aol.com, yahoo.com and msn.com) and other Web sites focused on vertical markets (e.g., CNet Networks, Inc.'s cnet.com and techrepublic.com).

Similar to our potential competitors in our software business, many of our competitors in our online business have substantial competitive advantages including greater resources that can be devoted to the development, promotion and sale of their online products and services; more established sales forces and channels; greater software and Web site development experience; and greater name recognition.

To be competitive, we must respond promptly and effectively to the challenges of technological change, evolving standards and our competitors' innovations by continuing to enhance our products and grow our sales and professional services organizations. Any pricing pressures or loss of potential customers resulting from our failure to compete effectively would reduce our revenues.

Significant Customers

For the fiscal year ended July 31, 2003, one customer, Intel Corporation, accounted for approximately 17% of net revenues. For the fiscal year ended July 27, 2002, one customer, Intel Corporation, accounted for approximately 20% of net revenues. We do not anticipate that any customer will represent more than 10% of net revenues during the fiscal year ended July 31, 2004.

Seasonality

With the exception of our ThinkGeek e-commerce business, our revenues have not been significantly impacted by seasonality. Our ThinkGeek e-commerce business, however, is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the holiday shopping season.

In the past several years, a substantial portion of our ThinkGeek e-commerce revenues occurred in our second fiscal quarter, which in fiscal year 2004 will begin on November 1, 2003, and end on January 31, 2004. As is typical in the retail industry, we generally experience lower e-commerce revenues during the other quarters. Therefore, our e-commerce revenue in a particular quarter is not necessarily indicative of future e-commerce revenue for a subsequent quarter or our full fiscal year.

Intellectual Property Rights

We protect our property through a combination of copyright, trademark, patent, trade-secret laws, employee and third-party nondisclosure agreements, and other methods of protection.

SourceForge is licensed to our end-user customers as proprietary software code and documentation. We require our customers to enter into license agreements that impose restrictions on their ability to reproduce, distribute and utilize our software. In addition, we seek to avoid disclosure of our trade secrets through a number of means, including restricting access to our source code and object code and requiring those entities and persons with access to agree to confidentiality terms which restrict their use and disclosure.

SourceForge, Slashdot, ThinkGeek, Freshmeat, OSDN, VA Software and the VA logo are some of our trademarks and/or registered trademarks that we use in the United States and in other countries.

Because the software industry is characterized by rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are more important to establishing and maintaining a technology leadership position than the various legal protections of our technology.

Employees

We believe our success will depend in part on our continued ability to attract and retain highly qualified personnel in a competitive market for experienced and talented software engineers and sales and marketing personnel. Our employees are not represented by any collective bargaining organization, we have never experienced a work stoppage, and we believe that our relations with our employees are good. As of July 31, 2003, our employee base totaled 115, including 37 in operations, 27 in sales and marketing, 34 in research and development and 17 in finance and administration.

Segment and Geographic Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-making group, as defined under SFAS No. 131, are the Chief Executive Officer and the executive team. During fiscal 2001, the Company had two reportable business segments for revenue: systems and services and OSDN. The Company allocated its resources and evaluated performance of its separate segments based on revenue. As a result of the Company's decision to exit the systems business in the fourth quarter of fiscal 2001 and focus on its software application business, during fiscal 2002 the Company operated as one business segment, providing application software products and related OSDN products and services. During the fourth quarter of fiscal 2003, two separate businesses emerged and as of July 31, 2003, we operate as two reportable business segments: software and online. Due to the significant amount of shared operating resources that are utilized by both of the business segments, the Company only reports segment information for revenues and cost of sales. See Note 11 to the Consolidated Financial Statements.

The Company markets its products in the United States through its direct sales force. Revenues for each of the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001 were primarily generated from sales to end users in the United States.

Investor Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Therefore, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

You can access other information at our Investor Relations web site. The address is *www.vasoftware.com.* We make available, free of charge, copies of our annual report on Form 10-K as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC, and have made the Form 10-K reports available on our web site since November 2002.

Item 2. *Properties*

Our headquarters is located in Fremont, California. At July 31, 2003, VA Software's facilities in the United States represented leased aggregate floor space of 266,630 square feet. Of this amount at July 31, 2003, 145,457 square feet was vacant and 64,299 square feet was being leased to non-VA Software businesses. VA Software has no facilities outside of the United States. For additional information regarding obligations under leases, see Note 5 to the Consolidated Financial Statements.

Item 3. *Legal Proceedings*

The Company, two of its former officers (the "Former Officers"), and the lead underwriter in its initial public offering ("IPO") were named as defendants in a consolidated shareholder lawsuit in the United States District Court for the Southern District of New York, captioned *In re VA Software Corp. Initial Public Offering Securities Litigation*, 01-CV-0242. This is one of a number of actions coordinated for pretrial purposes as *In re Initial Public Offering Securities Litigation*, 21 MC 92 with the first action filed on January 12, 2001. Plaintiffs in the coordinated proceeding are bringing claims under the federal securities laws against numerous underwriters, companies, and individuals, alleging generally that defendant underwriters engaged in improper and undisclosed activities concerning the allocation of shares in the IPOs of more than 300 companies during late 1998 through 2000. Among other things, the plaintiffs allege that the underwriters' customers had to pay excessive brokerage commissions and purchase additional shares of stock in the aftermarket in order to receive favorable allocations of shares in an IPO. The consolidated amended complaint in the Company's case seeks unspecified damages on behalf of a purported class of purchasers of its common stock between December 9, 1999 and December 6, 2000. In October 2002, the court, pursuant to a stipulation, dismissed all claims against the Company's Former Officers without prejudice. On February 19, 2003, the court denied in part and granted in part the motion to dismiss filed on behalf of the defendants, including the Company. The court's order did not dismiss any claims against the Company. As a result, discovery may now proceed. A proposal has been made for the settlement and release of claims against the issuer defendants, including VA Software. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. If the settlement does not occur, and litigation against the Company continues, the Company believes it has meritorious defenses and intends to defend the case vigorously.

On February 28, 2003, a related case, captioned *Liu v. Credit Suisse First Boston*, et al., Case No. 03-20459, was filed in the United States District Court for the Southern District of Florida. The *Liu* plaintiff was not alleged to have bought or sold VA Software stock. The Company was not served with the *Liu* complaint. The Complaint related generally to the ongoing IPO-related litigation currently pending in the United States District Court for the Southern District of New York, described above. On June 19, 2003, the *Liu* plaintiff filed an amended complaint that dropped the VA Software defendants from the litigation.

The Company is subject to various claims and legal actions arising in the ordinary course of business. The Company has accrued for estimated losses in the accompanying consolidated financial statements for those matters where it believes that the likelihood that a loss will occur is probable and the amount of loss is reasonably estimable.

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

No matter was submitted to a vote of VA Software's stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal 2003.

PART II

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

Our common stock is traded in the NASDAQ National Market System under the symbol LNUX. As of October 6, 2003, there were 944 holders of record of our common stock. We have not declared any cash dividends since our inception and do not expect to pay any dividends in the foreseeable future. The high and low closing sales prices, as reported by NASDAQ, of our common stock are as follows:

	High	Low
Fiscal Year Ended July 31, 2003:		
Fourth Quarter	$2.49	$0.88
Third Quarter	$1.09	$0.84
Second Quarter	$1.36	$0.85
First Quarter	$1.54	$0.63
Fiscal Year Ended July 27, 2002:		
Fourth Quarter	$1.37	$0.61
Third Quarter	$2.42	$1.20
Second Quarter	$3.23	$1.22
First Quarter	$2.26	$0.78

The foregoing reflects interdealer prices without retail markup, markdown, or commissions and may not necessarily reflect actual transactions.

Equity Compensation Plans

The following table summarizes our equity compensation plans as of July 31, 2003, all of which have been approved by our stockholders:

Plan Category[1]	A Number of securities to be issued upon exercise of outstanding options	B Weighted average exercise price of outstanding options	C Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column A)
Equity compensation plan approved by stockholders	9,318,632[2]	$3.19	15,081,997 [3]–[6]

(1) The table does not include information for equity compensation plans assumed by the Company in acquisitions. As of July 31, 2003, a total of 113,880 shares of the Company's common stock remain issuable and outstanding upon exercise of options granted under plans assumed by the Company in its acquisition of OSDN. The weighted average exercise price of all outstanding options granted under these plans at July 31, 2003 is $37.78. The Company does not grant additional awards under these assumed plans.

(2) Includes 8,818,632 options outstanding under the Company's 1998 Stock Plan and 500,000 options outstanding under the Company's 1999 Director's Plan.

(3) Includes 2,225,391 shares of common stock reserved for issuance under the Company's 1999 Employee Stock Purchase Plan.

(4) Subject to the terms of the 1998 Stock Plan, an annual increase is to be added on the first day of the Company's fiscal year equal to the lesser of: 4,000,000 shares, or 4.9% of the outstanding shares on the first day of the new fiscal year or an amount determined by the Board of Directors.

(5) Subject to the terms of the 1999 Directors Plan, an annual increase is to be added on the first day of the Company's fiscal year equal to the lesser of: 250,000 shares, 0.5% of the outstanding shares on the first day of the new fiscal year or an amount determined by the Board of Directors.

(6) Subject to the terms of the 1999 Employee Stock Purchase Plan, an annual increase is to be added on the first day of the Company's fiscal year equal to the lesser of: 500,000 shares, 1% of the outstanding shares on the first day of the new fiscal year or an amount determined by the Board of Directors.

Item 6. *Selected Consolidated Financial Data*

You should read the selected consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this Form 10-K. The statement of operations data for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001 and the balance sheet data as of July 31, 2003 and July 27, 2002 are derived from the audited financial statements and related notes appearing elsewhere in this Form 10-K. The statement of operations data for the fiscal years ended July 28, 2000 and July 31, 1999 and the balance sheet data as of July 28, 2001, July 28, 2000 and July 31, 1999 are derived from audited financial statements not appearing in this Form 10-K. Historical results are not necessarily indicative of results that may be expected for any future period.

Summary Financial Information
(In thousands, except per share data)

	For the years ended				
	July 31, 2003	July 27, 2002	July 28, 2001	July 28, 2000	July 31, 1999
Selected Consolidated Statements of Operations Data:					
Net revenues	$ 24,228	$ 20,385	$ 134,890	$120,296	$ 17,710
Cost of revenues	12,780	9,661	154,103	98,181	17,766
Gross margin	11,448	10,724	(19,213)	22,115	(56)
Loss from operations	(14,643)	(93,248)	(531,798)	(95,387)	(14,531)
Net loss	(13,798)	(91,038)	(525,268)	(89,758)	(14,512)
Dividend related to convertible preferred stock	—	—	—	(4,900)	—
Net loss attributable to common stockholders	$(13,798)	$(91,038)	$(525,268)	$ (94,658)	$(14,512)
Basic and diluted net loss per share	$ (0.25)	$ (1.72)	$ (10.78)	$ (3.52)	$ (2.62)
Shares used in computing basic and diluted net loss per share	54,110	53,064	48,741	26,863	5,530
Selected Balance Sheet data at year-end:					
Cash, cash equivalents and investments	$ 38,847	$ 53,046	$ 80,083	$174,032	$ 18,653
Working capital	$ 28,825	$ 33,486	$ 62,444	$169,930	$ 16,230
Total assets	$ 48,495	$ 66,968	$ 173,033	$585,099	$ 27,595
Liabilities, net of current portion	$ 11,953	$ 15,575	$ 13,178	$ 1,656	$ 424
Total stockholders' equity (deficit)	$ 27,202	$ 39,388	$ 126,362	$543,875	$ 18,363

Quarterly Financial Data

	Fiscal Year 2003			
	For the three months ended			
	October 26	January 25	April 26	July 31
Net revenues	$ 5,075	$ 6,560	$ 6,037	$ 6,556
Loss from operations	(4,459)	(3,909)	(3,862)	(2,413)
Net loss attributable to common stockholders	$ (4,133)	$ (3,672)	$ (3,610)	$ (2,383)
Per share amounts:				
Basic and diluted net loss per share	$ (0.08)	$ (0.07)	$ (0.07)	$ (0.04)
Shares used in computing basic and diluted net loss per share	53,717	53,859	53,935	54,895

	Fiscal Year 2002			
	For the three months ended			
	October 28	January 27	April 27	July 27
Net revenues	$ 5,578	$ 5,052	$ 5,140	$ 4,615
Loss from operations	(55,963)	(10,701)	(7,906)	(18,678)
Net loss attributable to common stockholders	$(54,881)	$ (9,656)	$ (7,729)	$(18,772)
Per share amounts:				
Basic and diluted net loss per share	$ (1.04)	$ (0.18)	$ (0.15)	$ (0.35)
Shares used in computing basic and diluted net loss per share	52,678	53,005	53,210	53,487

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

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and our financial statements and the related notes included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including the risks discussed in "Risk Factors" and elsewhere in this Form 10-K. See Part I — Item 1 — "Special Note Regarding Forward Looking Statements."

Overview

We were incorporated in California in January 1995 and reincorporated in Delaware in December 1999. We develop, market and support a software application known as SourceForge Enterprise Edition ("SourceForge") and also own and operate the Open Source Development Network, Inc. ("OSDN"), a network of Internet Web sites.

SourceForge is proprietary software designed for corporate and public-sector information technology ("IT") professionals and software engineering organizations. SourceForge is a Web-based application that enables IT and software engineering organizations to manage application development more effectively. SourceForge combines software development and collaboration tools with the ability to track, measure, and report on software project activity in real-time. With SourceForge, developers and project managers gain access to the information they need to reduce risk and become more productive. SourceForge is a relatively new product and additional development and enhancements are expected in the future.

OSDN is a network of media and e-commerce Internet sites serving the IT professionals and software development communities. As of September 30, 2003, OSDN reaches 10 million unique visitors and serves more than 180 million page views per month. Our OSDN Web sites include:

- *SourceForge.net,* our flagship Web site and software development center. As of September 30, 2003, SourceForge.net was the development home for more than 68,000 software development projects and had more than 707,000 registered users.
- *Slashdot.org,* our leading discussion site for technically-inclined individuals. Slashdot is dedicated to providing the IT and software development communities with cutting-edge technology, science and culture news and interactive commentary.
- *ThinkGeek.com,* our e-commerce site, which provides online sales of a variety of retail products of interest to the software development and IT communities.
- *Linux.com,* our comprehensive Web site for Linux and open source news and information. Linux.com caters to business and IT managers looking for migration strategies to Linux.
- *freshmeat.net,* one of the Internet's most comprehensive indices of downloadable Linux, Unix and cross-platform software.
- *NewsForge.com,* the online newspaper of record for Linux and open source software.
- *Animation Factory.com,* a source for three-dimensional art, animations and presentations. Animation Factory offers a dynamic collection of easy to use animations that work in email, Web pages and presentations.

Results of Operations

We believe that the application of accounting standards is central to a company's reported financial position, results of operations and cash flows. We review our annual and quarterly results, along with key accounting policies, with our audit committee prior to the release of financial results. In addition, we have not entered into any significant transactions with related parties. We do not use off-balance-sheet arrangements with unconsolidated related parties, nor do we use other forms of off-balance-sheet arrangements such as research and development arrangements.

We have completed eight quarters of operations focused on building our application software business, and accordingly have a very short operating history in this business. While we believe that we are making good progress in our application software business, a substantial majority of our revenues continues to be derived from our online business and we face numerous risks and uncertainties that commonly confront new and emerging businesses in emerging markets, some of which we have identified in the "Risk Factors" section below.

The following table sets forth our operating results for the periods indicated as a percentage of net revenues, represented by selected items from the unaudited condensed consolidated statements of operations. This table should be read in conjunction with the consolidated financial statements and the accompanying notes thereto included in this Form 10-K.

	For the years ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Consolidated Statements of Operations Data:			
Software revenues	12.1%	5.3%	0.0%
Online revenues	84.8	78.4	10.9
Other revenues	3.1	16.3	89.1
Net revenues	100.0	100.0	100.0
Software cost of revenues	8.2	11.7	0.0
Online cost of revenues	46.1	51.0	7.8
Other cost of revenues	(1.6)	(15.3)	106.4
Cost of revenues	52.7	47.4	114.2
Gross margin	47.3	52.6	(14.2)
Operating expenses:			
Sales and marketing	40.4	61.4	29.6
Research and development	32.3	39.8	13.3
General and administrative	26.6	53.2	16.3
Restructuring costs and other special charges	(1.1)	230.2	84.1
Amortization of deferred stock compensation	0.6	8.2	45.4
Amortization of goodwill and intangible assets	8.9	57.5	72.6
Impairment of long-lived assets	0.0	59.6	118.6
Total operating expenses	107.7	509.9	379.9
Loss from operations	(60.4)	(457.3)	(394.1)
Interest and other income, net	3.5	10.8	4.8
Net loss	(56.9)%	(446.5)%	(389.3)%

Net Revenues

We had two reportable business segments for revenue during fiscal year 2001: systems and services and OSDN. We allocated our resources and evaluated performance of our separate segments based on revenue. As a result of our decision to exit the systems business in the fourth quarter of fiscal 2001 and focus on our software application business, during fiscal 2002 we operated as one business segment, providing application software products and related OSDN products and services. During the fourth quarter of fiscal 2003, two separate businesses emerged and as of July 31, 2003,we operate as two reportable business segments: software and online.

Software Revenues

Software revenues are derived from our application software business and include software licenses, professional services, maintenance, support and training. Software revenues represent $2.9 million, or 12.1%, and $1.1 million, or 5.3%, of total revenues for fiscal years ended July 31, 2003 and July 27, 2002 respectively. There were no software revenues for the fiscal year ended July 28, 2001.

Revenues from software license agreements are accounted for in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2 and are recognized when objective, persuasive evidence of an agreement exists, delivery of the product has occurred, provided the arrangement does not require significant customization of the software, the fee is fixed or determinable and collectibility is probable.

For perpetual licenses, we use the residual method to recognize revenues. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If objective evidence of the fair value of one or more undelivered elements does not exist, revenues are deferred and recognized when delivery of those elements occurs or when fair value can be established. A typical perpetual license agreement may include professional services, maintenance and training. Revenue from non-essential professional services is recognized as the work is performed based on fair value derived from published professional service rates. When an agreement includes professional services that are significant or essential to the functionality of the software, and we can reasonably estimate the cost to complete the contract, we use the percentage of completion contract accounting method for the entire arrangement, including license fees. Maintenance revenues are recognized ratably over the term of the maintenance period (generally one year). Software maintenance agreements provide technical support and the right to unspecified updates/upgrades on an if-and-when-available basis. Fair value for the ongoing maintenance obligations are based upon renewal rates, if stated, or separate sales of maintenance sold to customers. The unrecognized portion of amounts paid in advance for licenses, maintenance and professional services are recorded as deferred revenue.

For term arrangements where we are unable to establish fair value for the individual contract components such as software license, maintenance and support, we recognize the entire contract value ratably over the term of the contract. In the event that the contract includes essential professional services, we defer revenue until the professional services have been fully delivered. At that time, we then recognize the revenue ratably over the remaining contract term.

If the fee due from the customer is not fixed or determinable, we recognize revenues at the earlier of the due date or when cash is received from the customer, assuming all other revenue recognition criteria have been met. If a significant portion of the fee is due after the shorter of our normal payment terms or 120 days, we presume the fee not to be fixed or determinable.

Online Revenues

Online revenues include online advertising and e-commerce revenues. Total Online revenues of $20.6 million, $16.0 million and $14.7 million, represented 84.8%, 78.4% and 10.9% of total revenues for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively. Online advertising revenues of $10.4 million, $9.0 million and $9.4 million, represented 43.0%, 44.2% and 7.0% of total revenues for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively. Online advertising revenues included $2.0 million, $2.0 million and $2.4 million of barter revenue for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively. E-commerce revenues of $10.1 million, $7.0 million and $5.3 million, represented 41.8%, 34.2% and 3.9% of total revenues for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively.

Advertising revenues are derived from the sale of advertising space on our various Web sites. We recognize advertising revenues over the period in which the advertisements are displayed, provided that persuasive evidence of an arrangement exists, no significant obligations remain, the fee is fixed or determinable, and collection of the receivable is reasonably assured. Our obligations typically include guarantees of a minimum number of "impressions" (times that an advertisement is viewed by users of our online services). To the extent that minimum guaranteed impressions are not met in the specified time frame, we do not recognize the corresponding revenues until the guaranteed impressions are achieved. We record barter revenue transactions at their estimated fair value based on our historical experience of selling similar advertising for cash in accordance with Emerging Issues Task Force ("EITF") Issue 99-17, "Accounting for Advertising Barter Transactions." We broadcast banner advertising in exchange for similar banner advertising on third party Web sites.

E-commerce revenues are derived from the online sale of consumer goods and digital animations. We recognize e-commerce revenues from the sale of consumer goods in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Under SAB 101, product revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collectibility is reasonably assured. In general, we recognize e-commerce revenue upon the shipment of goods. We do grant customers a right to return e-commerce products. Such returns are recorded as incurred and have been immaterial for the periods presented. The majority of the revenues derived from digital animation sales are related to membership arrangements. As a result, we recognize the value ratably over the term of the contract, normally 3 or 12 months.

Other Revenues

Other revenues are derived from our former hardware, customer support, and professional services businesses. Other revenues represent $0.8 million, or 3.1%, of total revenues for fiscal year 2003, $3.3 million, or 16.3% for fiscal year 2002 and $120.2 million, or 89.1% for fiscal year 2001.

Our revenue recognition policy related to our former hardware systems business follows SEC SAB No. 101, "Revenue Recognition in Financial Statements." Under SAB No. 101, we recognized product revenues from the sale of Linux-based servers, components, and desktop computers when persuasive evidence of an arrangement existed, delivery occurred, the sales price was fixed or determinable and collectibility was reasonably assured. In general, we recognized product revenue upon shipment of the goods. We did not grant our customers any rights to return products.

We recognized revenues from customer support services, including on-site maintenance and technical support on a pro-rata basis over the term of the related service agreement. We recognized revenues from professional service contracts upon completion of the project, or using the percentage of completion method of the project where project costs could be reasonably estimated. We recorded any payments received prior to revenue recognition as deferred revenue.

Our net revenues increased to $24.2 million in fiscal year 2003, from $20.4 million in fiscal year 2002. The $3.8 million increase in net revenues was due primarily to an increase in our current software and online businesses, offset by a decrease in other revenue derived from our previous hardware business. In fiscal year 2003, online revenue increased by $4.6 million to $20.6 million from $16.0 million in fiscal year 2002. For each of the fiscal years 2003 and 2002 online revenue included approximately $2.0 million, of barter revenue arising from web advertising. In fiscal year 2003, software revenue increased by $1.8 million to $2.9 million from $1.1 million in fiscal year 2003. In fiscal year 2003, systems and services revenue decreased $2.6 million to $0.8 million from $3.3 million in fiscal year 2002.

Our net revenues decreased to $20.4 million in fiscal year 2002, from $134.9 million in fiscal year 2001. The $114.5 million decrease in net revenues was due primarily to the exiting of the systems and services business segment. In fiscal year 2002, systems and services revenue decreased $116.9 million to $3.3 million from $120.2 million in fiscal year 2001. In fiscal year 2002, online revenue increased by $1.3 million to $16.0 million from $14.7 million in fiscal year 2001. Online revenue for fiscal years 2002 and 2001 included approximately $2.0 million and $2.4 million, respectively, of barter revenue arising from web advertising. Software revenues totaled $1.1 million for fiscal year 2002.

Sales for the fiscal years ended 2003, 2002, and 2001 were primarily to customers located in the United States of America.

For the fiscal year ended July 31, 2003, one customer, Intel Corporation, accounted for approximately 17% of net revenues. For the fiscal year ended July 27, 2002, one customer, Intel Corporation, accounted for approximately 20% of net revenues. Going forward, we do not anticipate that any one customer will represent more than 10% of net revenues.

Cost of Revenues

Cost of revenues increased to $12.8 million in fiscal year 2003 from $9.7 million in fiscal year 2002. Gross margin decreased as a percentage of revenue to 47.3% in fiscal year 2003 from 52.6% in fiscal year 2002. The increase in cost of revenues was primarily due to a net credit in fiscal year 2002 of $5.8 million related to the reversal of inventory reserves. This credit was primarily the result of a better than expected sell through of old and excess material as well as the ability to sell product at a price in excess of that originally estimated in the three-month period ended July 28, 2001. Cost of revenues for fiscal year 2003 included a credit of $0.4 million as a result of adjustments to previous restructuring accruals. Net of these restructuring credits, cost of revenues decreased to $13.2 million in fiscal year 2003 from $15.5 million in fiscal year 2002. This decrease was primarily the result of exiting the systems business which accounted for $2.8 million of the decrease, a reduction in cost of sales in the SourceForge and online advertising businesses which accounted for a decrease of $1.8 million, offset by an increase in e-commerce cost of revenues of $2.4 million as a result of higher revenue levels. Headcount related to cost of revenues was 37 at July 31, 2003, compared to 44 at July 27, 2002. Gross margin, excluding the reversal of prior period inventory and restructuring reserves, increased as a percentage of revenues to 45.5% in fiscal year 2003 from 24.1% in fiscal year 2002. The increase in gross margins excluding the reversal of prior period inventory and restructuring reserves was the result of improvements in the online advertising and software businesses as follows: Online advertising gross margins increased to 63.0% for fiscal year 2003, compared to 40.9% for fiscal year 2002; software gross margins increased to 31.5% for fiscal year 2003, compared to a negative 119.8% for fiscal year 2002. E-commerce gross margins declined to 27.4% for fiscal year 2003 from 29.2% in fiscal year 2002. The increase in online advertising gross margins was primarily driven by the increase in revenues while reducing the costs associated with editorial content and online delivery. The increase in our software gross margins was primarily due to an increase in revenues as well as an effort to align our software cost of revenues infrastructure to support our current revenue levels. The decrease in ecommerce gross margins was the result of a shift in product mix to lower gross margin products. We expect cost of revenues to continue to increase as revenues increase, however, we expect overall gross margins to improve as a result of leveraging the fixed cost portion of the cost of revenues.

Cost of revenues decreased to $9.7 million in fiscal year 2002 from $154.1 million in fiscal year 2001. Gross margin increased as a percentage of revenue to 52.6% in fiscal year 2002 from a negative 14.2% in fiscal year 2001. The increase in gross margin as a percentage of net revenue was due primarily to the exiting of the systems business and an inventory provision allowance of $28.0 million in fiscal year 2001 to establish a reserve for excess material. Cost of revenues for fiscal year 2002 included restructuring charges of a net credit of $5.8 million which included a $6.9 million credit adjustment to the fiscal year 2001 fourth quarter systems restructuring composed of a $2.0 million reversal of reserves for inventory (due to a better sell through of old and excess material during fiscal year 2002 than anticipated at fiscal year-end 2001) and a $4.9 million reversal of an over estimate of warranty expense. We recorded a $1.1 million restructuring charge for a workforce reduction, which consisted mostly of severance and other related costs attributable to 50 employees.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in sales, marketing and sales support functions, as well as costs associated with trade shows, advertising and promotional activities.

Sales and marketing expenses decreased to $9.8 million in fiscal year 2003 from $12.5 million in fiscal year 2002. The decrease in absolute dollars was primarily due to headcount reductions which accounted for $1.0 million of the decrease, a reduction in marketing programs which represented $0.9 million of the decrease, the reduction in our investment in VA Linux Japan which represented $0.7 million of the decrease and the exiting of our Linux software engineering and professional services businesses which represented $0.1 million of the decrease. Headcount in sales and marketing decreased to 27 at July 31, 2003 from 29 at July 27, 2002. Sales and marketing expenses as a percentage of net revenues decreased to 40.4% for fiscal year 2003 from 61.4% for fiscal year 2002. This decrease as a percentage of net revenues was primarily due to decreased spending levels as described above as well as increased revenue levels. We believe our sales and marketing expenses will increase in the future as we intend to grow our sales force. However, in the future, we expect sales and marketing expenses to decrease slightly as a percentage of revenue.

Sales and marketing expenses decreased to $12.5 million in fiscal year 2002 from $40.0 million in fiscal year 2001. The decrease in absolute dollars was primarily due to the exiting of our systems and services business, which accounted for a $30.6 million reduction and a decline in our sales and marketing efforts related to our online business of $3.0 million, offset by a $6.3 million increase in spending due to the shift in resources to our software business. Headcount in sales and marketing decreased to 29 in fiscal year 2002 from 59 in fiscal year 2001. Sales and marketing expenses as a percentage of net revenues increased to 61.4% for fiscal year 2002 from 29.6% in fiscal year 2001. This increase was primarily due to our significantly decreased revenues.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses for software engineers. We expense all of our research and development costs as they are incurred.

Research and development expenses decreased to $7.8 million in fiscal year 2003 from $8.1 million in fiscal year 2002. The decrease in absolute dollars was primarily due to the exiting of our Linux software engineering and professional services businesses, which accounted for a $1.3 million reduction, the reduction in our investment in VA Linux Japan, which accounted for a $0.5 million reduction, offset by an increase in the use of outside contractors of $0.6 million and higher employee related expenses of $0.6 million. The fiscal year 2003 $0.6 million increase in employee related expenses was primarily due to a $0.7 million increase in allocated operating costs partially offset by a $0.1 million reduction in salary expense. Headcount in research and development decreased to 34 at July 31, 2003 from 44 at July 27, 2002. Research and development expenses as a percentage of net revenues decreased to 32.3% for fiscal year 2003 from 39.8% for fiscal 2002. The decrease as a percentage of net revenues was primarily due to our slightly decreased spending levels as described above as well as increased revenues levels. We expect research and development expenses to increase slightly in absolute dollars and decrease as a percentage of revenue in the future.

Research and development expenses decreased to $8.1 million in fiscal year 2002 from $18.0 million in fiscal year 2001. The decrease in absolute dollars was primarily due to the exiting of the systems business, which accounted for a $15.0 million reduction offset by an increase in our research and development efforts related to our online business of $0.8 million and a $4.2 million increase in spending as a result of our decision to focus on our software business. Headcount in research and development decreased to 44 in fiscal year 2002 from 66 in fiscal year 2001. Research and development expenses as a percentage of net revenues increased to 39.8% for fiscal year 2002 from 13.3% for fiscal year 2001. This increase was primarily due to our significantly decreased revenues.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed," development costs incurred in the research and development of new software products are expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to a net realizable value evaluation. Technological feasibility is established upon the completion of an integrated working model. To date, our software development has been completed concurrent with the establishment of technological feasibility and, accordingly, all software development costs have been charged to research and development expense in the accompanying statements of operations. Going forward, should technological feasibility occur prior to the completion of our software development, all costs incurred between technological feasibility and software development completion will be capitalized.

General and Administrative Expenses

General and administrative expenses consist of salaries and related expenses for finance and administrative personnel and professional fees for accounting and legal services.

General and administrative expenses decreased to $6.5 million in fiscal year 2003 from $10.9 million for fiscal year 2002. General and administrative expenses for fiscal year 2002 included the reversal of excess bad debt provisions of $1.0 million and include $0.9 million of accrued legal expenses associated with the IPO Securities Litigation. See Part I — Item 3 — Legal Proceedings. Excluding these charges, the decrease in absolute dollars resulted primarily from a decrease in administrative personnel. Our decision in the fourth quarter of fiscal 2002 to reduce our administrative and overhead costs to align with our business model represented $4.1 million of the decrease and the reduction in our investment in VA Linux Japan represented $0.4 million of the decrease. Headcount in general and administrative services decreased to 17 at July 31, 2003 from 27 at July 27, 2002. General and administrative expenses as a percentage of net revenues decreased to 26.6% for fiscal year 2003 from 53.2% for fiscal year 2002. The decrease as a percentage of net revenues was primarily due to our decreased spending levels as described above as well as increased revenue levels. We expect general and administrative expenses to remain relatively consistent in absolute dollars and decrease as a percentage of revenue in the future.

General and administrative expenses decreased to $10.9 million in fiscal year 2002 from $22.0 million for fiscal year 2001. General and administrative expenses for fiscal year 2002 included the reversal of excess bad debt provisions of $1.0 million and included $0.9 million of accrued legal expenses associated with the IPO Securities Litigation. See Part I — Item 3 — Legal Proceedings. General and administrative expenses for fiscal year 2001 included a one-time provision for bad debts of $2.5 million related to the reorganization of the business. Excluding these charges, the decrease in absolute dollars resulted primarily from a decrease in administrative personnel due to our exit from the systems and services businesses. Headcount in general and administrative services decreased to 27 in fiscal year 2002 from 70 in fiscal year 2001. General and administrative expenses as a percentage of net revenues increased to 53.2% for fiscal year 2002 from 16.3% for fiscal year 2001. The increase as a percentage of net revenues was primarily due to our significantly decreased revenue.

Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, we adopted plans to exit the systems and hardware-related software engineering and professional services businesses, as well as exit a sublease agreement and reduce our general and administrative overhead costs. We exited these activities to pursue our software and online businesses and reduce our operating losses to improve cash flow. We recorded restructuring charges of $180.2 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $19.8 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases (with payments continuing until fiscal 2010, unless sublet completely). The accrual from non-cancelable lease payments includes management's estimates of sublease income. These estimates are subject to change based on actual events. We evaluate and update, if applicable, these estimates quarterly. As of July 31, 2003, we had an accrual of approximately $14.5 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

We have recorded a net restructuring credit of $0.3 million for the fiscal year ended July 31, 2003. This included $0.4 million of additional charges related to existing excess facilities as a result of the termination of a subtenant lease and $0.3 million of charges associated with our fiscal 2002 plan to reduce our general and administrative overhead costs, net of $1.0 million in credit adjustments to previously recorded restructuring reserves. As of July 31, 2003, we had an accrual of $0.4 million related to these charges.

In addition to the above, we recorded a $0.4 million net credit in cost of revenues in the consolidated statement of operations for the fiscal year ended July 31, 2003. The $0.4 million consisted of $23,000 associated with severance and other related costs attributable to the fiscal 2002 plan to align our infrastructure with operations, net of adjustments to previously recorded restructuring reserves of $0.4 million related to the systems warranty reserve and excess facility reserves originally established during fiscal 2001. As of July 31, 2003, no outstanding accruals remained related to these restructuring charges.

Below is a summary of the restructuring charges in operating expenses (in thousands):

	Total Charged To Operations Fiscal 2001	Total Charged To Operations Fiscal 2002	Total Charged To Operations Fiscal 2003	Total Cash Receipts\ (Payments)	Restructuring Liabilities at July 31, 2003
Cash Provisions:					
Other special charges relating to restructuring activities	$ 2,159	$ (888)	$ 78	$(1,349)	$ —
Facilities charges	6,584	9,401	191	(1,287)	14,889
Employee severance and other related charges	3,498	1,997	37	(5,532)	—
Total cash provisions	12,241	10,510	306	$(8,168)	$14,889
Non-cash:					
Write-off of goodwill and intangibles	59,723	30,632	—		
Write-off of other special charges relating to restructuring activities	4,434	5,442	(553)		
Write-off of accelerated options from terminated employees	1,352	—	—		
Acceleration of deferred stock compensation	35,728	352	(16)		
Total non-cash provisions	101,237	36,426	(569)		
Total provisions	$113,478	$46,936	$(263)		

Amortization of Deferred Stock Compensation

In connection with the grant of certain stock options to employees during fiscal 2000 and 1999, we recorded deferred stock compensation within stockholders' equity of approximately $37.8 million, representing the difference between the estimated fair value of the common stock for accounting purposes and the option exercise price of these options at the date of grant. We amortize the deferred stock compensation expense on an accelerated basis over the vesting period of the individual award which is generally equal to four years. This method of deferred stock expense amortization is in accordance with Financial Accounting Standards Board Interpretation No. 28. The amortization expense relates to options awarded to employees in all operating expense categories. The amortization of deferred stock compensation has not been separately allocated to these categories. The amount of deferred stock compensation from year to year has decreased as options for which accrued but unvested compensation has been recorded have been forfeited. We recorded amortization of deferred stock compensation related to these options of $0.1 million, $1.2 million and $10.6 million for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively. In addition, in connection with acquisitions, we recorded $0.5 million and $50.7 million of deferred stock compensation during the fiscal years ended July 27, 2002 and July 28, 2001, respectively. No amortization of deferred stock compensation related to acquisitions was recorded during the fiscal year ended July 31, 2003. Further, in connection with the restructuring discussed above, we recorded an expense of approximately $35.7 million related to the acceleration of deferred stock compensation for the fiscal year ended July 28, 2001. Finally, we made adjustments during fiscal years 2003 and 2002 related to deferred stock compensation for stock options of terminated employees of a credit of $16,000 and $0.3 million, respectively. All adjustments have been included in restructuring costs and other special charges in the statements of operations. We expect amortization of deferred stock compensation, in absolute dollars, to decrease through fiscal year 2004 as a result of the accelerated basis of amortization.

Goodwill and Intangibles and Impairment of Long-Lived Assets

In connection with the acquisitions of TruSolutions, Inc. ("TruSolutions"), Precision Insight, Inc. ("Precision Insight"), NetAttach, Inc. ("NetAttach"), and OSDN (formerly known as "Andover.Net, Inc."), we recorded $381.3 million of goodwill and intangibles during fiscal 2000. We amortized $97.9 million of goodwill and intangibles in fiscal 2001. In connection with the restructuring plans in fiscal year 2001, we wrote off goodwill and intangibles associated with BNW, Life, Alabanza (companies previously acquired prior to fiscal year 2000) and TruSolutions in the amount of $59.7 million as we exited these lines of business and expected no future cash flows. In connection with our restructuring plans in fiscal year 2002, we wrote off goodwill and intangibles associated with NetAttach, and Precision Insight in the amount of $30.6 million due to the exit of the professional services and Linux software engineering businesses.

We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of long-lived assets may not be recoverable in accordance with SFAS No. 144, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." When factors indicate that long-lived assets should be evaluated for possible impairment, we use an estimate of the related undiscounted future cash flows over the remaining life of the long-lived assets in measuring whether they are recoverable. If the estimated undiscounted future cash flows exceed the carrying value of the asset, a loss is recorded as the excess of the asset's carrying value over fair value. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. See Note 4 in the consolidated financial statements for details on impairment charges recognized during fiscal years 2002 and 2001.

We performed an assessment of the carrying value of its long-lived assets to be held and used including significant amounts of goodwill and other intangible assets recorded in connection with the Company's OSDN acquisition at July 28, 2001. We performed the assessment pursuant to SFAS No. 144 due to the significant slowdown in the economy affecting current operations and expected future sales, as well as the general decline of technology valuations. The conclusion of that assessment was that the decline in market conditions within the industry was significant and other than temporary. As a result, we recorded during the fourth quarter of fiscal year 2001 a charge of $160.0 million to reduce goodwill and other intangible assets associated with the acquisition of

OSDN, based on the amount by which the carrying value of these assets exceeded their fair value. The charge is included in the caption "Impairment of long-lived assets" in the consolidated statements of operations. Fair value was determined based on discounted future cash flows.

Effective July 29, 2001, we adopted SFAS No. 142, "Goodwill and Other Intangible assets." Upon adoption of SFAS No. 142, we no longer amortized goodwill. Pursuant to SFAS No. 142, we test goodwill for impairment. SFAS 142 requires that goodwill be tested for impairment at the "reporting unit level" ("Reporting Unit") at least annually and more frequently upon the occurrence of certain events, as defined by SFAS No. 142. During the quarter ended July 27, 2002 goodwill was tested for impairment and we determined that we had only one Reporting Unit, providing application software products and related OSDN products and services. First, we determined whether its carrying amount exceeded its "fair value", which would indicate that goodwill may be impaired. Based on this test, we determined that goodwill could be impaired. Therefore, we compared the "implied fair value" of goodwill, as defined by SFAS No. 142, to its carrying amount to determine whether there was an impairment loss. As a result of the impairment test, we determined that the carrying value was impaired and it recorded an impairment loss of $3.6 million. The charge is included in the caption "Impairment of long-lived assets" in the statements of operations. There was no carrying value associated with goodwill at July 31, 2003 to be tested for impairment.

Intangible assets are amortized on a straight-line basis over three to five years. we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of these intangible assets may not be recoverable. When factors indicate that the intangible assets should be evaluated for possible impairment, we use an estimate of the related business segment's undiscounted net income over the remaining useful life of the intangible assets in measuring whether they are recoverable. An evaluation was performed on the intangible assets during the quarter ended July 27, 2002. As a result of this evaluation, we determined that the carrying value was impaired and an impairment loss was recorded for $8.6 million. The charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the statements of operations. No events or circumstances occurred during the fiscal year ended July 31, 2003 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2003.

Interest and Other Income, Net

Interest and other income, net, includes income from our cash investments, net of other expenses. Net interest and other income decreased to $0.8 million for fiscal year 2003 from $2.2 million for fiscal year 2002. The decrease was primarily due to our decreased investment in VA Linux Japan, which accounted for $0.9 million of the decrease and a lower cash balance and decreased returns on our cash as a result of declining interest rates from prior year, which accounted for $0.6 million of the decrease. We expect interest and other income, net to decline as our cash balance decreases to support our operations.

Net interest and other income decreased to $2.2 million for fiscal year 2002 from $6.5 million for fiscal year 2001. The decrease was primarily due to a lower cash balance and decreased returns on our cash as a result of declining interest rates from prior year.

Income Taxes

As of July 31, 2003, we had $233 million of federal and state net operating loss carry-forwards for tax reporting purposes available to offset future taxable income. We have not recognized any benefit from these net operating loss carry-forwards because a valuation allowance has been recorded for the total deferred tax assets as a result of uncertainties regarding realization of the assets based on the lack of profitability to date and the uncertainty of future profitability. The federal and state net operating loss carry-forwards expire at various dates through fiscal year 2021 and fiscal year 2012, respectively, to the extent that they are not utilized. The amount of net operating losses that we can utilize is limited under tax regulations because we have experienced a cumulative stock ownership change of more than 50% over the last three years.

Liquidity and Capital Resources

As of July 31, 2003, our available capital resources totaled $38.8 million, comprised of marketable securities of $32.5 million and cash and cash equivalents of $6.3 million. As of July 27, 2002, our available capital resources totaled $53.0 million, comprised of $17.9 million in marketable securities and $35.1 million in cash and cash equivalents. During fiscal 2003, in an effort to maximize our rate of return, we invested a greater portion of our capital resources in short- and long-term marketable securities. The resulting $14.6 million increase in our marketable securities investments during fiscal 2003, accounts for 50.7% of the $28.8 million decline in our cash and cash equivalents to $6.3 million at July 31, 2003 from $35.1 million at July 27, 2002. The remaining decline of approximately $14.2 million was primarily due to cash utilized in our operations of $15.8 million, offset by cash generated by our financing activities of $1.4 million. The remaining variance was due to cash generated through the release of restricted cash of $0.5 million, offset by capital purchases of $0.3 million.

For the fiscal year ended July 31, 2003, we used $15.8 million in cash for operating activities, compared to $35.1 million for the fiscal year ended July 27, 2002. This represents a decrease of 55.0% and is primarily due to our reduction in expenses as a result of exiting the systems and services businesses and changing our focus to our software and online businesses.

For the fiscal year ended July 31, 2003, our operating loss of $8.6 million, net of non-cash charges, accounted for 54.4% of our operating cash utilization. Non-cash charges include depreciation and amortization of $5.4 million, provision for bad debts, provision for excess obsolete inventory, loss on disposal of assets, amortization of deferred stock compensation of $0.1 million, non-cash restructuring charges of a negative $0.6 million, and an impairment of long-lived assets of $0.2 million. In total, these net non-cash items reduced the net loss of $13.8 million by $5.2 million. Other significant operating activities resulting in the utilization of cash were accounts receivable, inventories, accounts payable, accrued restructuring liabilities, and accrued liabilities and other. The growth in accounts receivable utilized $1.2 million in cash. The decline in accounts payable utilized $1.2 million in cash. The decrease in accounts payable was due to a decrease in expenses as well as more rapid payment under terms. Finally, $5.2 million was utilized in accrued liabilities primarily as a result of payments made on excess facilities of $2.6 million, $0.5 million in payments made to former employees related to severance agreements and $2.1 million in payments made for other accrued liabilities during the normal course of business. We expect that the above cash utilization trends will continue as we grow our business and pay off our remaining lease obligations related to excess facilities.

For the fiscal year ended July 27, 2002 the utilization of cash was due to our operating loss of $38.7 million, net of non-cash charges, offset by cash generated from other operating activities of $3.6 million. Non-cash charges include depreciation and amortization of $16.2 million, provision for bad debts of a negative $1.1 million, provision for excess and obsolete inventory of a negative $4.4 million, loss on disposal of assets of $1.4 million, proportionate share of Japan losses in VA Linux Japan investment of $2.0 million, minority interest of VA Linux Japan loss of a negative $0.5 million, gain on sale of VA Linux Japan investment of a negative $12.8 million, release of contingent shares in relation to OSDN acquisition of $1.3 million, amortization of deferred stock compensation of $1.6 million, non cash compensation expense of $0.1 million, non-cash restructuring charges of $36.4 million and an impairment on long-lived assets of $12.2 million. In total, these net non-cash items reduced the net loss of $91.0 million by $52.3 million. Other significant operating activities resulting in the utilization of cash were accounts payable, accrued liabilities and other long-term liabilities. The decline in accounts payable utilized $12.2 million in cash. The decrease in accounts payable was due to a decrease in expenses as a result of exiting the hardware business. The decline in accrued liabilities and other long-term liabilities utilized $8.5 million in cash primarily as a net result of payments made associated with accrued compensation of $2.4 million, payments made associated with accrued restructuring of $3.1 million and $4.2 million in payments made for other accrued liabilities during the normal course of business, offset by cash generated from deferred rent associated with a sublease termination of $1.2 million. Other significant operating activities resulting in the generation of cash were accounts receivable, inventories, prepaid expenses and other assets and accrued restructuring liabilities. The decrease in accounts receivable generated $10.4 million in cash, and reflects a lower level of revenues as the hardware business declined and we exited certain portions of that business. The decrease in inventory generated $2.0 million and was due to exiting the hardware business and selling inventory that was originally reserved for in restructuring. The decline in prepaid expenses and other assets generated $3.4 million of cash and was the result of selling a portion of our VA Linux Japan investment which represented $0.8 million of the decline. The remaining decline of $2.6 million was the result of cash received from various miscellaneous receivables during the fiscal year ended July 27, 2002. Finally, an increase in accrued restructuring liabilities generated $8.5 million in cash as a result of additional restructuring reserves established for $11.6 million, offset by payments made on previously established accruals of $3.1 million.

For fiscal year 2001, we used $81.6 million in cash for operating activities. Working capital decreased to $62.4 million at July 28, 2001, primarily due to using our cash and investments to support our operating activities. Non-cash items consisted primarily of depreciation and amortization of goodwill, bad debt and inventory provisions, loss on disposal of assets, amortization of deferred compensation, non-cash restructuring and impairment of long-lived assets of $453.7 for fiscal year 2001. Other operating activities during fiscal year 2001 consisted of an increase in inventories, prepaid expenses, accrued restructuring liabilities, other accrued liabilities and other long-term liabilities offset by decreases in accounts receivable and accounts payable.

For the fiscal year ended July 31, 2003, we used $14.4 million in cash for investing activities, compared to generating $11.3 million and $17.3 million for the fiscal years ended July 27, 2002 and July 28, 2001, respectively. This change is primarily due to our strategic decision to increase our short- and long-term investments and decrease our cash equivalent investments in an effort to maximize our rate of return. During the fiscal year ended July 31, 2003, we utilized a net $14.6 million of cash and cash equivalents to purchase short- and long-term investments, compared to an increase of $4.9 million and $29.8 million in cash and cash equivalents during the fiscal years ended July 27, 2002 and July 28, 2001, respectively, which resulted from our liquidation of certain investments. In addition, during the fiscal year ended July 27, 2002 we sold a portion of our VA Linux Japan investment that generated $5.1 million. Further, we generated $0.5 million as a result of the release of restricted cash during the fiscal year ended July 31, 2003, compared to $1.5 million during the fiscal year ended July 27, 2002 and the utilization of $0.6 million during the fiscal year ended July 28, 2001. We expect that cash utilization for investing activities will decline as we sell longer term investments to fund our operations and our restricted cash is released under terms of our corporate lease agreement.

For the fiscal year ended July 31, 2003, we generated $1.4 million in cash from financing activities, compared to $0.1 million and $1.6 million for the fiscal years ended July 27, 2002 and July 28, 2001, respectively. This increase in cash generation during fiscal 2003 is primarily the result of cash generated from the issuance of common stock to our employees and decreasing payments on notes payable. During the fiscal year ended July 31, 2003, $1.4 million in cash was generated from the issuance of common stock to our employees, compared to $0.4 million and $4.4 million during the fiscal years ended July 27, 2002 and July 28, 2001, respectively. During the fiscal year ended July 31, 2003, $42,000 in cash was utilized to make payments on our notes payable, compared to payments of $0.3 million and $2.5 million during the fiscal year ended July 27, 2002. We are uncertain of the level of cash that will be generated in the future from the issuance of common stock to our employees as the exercising of options is dependant upon several factors such as the price of our common stock and the number of employees participating in our stock option plans.

For the fiscal year ended July 31, 2003, exchange rate changes had an immaterial effect on cash and cash equivalents. For the fiscal year ended July 27, 2002, exchange rate changes had a positive effect on cash and cash equivalents of $1.4 million. For the fiscal year ended July 28, 2001, exchange rate changes had a negative effect on cash and cash equivalents of $1.5 million. We expect that exchange rate changes will have an immaterial effect on cash and cash equivalents in the near future due to our focus on US-based business.

As of July 31, 2003 and July 27, 2002, we had outstanding letters of credit issued under a line of credit of approximately $0.9 million and $1.4 million, respectively, related to the corporate facility lease. The amount related to this letter of credit is recorded in the "Restricted cash" section of the condensed consolidated balance sheet. We anticipate that this balance will decline by $0.5 million in the fourth quarter of each fiscal year through 2005 under the terms of our existing lease agreement.

Future payments due under debt and lease obligations as of July 31, 2003 are as follows (in thousands):

	Gross Operating Leases	Sublease Income	Net Operating Leases
2004	$ 5,370	$ 615	$ 4,755
2005	4,916	309	4,607
2006	3,709	77	3,632
2007	3,511	—	3,511
2008	3,616	—	3,616
Thereafter	6,905		6,905
Total minimum lease payments...	$28,027	$1,001	$27,026

Our liquidity and capital requirements depend on numerous factors, including market acceptance of our software and online products, the resources we devote to developing, marketing, selling and supporting our software and online products, the timing and expense associated with expanding our distribution channels, potential acquisitions and other factors. We expect to devote capital resources to continue our research and development efforts, to invest in our sales, support, marketing and product development organizations, to enhance and introduce marketing programs, and for other general corporate activities. We believe that our existing cash balances will be sufficient to fund our operations through fiscal 2004 under our current business strategy.

Financial Risk Management

As a primarily US-centric company, we face limited exposure to adverse movements in foreign currency exchange rates and we do not engage in hedging activity. We do not anticipate significant currency gains or losses in the near term. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results.

We maintain investment portfolio holdings of various issuers, types and maturities. These securities are classified as available-for-sale, and consequently are recorded on the consolidated balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). These securities are not leveraged and are held for purposes other than trading.

Critical Accounting Policies

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the financial statements and of the possibility that future events affecting them may differ markedly from management's current judgments. While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include revenue recognition policies, the assessment of recoverability of goodwill and other intangible assets, restructuring reserves for excess facilities for non-cancelable leases, income taxes, and contingencies and litigation.

Revenue Recognition

As discussed in Note 2 of the notes to the consolidated financial statements, we account for the licensing of software in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition. The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. End users receive certain elements of our products over a period of time. These elements include post-delivery telephone support and the right to receive unspecified upgrades/enhancements on a when-and-if-available basis, the fair value of which is recognized over the product's estimated life cycle. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, and changes to a product's estimated life cycle could materially impact the amount of earned and unearned revenue. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

Amortization of Goodwill and Intangibles

As discussed in Note 2 of the notes to the consolidated financial statements, effective July 29, 2001, we adopted SFAS No. 142, "Goodwill and Other Intangible assets." SFAS 142, Goodwill and Other Intangible Assets, requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Restructuring Costs and Other Special Charges

As discussed in Note 4 of the notes to the consolidated financial statements, we have recorded significant restructuring charges in connection with exiting our managed services, systems, and professional services and Linux software engineering services businesses during fiscal years ended 2002 and 2001. A significant portion of these charges related to excess facilities primarily from non-cancelable leases (payments which, unless we sublet completely, will continue until fiscal 2010) or other costs for the abandonment or disposal of property and equipment. Restructuring charges associated with these non-cancelable leases include estimates related to sublease costs and income which are based on assumptions regarding the period required to locate and contract with suitable sub-lessees and sublease rates which can be achieved using market trend information analyses provided by a commercial real estate brokerage firm retained by us. We review these estimates each reporting period and to the extent that these assumptions change due to changes in the market, the ultimate restructuring expenses for these excess facilities could vary by material amounts. Savings related to fiscal year 2003 as a result of idle space charges taken in fiscal year 2002 and 2001 totaled $3.0 million. Should the Company be unable to sublet the idle facilities under the current assumptions, additional idle space charges may be recorded in future periods for a maximum of up to $6.5 million.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process in preparing our consolidated financial statements. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets or liabilities. We must then assess the likelihood that our net deferred tax assets will be recovered from future taxable income and to the extent that we believe recovery is not likely, we must establish a valuation allowance. While we have considered future taxable income in assessing the need for the valuation allowance, in the event that we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would be made, increasing income in the period in which such determination was made.

Contingencies and Litigation

We are subject to proceedings, lawsuits and other claims. We assess the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable losses. A determination of the amount of loss contingency required, if any, is assessed in accordance with SFAS No. 5 "Contingencies and Commitments" and recorded if probable after careful analysis of each individual matter. The required loss contingencies may change in the future as the facts and circumstances of each matter change.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supercedes previous accounting guidance, principally EITF issue No. 94-3. We are required to adopt SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of the company's commitment to an exit plan. SFAS No. 146 also established that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring plans. If we continue to record significant restructuring charges in the future, the adoption of SFAS No. 146 could have a significant impact on our results of operations. All restructuring charges have been recorded in accordance with SFAS No. 146 for all periods presented with restructuring activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee or indemnification. In addition, FIN No. 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN No. 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 has not had a material effect on these consolidated financial statements.

As permitted under Delaware law, we have agreements whereby our officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The term of the indemnification period is for the officer's or director's term in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer liability insurance designed to limit our exposure and to enable us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, we have no liabilities recorded for these agreements as of July 31, 2003.

We enter into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, we indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally, our business partners, subsidiaries and/or customers, in connection with any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to our products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. We have not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, we believe the estimated fair value of these agreements is insignificant. Accordingly, we have no liabilities recorded for these agreements as of July 31, 2003.

We warrant that our software products will perform in all material respects in accordance with our standard published specifications in effect at the time of delivery of the licensed products to the customer for a specified period, which generally does not exceed ninety days. Additionally, we warrant that our maintenance services will be performed consistent with generally accepted industry standards through completion of the agreed upon services. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history, however, we have not incurred significant expense under our product or services warranties. As a result, we believe the estimated fair value of these agreements is minimal. Accordingly, we have no liabilities recorded for these agreements as of July 31, 2003.

We warrant that our hardware products related to our previous hardware business will perform in all material respects in accordance with the our standard published specifications in effect at the time of delivery of the products to the customer for the life of the product, typically 36 months. The remaining estimated fair value of these agreements related to our previous hardware business is minimal at July 31, 2003. Accordingly, we have a liability of approximately $12,000 recorded for these agreements as of July 31, 2003.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. The pronouncement is effective for VA Software commencing with its fiscal year 2004 and is not expected to have a material impact on VA Software's consolidated results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." This Statement amends FASB SFAS No. 123, "Accounting for Stock-Based Compensation,", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosures of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. We have chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the estimate of the market value of our stock at the date of the grant over the amount an employee must pay to acquire its stock. We adopted the interim disclosure provisions for our financial reports during the quarter ended April 26, 2003 and have adopted the annual disclosure provisions of SFAS No. 148 in our financial reports for the fiscal year ended July 31, 2003. Refer to Note 2 of Notes to Condensed Consolidated Financial Statements. As the adoption of this standard involves disclosures only, it has not had a material impact on our consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." Generally, a variable interest entity ("VIE") is a corporation, partnership, trust or any other legal structure used for business purposes that either does not have equity investors with substantive voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. A VIE often holds financial assets and may be passive or it may engage in such activities as research and development or other activities on behalf of another company. FIN No. 46 requires that a VIE be consolidated by a company if that company is subject to a majority of the VIE's risk of loss or entitled to receive a majority of the VIE's residual returns or both. A company that consolidates a VIE is referred to as the primary beneficiary of that entity. The consolidation requirements of FIN No. 46 apply immediately to VIEs created after January 31, 2003. The consolidation requirements apply to entities existing prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003 regardless of when the VIE was established. We have adopted the disclosure provisions and will adopt the consolidation requirements as of August 1, 2003. The adoption of the consolidation requirements of FIN No. 46 did not have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 addresses certain financial instruments that, under previous guidance, could be accounted for as equity, but now must be classified as liabilities in statements of financial position. These financial instruments include: 1) mandatory redeemable financial instruments, 2) obligations to repurchase the issuer's equity shares by transferring assets, and 3) obligations to issue a variable number of shares. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The implementation of SFAS No. 150 is not expected to have a material effect on our consolidated financial statements.

Risk Factors

INVESTORS SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. IN ADDITION, THESE RISKS ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS OF WHICH WE ARE NOT PRESENTLY AWARE OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND INVESTORS MAY LOSE ALL OR PART OF THEIR INVESTMENT.

Risks Related To Our Software Business

BECAUSE THE MARKET FOR OUR SOURCEFORGE APPLICATION SOFTWARE IS NEW AND RAPIDLY EVOLVING, WE DO NOT KNOW WHETHER EXISTING AND POTENTIAL CUSTOMERS WILL LICENSE SOURCEFORGE IN SUFFICIENT QUANTITIES FOR US TO ACHIEVE PROFITABILITY. Our future growth and financial performance will depend on market acceptance of SourceForge and our ability to license our software in sufficient quantities and under acceptable terms. The number of customers using SourceForge is still relatively small. We expect that we will continue to need intensive marketing and sales efforts to educate prospective clients about the uses and benefits of SourceForge. Various factors could inhibit the growth of the market for and market acceptance of SourceForge. In particular, potential customers may be unwilling to make the significant capital investment needed to license SourceForge. Many of our customers have licensed only limited quantities of SourceForge, and these or new customers may decide not to broadly implement our software by licensing additional copies from us. We cannot be certain that a viable market for SourceForge will emerge or, if it does emerge, that it will be sustainable. If a sustainable viable market for SourceForge fails to emerge, this would have a significant, adverse effect upon our software business and operating results.

WE ARE CONCENTRATING OUR SALES EFFORTS ON SOURCEFORGE, SO IF THIS SOFTWARE DOES NOT ACHIEVE MARKET ACCEPTANCE WE ARE LIKELY TO EXPERIENCE CONTINUED OPERATING LOSSES. We are directing the majority of our product research and development efforts to SourceForge. The failure to achieve market acceptance of SourceForge would adversely affect our business and operating results. The success of SourceForge is difficult to predict because SourceForge represents a relatively new area of business for us. There can be no assurance that we will be successful in marketing, licensing, upgrading and supporting SourceForge. Our failure to do so could adversely affect our business and operating results.

IF WE FAIL TO ATTRACT AND RETAIN LARGER CORPORATE AND ENTERPRISE-LEVEL CUSTOMERS, OUR REVENUES WILL NOT GROW AND MAY DECLINE. We have focused our sales and marketing efforts upon larger corporate and enterprise-level customers. This strategy may fail to generate sufficient revenue to offset the substantial demands that this strategy will place on our business, in particular the longer sales cycles, higher levels of service and support and volume pricing and terms that larger corporate and enterprise accounts often demand. In addition, these larger customers generally have significant internal financial and personnel resources. As a result, rather than license SourceForge, our target customers may develop collaborative software development applications internally, including ad hoc development of applications based on open source code. A failure to successfully obtain revenues from larger corporate or enterprise-level customers will materially and adversely affect our operating results.

IF WE DO NOT DEVELOP AND ENHANCE SOURCEFORGE TO KEEP PACE WITH TECHNOLOGICAL, MARKET, AND INDUSTRY CHANGES, OUR SOFTWARE REVENUE WILL NOT GROW AND MAY DECLINE. Rapid technological advances, changes in customer requirements, and frequent new product introductions and enhancements characterize the software industry generally. We must respond rapidly to developments related to hardware platforms, operating systems, and software development tools. These developments will require us to make substantial product development investments. If we fail to anticipate or respond adequately to technology developments, industry standards, or practices and customer requirements, or if we experience any significant delays in product development, introduction, or integration, SourceForge may become obsolete or unmarketable, our ability to compete may be impaired, and our software revenues may not grow or may decline. We believe the success of our software business will become increasingly dependent on our ability to:

- support multiple platforms, including Linux, commercial UNIX, Microsoft Windows and Apple Mac OS X;
- use the latest technologies to continue to support Web-based collaborative software development; and
- continually support the rapidly changing standards, tools and technologies used in software development.

OUR APPLICATION SOFTWARE HAS A LONG AND UNPREDICTABLE SALES CYCLE, WHICH MAKES IT DIFFICULT TO FORECAST OUR FUTURE RESULTS AND MAY CAUSE OUR OPERATING RESULTS TO VARY SIGNIFICANTLY. The period between initial contact with a prospective customer and the licensing of our software varies and can range from three to more than twelve months. Additionally, our sales cycle is complex because customers consider a number of factors before committing to license SourceForge. Factors that may be considered by customers when evaluating SourceForge include product benefits, cost and time of implementation, and the ability to operate with existing and future computer systems and applications. Customer evaluation, purchasing and budgeting processes vary significantly from company to company. As a result, we spend significant time and resources informing prospective customers about our software products, which may not result in a completed transaction and may negatively impact our operating margins. Even if SourceForge has been chosen by a customer, completion of the transaction is subject to a number of contingencies, which make our quarterly revenues difficult to forecast. These contingencies include but are not limited to the following:

- Our ability to sell SourceForge licenses may be impacted by changes in the strategic importance of software projects due to our customers' budgetary constraints or changes in customer personnel;
- A customer's internal approval and expenditure authorization process can be difficult and time consuming. Delays in approvals, even after we are selected as a vendor, could impact the timing and amount of revenues recognized in a quarterly period; and
- The number, timing and significance of enhancements to our software products and future introductions of new software by our competitors and us may affect customer-purchasing decisions.

CONTRACTUAL ISSUES MAY ARISE DURING THE NEGOTIATION PROCESS THAT MAY DELAY THE ANTICIPATED CLOSURE OF A TRANSACTION AND OUR ABILITY TO RECOGNIZE REVENUE AS ANTICIPATED. Because we focus on selling enterprise solutions, the process of contractual negotiation is critical and may be lengthy. Additionally, several factors may require us to defer recognition of license revenue for a significant period of time after entering into a license agreement, including instances where we are required to deliver either unspecified additional products or specified upgrades for which we do not have vendor-specific objective evidence of fair value. While we have a standard software license agreement that provides for revenue recognition provided that delivery has taken place, collectibility from the customer is reasonably assured and assuming no significant future obligations or customer acceptance rights exist, customer negotiations and revisions to these terms could impact our ability to recognize revenues at the time of delivery.

Many enterprise customers negotiate software licenses near the end of each quarter. In part, this is because enterprise customers are able, or believe that they are able, to negotiate lower prices and more favorable terms at that time. Our reliance on a large portion of software revenue occurring at the end of the quarter and the increase in the dollar value of transactions that occur at the end of a quarter can result in increased uncertainty relating to quarterly revenues. Due to end-of-period variances, forecasts may not be achieved, either because expected sales do not occur or because they occur at lower prices or on terms that are less favorable to us.

In addition, slowdowns in our quarterly license contracting activities may impact our service offerings and may result in lower revenues from our customer training, professional services and customer support organizations. Our ability to maintain or increase service revenues is highly dependent on our ability to increase the number of license agreements we enter into with customers.

IF WE DO NOT CONTINUE TO RECEIVE REPEAT BUSINESS FROM EXISTING CUSTOMERS, OUR REVENUE WILL NOT GROW AND MAY DECLINE. We generate a significant amount of our software license revenues from existing customers. Most of our current customers initially purchased a limited number of licenses as they implemented and adopted SourceForge. Even if customers successfully use SourceForge, such customers may not purchase additional licenses to expand the use of our product. Purchases of additional licenses by these customers will depend on their success in deploying SourceForge, their satisfaction with our product and support services and their use of competitive alternatives. A customer's decision to widely deploy SourceForge and purchase additional licenses may also be affected by factors that are outside of our control or which are not related to our product or services. In addition, as we deploy new versions of SourceForge, or introduce new products, our current customers may not require the functionality of our new versions or products and may decide not to license these products.

IF WE FAIL TO MAINTAIN OUR STRATEGIC RELATIONSHIP WITH IBM, THE MARKET ACCEPTANCE OF OUR PRODUCTS AND OUR FINANCIAL PERFORMANCE MAY SUFFER. To date, the majority of our SourceForge revenue has come from our direct sales efforts. To offer products and services to a larger customer base, we entered into a commercial relationship with IBM. If we are unable to maintain our existing strategic relationship with IBM, our ability to increase our sales may be harmed. We would also lose anticipated customer introductions and co-marketing benefits. In addition, IBM could terminate its relationship with us, pursue other relationships, or attempt to develop or acquire products or services that compete with our products and services. Even if we succeed in maintaining or expanding our relationship with IBM, the relationship may not result in additional customers or revenues. We have begun exploring other possible relationships and marketing alliances to obtain customer leads, referrals and distribution opportunities. Even if we succeed in securing such additional strategic relationships, the relationships may not result in additional customers or revenues.

OUR RESEARCH AND DEVELOPMENT EFFORTS MAY BE COSTLY AND MAY NOT PRODUCE SUCCESSFUL NEW PRODUCTS AND PRODUCT UPGRADES. Our future success will depend upon our ability to enhance our current products and develop and introduce new products on a timely basis, particularly if new technology or new industry standards render any existing products obsolete. We believe that we will need to incur significant research and development expenditures to remain competitive, particularly because many of our competitors have substantially greater resources. The products that we are currently developing or may develop in the future may not be technologically successful or may not be accepted in our market. In addition, the length of our product development cycle may be greater than we expect. If the resulting products are not introduced in a timely manner, or do not compete effectively with products of our competitors, our business will be harmed.

DELAYS IN INTRODUCING UPGRADES TO OUR PRODUCTS MAY CAUSE US TO LOSE CUSTOMERS TO OUR COMPETITORS OR HARM OUR REPUTATION. We attempt to maintain a consistent release schedule for upgrades of existing products. Due to uncertainties inherent in software development, it is likely that delays will materialize from time to time in the future. We could lose customers as a result of substantial delays in the shipment of product upgrades.

IF WE ARE UNABLE TO PROVIDE HIGH-QUALITY CUSTOMER SUPPORT AND SERVICES, WE WILL NOT MEET THE NEEDS OF OUR CUSTOMERS AND REVENUE WILL NOT GROW AND MAY DECLINE. For our business to succeed, we must effectively market and provide customer support for SourceForge. If we do not develop our customer support organization to meet the needs or expectations of customers, we face an increased risk that customers will purchase software from other providers or forgo deployment of collaborative software development applications entirely, which would materially and adversely affect our operating results.

INCREASED UTILIZATION AND COSTS OF OUR TECHNICAL SUPPORT SERVICES MAY ADVERSELY AFFECT OUR FINANCIAL RESULTS. Over the short term, we may be unable to respond to fluctuations in customer demand for support services. We may also be unable to modify the format of our support services to compete with changes in support services provided by competitors. Further, customer demand for these services could cause increases in the costs of providing such services and adversely affect our operating results.

PROMOTIONAL PRODUCT VERSIONS MAY ADVERSELY IMPACT OUR ACTUAL PRODUCT SALES. Our marketing strategy relies in part on making elements of our technology available for no charge or at a very low price. This strategy is designed to expose our products to a broader customer base than to our historical customer base and to encourage potential customers to purchase an upgrade or other full priced products from us.

We may not be able to introduce enhancements to our full-price products or versions of our products with intermediate functionality at a rate necessary to adequately differentiate them from the promotional versions, which could reduce sales of our products.

Risks Related To Our Online Business

OUR ONLINE CONTENT AND SERVICES MAY NOT ACHIEVE CONTINUED ACCEPTANCE, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS. Our future success depends upon our ability to deliver original and compelling content and services that attract and retain users. The successful development and production of content and services is subject to numerous uncertainties, including our ability to:

- anticipate and successfully respond to rapidly changing consumer tastes and preferences;
- fund new program development; and
- attract and retain qualified editors, writers and technical personnel.

We cannot assure you that our online content and services will be attractive to a sufficient number of users to generate revenues consistent with our estimates or sufficient to sustain operations. In addition, we cannot assure you that any new content or services will be developed in a timely or cost-effective manner. If we are unable to develop content and services that allow us to attract, retain and expand a loyal user base that is attractive to advertisers and sellers of technology products, we will be unable to generate sufficient revenue to grow our online business.

DECREASES OR DELAYS IN ADVERTISING SPENDING DUE TO GENERAL ECONOMIC CONDITIONS COULD HARM OUR ABILITY TO GENERATE ADVERTISING REVENUE. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. The overall market for advertising, including Internet advertising, has been generally characterized in recent quarters by softness of demand and minimal growth of marketing and advertising budgets and delays in spending of budgeted resources. Because we derive a large part of our revenues from advertising fees, the decrease in or delay of advertising spending could reduce our revenues or negatively impact our ability to grow our revenues. Even if economic conditions continue to improve, marketing budgets and advertising spending may not increase from current levels.

WE CANNOT PREDICT OUR E-COMMERCE CUSTOMERS' PREFERENCES WITH CERTAINTY AND SUCH PREFERENCES MAY CHANGE RAPIDLY. Our e-commerce offerings on our ThinkGeek.com Web site are designed to appeal to IT professionals, software developers and others in technical fields. If we misjudge either the market for our products or our customers' purchasing habits, our sales may decline, our inventories may increase or we may be required to sell our products at lower prices. This would have a negative effect on our business.

WE ARE EXPOSED TO SIGNIFICANT INVENTORY RISKS AS A RESULT OF SEASONALITY, NEW PRODUCT LAUNCHES, RAPID CHANGES IN PRODUCT CYCLES AND CHANGES IN CONSUMER TASTES WITH RESPECT TO OUR PRODUCTS OFFERED AT OUR THINKGEEK E-COMMERCE WEB SITE. In order to be successful, we must accurately predict these trends and avoid overstocking or under-stocking products. Demand for products can change significantly between the time inventory is ordered and the date of sale. In addition, when we begin selling a new product, it is particularly difficult to forecast product demand accurately. The acquisition of certain types of inventory, or inventory from certain sources, may require significant lead-time and prepayment, and such inventory may not be returnable. We carry a broad selection and significant inventory levels of certain products and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Our ability to receive inbound inventory efficiently or ship completed orders to customers may be negatively affected by a number of factors, including our dependence on a single third party contract fulfillment and warehouse facility in Baltimore, Maryland to handle the majority of our ThinkGeek e-commerce distribution and fulfillment operations and reliance upon third party carriers for all of our product shipments.

IF WE DO NOT MAINTAIN SUFFICIENT E-COMMERCE INVENTORY LEVELS, OR IF WE ARE UNABLE TO DELIVER OUR E-COMMERCE PRODUCTS TO OUR CUSTOMERS IN SUFFICIENT QUANTITIES, OUR ONLINE BUSINESS OPERATING RESULTS WILL BE ADVERSELY AFFECTED. We must be able to deliver our merchandise in sufficient quantities to meet the demands of our customers and deliver this merchandise to customers in a timely manner. We must be able to maintain sufficient inventory levels, particularly during the peak holiday selling seasons. If we fail to achieve these goals, we may be unable to meet customer demand, and our future results will be adversely affected.

Risks Related To Our Financial Results

IF WE FAIL TO ADEQUATELY MONITOR AND MINIMIZE OUR USE OF EXISTING CASH, WE MAY NEED ADDITIONAL CAPITAL TO FUND CONTINUED OPERATIONS BEYOND FISCAL YEAR 2004. Since becoming a public company, we have experienced negative cash flow from operations and expect to experience negative cash flow from operations for fiscal year 2004. Unless we monitor and minimize the level of use of our existing cash, cash equivalents and marketable securities, we may require additional capital to fund continued operations beyond our fiscal year 2004. While we believe we will not require additional capital to fund continued operations during fiscal year 2004, we may require additional funding within this time frame, and this additional funding, if needed, may not be available on terms acceptable to us, or at all. A continued slowdown in technology or advertising spending as compared to the general economy, as well as other factors that may arise, could affect our future capital requirements and the adequacy of our available funds. As a result, we may be required to raise additional funds through private or public financing facilities, strategic relationships or other arrangements. Any additional equity financing would likely be dilutive to our stockholders. Debt financing, if available, may involve restrictive covenants on our operations and financial condition. Our inability to raise capital when needed could seriously harm our business.

IT IS DIFFICULT TO EVALUATE OUR BUSINESS BECAUSE WE HAVE A LIMITED HISTORY OPERATING AS A PROVIDER OF APPLICATION SOFTWARE. We have a brief operating history as a provider of SourceForge, our proprietary software application. As a result, our historical financial information is of limited value in projecting future operating results. On June 27, 2001, we announced our plan to exit our hardware business. In the first quarter of our fiscal year 2002, we made the strategic decision to exit, and exited, the hardware-related software engineering and professional services fields to focus on SourceForge. These changes required us to adjust our business processes and make a number of significant personnel changes, including changes and additions to our engineering and management teams. Therefore, in evaluating our business you must consider the risks and difficulties frequently encountered by early stage companies in new and rapidly evolving markets.

BECAUSE WE HAVE A LIMITED OPERATING HISTORY SELLING SOURCEFORGE, WE MAY NOT ACCURATELY FORECAST OUR SALES AND REVENUES, WHICH WILL CAUSE QUARTERLY FLUCTUATIONS IN OUR NET REVENUES AND RESULTS OF OPERATIONS. Our ability to accurately forecast our quarterly software sales and revenue is made difficult by our limited operating history with our new business direction and the continued slowdown in technology spending. In addition, most of our operating costs are fixed and based on our revenue expectations. Therefore, if we have a shortfall in revenues, we may be unable to reduce our expenses quickly enough to avoid lower quarterly operating results.

OUR QUARTERLY NET REVENUES AND RESULTS OF OPERATIONS MAY VARY SIGNIFICANTLY IN THE FUTURE DUE TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE OF OUR CONTROL. The primary factors that may cause our quarterly net revenues and results of operations to fluctuate include the following:

- macroeconomic factors such as the general condition of the U.S. economy;
- specific economic conditions relating to IT spending;
- demand for and market acceptance of our software and services;
- reductions in the sales price of our software or software offered by our competitors;
- our ability to develop, introduce and market new versions of our software and product enhancements that meet customer requirements in a timely manner;
- the discretionary nature of our customers' purchase and budget cycles;
- difficulty predicting the size and timing of customer orders;
- long sales cycles;
- our ability to develop and retain a skilled software sales force;
- introduction or enhancement of our products or our competitors' products;

- an increase in our operating costs;
- whether we are able to expand our sales and marketing programs for our software products;
- changes in accounting pronouncements applicable to us;
- the timing of announcements and releases of new or enhanced versions of our products and product upgrades;
- the market's transition between new releases of third party operating systems on which our software products run;
- the possibility that software development delays will result from our outsourcing of certain SourceForge research and development efforts to Cybernet Software Systems, Inc., an independent contractor located primarily in India;
- weak economic conditions relating to online advertising and sponsorship, and e-commerce;
- the pricing of advertising on our network of Internet sites and our competitors' Internet sites;
- the amount of traffic on our network of Internet sites;
- our ability to achieve, demonstrate and maintain attractive online user demographics;
- our ability to develop and retain a skilled advertising and sponsorship sales force;
- the demand for advertising or sponsorships;
- the addition or loss of specific advertisers or sponsors, and the size and timing of advertising or sponsorship purchases by individual customers;
- our ability to manage effectively our development of new business opportunities and markets;
- our ability to upgrade and develop our systems and infrastructure;
- our ability to keep our Web sites operational at a reasonable cost;
- technical difficulties, system downtime, Internet brownouts or denial of service or other similar attacks;
- consumer confidence in the safety and security of transactions on our e-commerce Web sites; and
- disruption to our operations, employees, affiliates, customers and facilities caused by international or domestic terrorist attacks or armed conflict.

Due to all of the foregoing factors, any significant shortfall in revenues in relation to planned expenditures could materially and adversely affect our operating results and financial condition. If our revenues and operating results fall below our expectations, the expectations of securities analysts or the expectations of investors, the trading price of our common stock would likely be materially and adversely affected. You should not rely on the results of our business in any past periods as an indication of our future financial performance.

FUTURE GUIDELINES AND INTERPRETATIONS REGARDING SOFTWARE REVENUE RECOGNITION COULD HAVE A MATERIAL IMPACT ON OUR BUSINESS. In October 1997, the AICPA issued SOP No. 97-2, "Software Revenue Recognition" which superceded SOP No. 91-1. SOP No. 97-2, as amended by SOP No. 98-4 and SOP No. 98-9, provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements," which provides further revenue recognition guidance. We adopted SAB No. 101, as amended, and SOP No. 97-2, as amended by SOP No. 98-4 and SOP No. 98-9 in the fourth quarter of fiscal 2001 as required. The adoption of SAB No. 101 did not have a material effect on our consolidated financial position, results of operations or cash flows. The accounting profession continues to review certain provisions of SOP No. 97-2 and SAB No. 101 with the objective of providing additional guidance on implementing its provisions. Depending upon the outcome of these reviews and the issuance of implementation guidelines and interpretations, we may be required to change our revenue recognition policies and business practices and such changes could have a material adverse effect on our business, results of operations or financial position.

WE HAVE A HISTORY OF LOSSES AND EXPECT TO CONTINUE TO INCUR NET LOSSES FOR THE FORESEEABLE FUTURE. We incurred a loss of $2.4 million for our fiscal fourth quarter ended July 31, 2003, and we had an accumulated deficit of $739.7 million as of July 31, 2003. We expect to continue to incur significant product development, sales and marketing and administrative expenses. We expect to continue to incur net losses for at least the foreseeable future. If we do achieve profitability, we may not be able to sustain it. Failure to become and remain profitable may materially and adversely affect the market price of our common stock and our ability to raise capital and continue operations.

DESPITE REDUCTIONS IN THE SIZE OF OUR WORKFORCE, OUR BUSINESS MAY FAIL TO GROW RAPIDLY ENOUGH TO OFFSET OUR ONGOING OPERATING EXPENSES. During fiscal year 2001, we substantially reduced our workforce such that as of July 28, 2001 we had 286 employees, down from 551 employees in January 2001. During fiscal years 2002 and 2003, we further reduced our workforce such that as of July 31, 2003 we had 115 employees. Nevertheless, despite these reductions in our workforce, our business may fail to grow rapidly enough to offset our ongoing operating expenses. As a result, our quarterly operating results could fluctuate, and such fluctuation could adversely affect the market price of our common stock.

Risks Related To Competition

IF WE DO NOT EFFECTIVELY COMPETE WITH NEW AND EXISTING COMPETITORS, OUR REVENUES AND OPERATING MARGINS WILL NOT GROW AND MAY DECLINE. We believe that the newly emerging collaborative software development market is fragmented, subject to rapid change and highly sensitive to new product introductions and marketing efforts by industry participants. Competition in related markets is intense. If our products gain market acceptance, we expect the competition to rapidly intensify as new competitors enter the marketplace. Our potential competitors include entrenched companies in closely related markets who may choose to enter and focus on collaborative software development. Although we do not believe that we presently have an entrenched competitor, we expect competition to intensify in the future if the market for collaborative software development applications continues to expand.

Our potential competitors include providers of software and related services as well as providers of hosted application services. Many of our potential competitors have significantly more resources, more experience, longer operating histories and greater financial, technical, sales and marketing resources than we do. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure will not result in price reductions, reduced operating margins and loss of market share, any one of which could seriously harm our business.

Because individual product sales often lead to a broader customer relationship, our products must be able to successfully compete with and complement numerous competitors' current and potential offerings. Moreover, we may be forced to compete with our strategic partners, and potential strategic partners, and this may adversely impact our relationship with an individual partner or a number of partners.

Consolidation is underway among companies in the software industry as firms seek to offer more extensive suites of software products and broader arrays of software solutions. Changes resulting from this consolidation may negatively impact our competitive position and operating results.

ONLINE COMPETITION IS INTENSE. OUR FAILURE TO COMPETE SUCCESSFULLY COULD ADVERSELY AFFECT OUR REVENUE AND FINANCIAL RESULTS. The market for Internet content and services is intensely competitive and rapidly evolving. It is not difficult to enter this market and current and new competitors can launch new Internet sites at relatively low cost. We derive revenue from online advertising and sponsorships, for which we compete with various media including newspapers, radio, magazines and various Internet sites. We also derive revenue from e-commerce, for which we compete with other e-commerce companies as well as traditional, "brick and mortar" retailers. We may fail to compete successfully with current or future competitors. Moreover, increased competition could result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on our future revenue and financial results. If we do not compete successfully for new users and advertisers, our financial results may be materially and adversely affected.

Risks Related To Intellectual Property

WE ARE VULNERABLE TO CLAIMS THAT OUR PRODUCTS INFRINGE THIRD-PARTY INTELLECTUAL PROPERTY RIGHTS. ANY RESULTING CLAIMS AGAINST US COULD BE COSTLY TO DEFEND OR SUBJECT US TO SIGNIFICANT DAMAGES. We expect that our software products will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. In addition, we may receive patent infringement claims as companies increasingly seek to patent their software. Our developers may fail to perform patent searches and may therefore unwittingly infringe on third-party patent rights. We cannot prevent current or future patent holders or other owners of intellectual property from suing us and others seeking monetary damages or an injunction against shipment of our software offerings. A patent holder may deny us a license or force us to pay royalties. In either event, our operating results could be seriously harmed. In addition, employees hired from competitors might utilize proprietary and trade secret information from their former employers without our knowledge, even though our employment agreements and policies clearly prohibit such practices.

Any litigation regarding our intellectual property, with or without merit, could be costly and time consuming to defend, divert the attention of our management and key personnel from our business operations and cause product shipment delays. Claims of intellectual property infringement may require us to enter into royalty and licensing agreements that may not be available on terms acceptable to us, or at all. In addition, parties making claims against us may be able to obtain injunctive or other equitable relief that could effectively block our ability to sell our products in the United States and abroad and could result in an award of substantial damages against us. Defense of any lawsuit or failure to obtain any required license could delay shipment of our products and increase our costs. If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be immediately and materially adversely affected.

IF WE FAIL TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, COMPETITORS MAY USE OUR TECHNOLOGY AND TRADEMARKS, WHICH COULD WEAKEN OUR COMPETITIVE POSITION, REDUCE OUR REVENUES, AND INCREASE OUR COSTS. We rely on a combination of copyright, trademark and trade-secret laws, employee and third-party nondisclosure agreements, and other arrangements to protect our proprietary rights. Despite these precautions, it may be possible for unauthorized third parties to copy our products or obtain and use information that we regard as proprietary to create products that compete against ours. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our licensed programs may be unenforceable under the laws of certain jurisdictions and foreign countries.

In addition, the laws of some countries do not protect proprietary rights to the same extent as do the laws of the United States. To the extent that we increase our international activities, our exposure to unauthorized copying and use of our products and proprietary information will increase.

Our collection of trademarks is important to our business. The protective steps we take or have taken may be inadequate to deter misappropriation of our trademark rights. We have filed applications for registration of some of our trademarks in the United States and internationally. Effective trademark protection may not be available in every country in which we offer or intend to offer our products and services. Failure to protect our trademark rights adequately could damage our brand identity and impair our ability to compete effectively. Furthermore, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

The scope of United States patent protection in the software industry is not well defined and will evolve as the United States Patent and Trademark Office grants additional patents. Because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed that would relate to our products.

Our software business success depends significantly upon our proprietary technology. Despite our efforts to protect our proprietary technology, it may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use our proprietary information. We do not have any software patents, and existing copyright laws afford only limited protection. In addition, we cannot be certain that others will not develop substantially equivalent or superseding proprietary technology, or that equivalent products will not be marketed in competition with our products, thereby substantially reducing the value of our proprietary rights. We cannot assure you that we will develop proprietary products or technologies that are patentable, that any patent, if issued, would provide us with any competitive advantages or would not be challenged by third parties, or that the patents of others will not adversely affect our ability to do business. Litigation may be necessary to protect our proprietary technology. This litigation may be time-consuming and expensive.

Other Risks Related To Our Business

WE MAY BE SUBJECT TO CLAIMS AS A RESULT OF INFORMATION PUBLISHED ON, POSTED ON OR ACCESSIBLE FROM OUR INTERNET SITES. We may be subject to claims of defamation, negligence, copyright or trademark infringement (including contributory infringement) or other claims relating to the information contained on our Internet sites, whether written by third parties or us. These types of claims have been brought against online services in the past and can be costly to defend regardless of the merit of the lawsuit. Although federal legislation protects online services from some claims when third parties write the material, this protection is limited. Furthermore, the law in this area remains in flux and varies from state to state. We receive notification from time to time of potential claims, but have not been named as a party to litigation involving such claims. While no formal complaints have been filed against us to date, our business could be seriously harmed if one were asserted.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF PEOPLE OR PROPERTY ARE HARMED BY THE PRODUCTS WE SELL ON OUR E-COMMERCE WEB SITES. Some of the products we offer for sale on our e-commerce Web sites, such as consumer electronics, toys, computers and peripherals, toiletries, beverages and clothing, may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take actions such as product recalls. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our vendor agreements with our suppliers do not indemnify us from product liability.

IF WE ARE UNABLE TO IMPLEMENT APPROPRIATE SYSTEMS, PROCEDURES AND CONTROLS, WE MAY NOT BE ABLE TO SUCCESSFULLY OFFER OUR SERVICES AND GROW OUR SOFTWARE BUSINESS. Our ability to successfully offer our services and grow our software business requires an effective planning and management process. Over the past year, we have implemented or updated our operations and financial systems, procedures and controls as we focused on our application software and online businesses. Our systems will continue to require additional modifications and improvements to respond to current and future changes in our business. If we cannot grow our software and online businesses, and manage that growth effectively, or if we fail to timely implement appropriate internal systems, procedures, controls and necessary modifications and improvements to these systems, our businesses will suffer.

OUR STOCK PRICE HAS BEEN VOLATILE HISTORICALLY AND MAY CONTINUE TO BE VOLATILE. The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the fourth quarter of fiscal year 2003, the closing sale prices of our common stock on the Nasdaq ranged from \$0.88 to \$2.49 per share and the closing sale price on September 30, 2003 was \$4.12 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options.

SALES OF OUR COMMON STOCK BY SIGNIFICANT STOCKHOLDERS MAY CAUSE THE PRICE OF OUR COMMON STOCK TO DECREASE. Several of our stockholders own significant portions of our common stock. If these stockholders were to sell significant amounts of their holdings of our common stock, then the market price of our common stock could be negatively impacted. The effect of such sales, or of significant portions of our stock being offered or made available for sale, could result in strong downward pressure on our stock. Investors should be aware that they could experience significant short-term volatility in our stock if such stockholders decide to sell a substantial amount of their holdings of our common stock at once or within a short period of time.

OUR NETWORKS MAY BE VULNERABLE TO UNAUTHORIZED PERSONS ACCESSING OUR SYSTEMS, WHICH COULD DISRUPT OUR OPERATIONS AND RESULT IN THE THEFT OF OUR PROPRIETARY INFORMATION. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions or malfunctions in our Internet operations. We may be required to expend significant capital and resources to protect against the threat of security breaches or to alleviate problems caused by breaches in security.

INCREASING REGULATION OF THE INTERNET OR IMPOSITION OF SALES AND OTHER TAXES ON PRODUCTS SOLD OR DISTRIBUTED OVER THE INTERNET COULD HARM OUR BUSINESS. The electronic commerce market on the Internet is relatively new and rapidly evolving. While this is an evolving area of the law in the United States and overseas, currently there are relatively few laws or regulations that directly apply to commerce on the Internet. Changes in laws or regulations governing the Internet and electronic commerce, including, without limitation, those governing an individual's privacy rights, pricing, content, encryption, security, acceptable payment methods and quality of products or services could have a material adverse effect on our business, operating results and financial condition. Taxation of Internet commerce, or other charges imposed by government agencies or by private organizations, may also be imposed. Any of these regulations could have an adverse effect on our future sales and revenue growth.

BUSINESS DISRUPTIONS COULD AFFECT OUR FUTURE OPERATING RESULTS. Our operating results and financial condition could be materially and adversely affected in the event of a major earthquake, fire or other catastrophic event, such as the recent terrorist attacks upon the United States. Our corporate headquarters, the majority of our research and development activities and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and as a result our future operating results could be adversely affected.

SYSTEM DISRUPTIONS COULD ADVERSELY AFFECT OUR FUTURE OPERATING RESULTS. Our ability to attract and maintain relationships with users, advertisers, merchants and strategic partners will depend on the satisfactory performance, reliability and availability of our Internet channels and network infrastructure. Our Internet advertising revenues relate directly to the number of advertisements delivered to our users. System interruptions or delays that result in the unavailability of Internet channels or slower response times for users would reduce the number of advertisements and sales leads delivered to such users and reduce the attractiveness of our Internet channels to users, strategic partners and advertisers or reduce the number of impressions delivered and thereby reduce revenue. In the past twelve months, some of our sites have experienced a small number of brief service interruptions. We will continue to suffer future interruptions from time to time whether due to natural disasters, telecommunications failures, other system failures, rolling blackouts, viruses, hacking or other events. System interruptions or slower response times could have a material adverse effect on our revenues and financial condition.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain a portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds and government and non-government debt securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate.

The following table presents the amounts of our cash equivalents and short-term investments (in thousands) that are subject to market risk and weighted-average interest rates, categorized by expected maturity dates, as of July 31, 2003. This table does not include money market funds because those funds are not subject to market risk.

	Maturing Within three months	Maturing within three months to one year	Maturing Greater than one year
		(in thousands)	
As of July 31, 2003			
Cash equivalents	$3,401		
Weighted-average interest rate	1.09%		
Short-term investments		$27,864	
Weighted-average interest rate		2.40%	
Long-term investments			$4,680
Weighted-average interest rate			2.14%

We have operated primarily in the United States, and virtually all sales have been made in U.S. dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations.

The estimated fair value of our cash, cash equivalents and investments approximate carrying value. We do not currently hold any derivative instruments and do not engage in hedging activities.

Item 8. ***Consolidated Financial Statements and Supplementary Data***

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All other schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
VA Software Corporation:

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 63 present fairly, in all material respects, the financial position of VA Software Corporation and its subsidiaries at July 31, 2003 and July 27, 2002, and the results of their operations and their cash flows for each of the years ended July 31, 2003 and July 27, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for each of the years ending July 31, 2003 and July 27, 2002, listed in the index appearing under Item 15(a)(2) on page 63 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's Management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of VA Software Corporation as of and for the period ended July 28, 2001 were audited by other independent accountants who have ceased operations. These independent accountants expressed an unqualified opinion on those financial statements in their report dated August 22, 2001.

As discussed in Note 1 to the consolidated financial statements, effective July 29, 2001, the company changed its method of accounting for goodwill in accordance with Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets.

PricewaterhouseCoopers LLP

San Jose, California
August 20, 2003

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with VA Software Corporation's (Formerly VA Linux Systems, Inc.) filing on Form 10-K for the year ended July 28, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K. See Exhibit 23.2 for further discussion. The consolidated balance sheet as of July 28, 2001 and July 28, 2000, the consolidated statements of operations, stockholders' equity and cash flows for the years ended July 28, 2000 and July 31, 1999 and the information in the schedule for 2000 and 1999 referred to in this report have not been included in the accompanying financial statements or schedule.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Board of Directors and Stockholders of
VA Linux Systems, Inc.:

We have audited the accompanying consolidated balance sheets of VA Software Corporation, formerly known as VA Linux Systems, Inc. (a Delaware corporation) as of July 28, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 28, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VA Software Corp. as of July 28, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended July 28, 2001, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

San Jose, California
August 22, 2001

VA SOFTWARE CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share information)

	July 31, 2003	July 27, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,303	$ 35,148
Short-term investments	27,864	7,952
Restricted cash, current	450	450
Accounts receivable, net of allowances of $144 and $1,166, respectively	1,928	764
Inventories	388	300
Prepaid expenses and other assets	1,232	877
Total current assets	38,165	45,491
Property and equipment, net	4,267	7,223
Goodwill and intangibles, net	21	2,169
Long-term investments	4,680	9,946
Restricted cash, non current	450	900
Other assets	912	1,239
Total assets	$ 48,495	$ 66,968
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	$ —	$ 42
Accounts payable	863	2,075
Accrued restructuring liabilities, current portion	4,117	3,397
Accrued compensation	1,346	1,517
Deferred revenue	751	774
Accrued liabilities and other	2,263	4,200
Total current liabilities	9,340	12,005
Accrued restructuring liabilities, net of current portion	10,772	14,597
Other long-term liabilities	1,181	978
Total liabilities	21,293	27,580
Commitments and contingencies (Notes 5, 6 and 7)		
Stockholders' equity:		
Common stock, $0.001 par value; authorized — 250,000,000; issued and outstanding — 55,470,064 shares in 2003 and 54,165,411 shares in 2002	56	54
Treasury stock	(4)	(4)
Additional paid-in capital	766,765	765,422
Deferred stock compensation	(20)	(245)
Accumulated other comprehensive gain	128	86
Accumulated deficit	(739,723)	(725,925)
Total stockholders' equity	27,202	39,388
Total liabilities and stockholders' equity	$ 48,495	$ 66,968

The accompanying notes are an integral part of these financial statements.

VA SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME/(LOSS)
(In thousands, except per share amounts)

	Year Ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Net revenues:			
Software revenues	$ 2,917	$ 1,086	$ —
Online revenues	20,551	15,967	14,678
Other revenues	760	3,332	120,212
Net revenues	24,228	20,385	134,890
Cost of revenues:			
Software cost of revenues	1,997	2,387	—
Online cost of revenues	11,166	10,393	10,497
Other cost of revenues	(383)	(3,119)	143,606
Cost of revenues	12,780	9,661	154,103
Gross margin	11,448	10,724	(19,213)
Operating expenses:			
Sales and marketing	9,791	12,513	39,981
Research and development	7,815	8,122	17,959
General and administrative	6,455	10,850	22,012
Restructuring costs and other special charges	(263)	46,936	113,478
Amortization of deferred stock compensation	144	1,671	61,268
Amortization of goodwill and intangible assets	1,910	11,730	97,887
Impairment of goodwill, intangible assets and other long-lived assets	239	12,150	160,000
Total operating expenses	26,091	103,972	512,585
Loss from operations	(14,643)	(93,248)	(531,798)
Interest income	1,132	1,714	6,803
Interest expense	(8)	(32)	(165)
Other income (expense), net	(279)	528	(108)
Net loss	$(13,798)	$ (91,038)	$(525,268)
Other comprehensive loss:			
Unrealized gain on marketable securities and investments	30	209	13
Foreign currency translation gain (loss)	12	1,367	(1,456)
Comprehensive loss	$(13,756)	$ (89,462)	$(526,711)
Net loss	$(13,798)	$ (91,038)	$(525,268)
Basic and diluted net loss per share	$ (0.25)	$ (1.72)	$ (10.78)
Shares used in computing basic and diluted net loss per share	54,110	53,064	48,741

The accompanying notes are an integral part of these financial statements.

VA SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Treasury Stock	Additional Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount						
BALANCE AT JULY 28, 2000	51,904	$52	$—	$763,175	$(109,686)	$ (47)	$(109,619)	$ 543,875
Issuance of common stock for cash related to options	2,522	3	—	4,437	—	—	—	4,440
Repurchase of common stock for cash related to options	(1,028)	(1)	(4)	(268)	—	—	—	(273)
Issuance of common stock to acquire businesses or assets	721	—	—	14,397	(6,757)	—	—	7,640
Amortization of deferred stock compensation	—	—	—	—	61,268	—	—	61,268
Acceleration and forfeiture of deferred stock compensation related to terminations	—	—	—	(12,944)	49,067	—	—	36,123
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	—	—	—	—	—	(1,443)	—	(1,443)
Net loss	—	—	—	—	—	—	(525,268)	(525,268)
BALANCE AT JULY 28, 2001	54,119	54	(4)	768,797	(6,108)	(1,490)	(634,887)	126,362
Issuance of common stock for cash related to options	581	1	—	402	—	—	—	403
Repurchase of common stock for cash related to options	(535)	(1)	—	(16)	—	—	—	(17)
Issuance of common stock to acquire businesses or assets	—	—	—	1,313	(1,308)	—	—	5
Acceleration of stock options	—	—	—	74	—	—	—	74
Amortization of deferred stock compensation	—	—	—	(1,926)	3,597	—	—	1,671
Acceleration and forfeiture of stock options and deferred stock compensation related to terminations, restructuring	—	—	—	(3,222)	3,574	—	—	352
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	—	—	—	—	—	1,576	—	1,576
Net loss	—	—	—	—	—	—	(91,038)	(91,038)
BALANCE AT JULY 28, 2002	54,165	54	(4)	765,422	(245)	86	(725,925)	39,388
Issuance of common stock for cash related to options	1,578	2	—	1,442	—	—	—	1,444
Repurchase of common stock for cash related to options	(273)	—	—	(2)	—	—	—	(2)
Amortization of deferred stock compensation	—	—	—	(76)	220	—	—	144
Acceleration and forfeiture of stock options and deferred stock compensation related to terminations, restructuring	—	—	—	(21)	5	—	—	(16)
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	—	—	—	—	—	42	—	42
Net loss	—	—	—	—	—	—	(13,798)	(13,798)
BALANCE AT JULY 31, 2003	55,470	$56	$(4)	$766,765	$ (20)	$ 128	$(739,723)	$ 27,202

The accompanying notes are an integral part of these financial statements.

VA SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Cash flows from operating activities:			
Net loss	$(13,798)	$(91,038)	$(525,268)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,351	16,153	102,786
Provision for bad debts	(19)	(1,096)	3,968
Provision for excess and obsolete inventory	(6)	(4,378)	24,441
Loss on disposal of assets	35	1,422	9
Proportionate share of net losses in Japan investment	—	2,012	—
Minority interest in Japan loss	—	(496)	—
Gain on sale of Japan investment	—	(12,872)	—
Release of contingent shares in relation to OSDN acquisition	—	1,313	—
Amortization of deferred stock compensation	144	1,671	61,268
Non-cash compensation expense	—	75	—
Non-cash restructuring expense	(569)	36,426	101,237
Impairment of long-lived assets	239	12,150	160,000
Changes in assets and liabilities:			
Accounts receivable	(1,178)	10,439	17,635
Inventories	(82)	2,046	(23,783)
Prepaid expenses and other assets	286	3,391	(3,195)
Accounts payable	(1,212)	(12,244)	(12,446)
Accrued restructuring liabilities	(3,105)	8,481	9,513
Accrued liabilities and other	(2,098)	(8,159)	1,388
Other long-term liabilities	203	(388)	814
Net cash used in operating activities	(15,809)	(35,092)	(81,633)
Cash flows from investing activities:			
Change in restricted cash	450	1,509	(609)
Purchase of property and equipment	(289)	(417)	(14,750)
Sale of property and equipment	8	—	—
Purchase of marketable securities	(34,335)	(32,917)	(80,329)
Sale of marketable securities	19,688	37,829	110,167
Businesses acquired, net of cash acquired	—	—	4,627
Cash proceeds on sale of Japan investment	—	5,059	—
Purchase of other long-lived assets	—	—	(1,929)
Other, net	30	209	161
Net cash provided by (used in) investing activities	(14,448)	11,272	17,338
Cash flows from financing activities:			
Payments on notes payable	(42)	(273)	(2,527)
Proceeds from issuance of common stock	1,444	403	4,440
Repurchase of common stock	(2)	(17)	(273)
Net cash provided by financing activities	1,400	113	1,640
Effect of exchange rate changes on cash and cash equivalents	12	1,367	(1,456)
Net decrease in cash and cash equivalents	(28,845)	(22,340)	(64,111)
Cash and cash equivalents, beginning of year	35,148	57,488	121,599
Cash and cash equivalents, end of year	$ 6,303	$ 35,148	$ 57,488
Supplemental cash flow information:			
Cash paid for state taxes	$ 16	$ 18	$ 335
Cash paid for interest	$ 8	$ 32	$ 165
Supplemental non-cash flow information:			
Issuance of common stock to acquire businesses	$ —	$ —	$ 14,397

The accompanying notes are an integral part of these financial statements.

VA SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations of the Company:

Overview

We were incorporated in California in January 1995 and reincorporated in Delaware in December 1999. We develop, market and support a software application known as SourceForge Enterprise Edition ("SourceForge") and also own and operate the Open Source Development Network, Inc. ("OSDN"), a network of Internet Web sites.

SourceForge is proprietary software designed for corporate and public-sector information technology ("IT") professionals and software engineering organizations. SourceForge is a Web-based application that enables IT and software engineering organizations to manage application development more effectively. SourceForge combines software development and collaboration tools with the ability to track, measure, and report on software project activity in real-time. With SourceForge, developers and project managers gain access to the information they need to reduce risk and become more productive. SourceForge is a relatively new product and additional development and enhancements are expected in the future.

OSDN is a network of media and e-commerce Internet sites serving the Open Source, developer and IT communities, and media sites serving Web designers and consumers. OSDN sites, including SourceForge.net, Slashdot.org, Linux.com, NewsForge.com, DevChannel.org, and Freshmeat.com collectively receive more than 180 million page views, and more than 10 million unique visitors, every month.

2. Summary of Significant Accounting Policies:

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted by the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of such financial statements, as well as the reported amounts of revenue and expenses during the periods indicated. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. These reclassifications have no impact on previously reported net loss or cash flows.

Principles of Consolidation

These consolidated financial statements include the accounts of VA and its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In September 2000, the Company acquired 68% of the outstanding shares of common stock of VA Linux Systems Japan, K.K. ("VA Linux Japan") for a cash purchase price of approximately $6.9 million. Effective January 11, 2002, VA sold 13,500 shares of VA Linux Japan stock to a third party for approximately $5.1 million, the effect of which decreased the Company's investment in VA Linux Japan to approximately 11%. As a result of this sale, the Company recorded a $0.4 million gain, which is included in other income in the Company's consolidated statements of operations. On March 29, 2002, VA Linux Japan repurchased 10,000 shares of its outstanding stock from a third party other than the Company, thereby decreasing the number of shares outstanding and increasing the Company's investment to approximately 19%. As the Company holds less than 20% of the voting stock of VA Linux Japan and does not otherwise exercise significant influence, VA Linux Japan has been accounted for under the cost method as of January 11, 2002. The minority interest included in the results of operations for VA Linux Japan has not been material for any period presented and has been recorded in other income in the accompanying statements of operations. The operations of VA Linux Japan primarily relate to our former systems and services business.

Foreign Currency Translation

The functional currency of all the Company's foreign subsidiaries is the country's local currency. Balance sheet accounts are translated into U.S. dollars at exchange rates prevailing at balance sheet dates. Revenue and expenses are translated into U.S. dollars at average rates for the period. Gains and losses resulting from translation are charged or credited in comprehensive income as a component of stockholders' equity. As of July 31, 2003 the Company did not hold any foreign currency derivative instruments.

Segment and Geographic Information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-making group, as defined under SFAS No. 131, are the Chief Executive Officer and the executive team. During fiscal 2001, the Company had two reportable business segments for revenue: systems and services and OSDN. The Company allocated its resources and evaluated performance of its separate segments based on revenue. As a result of the Company's decision to exit the systems business in the fourth quarter of fiscal 2001 and focus on its software application business, during fiscal 2002 the Company operated as one business segment, providing application software products and related OSDN products and services. During the fourth quarter of fiscal 2003, two separate businesses emerged and as of July 31, 2003, we operate as two reportable business segments: software and online. Due to the significant amount of shared operating resources that are utilized by both of the business segments, the Company only reports segment information for revenues and cost of sales.

The Company marketed its products in the United States through its direct sales force. Revenues for each of the years ended July 31, 2003, July 27, 2002 and July 28, 2001 were primarily generated from sales to end users in the United States.

Cash, Cash Equivalents, Short-Term Investments and Long-Term Investments

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist principally of cash deposited in money market and checking accounts.

The Company accounts for its investments under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in highly liquid financial instruments with remaining maturities greater than three months and maturities of less than one year are classified as short-term investments. Financial instruments with remaining maturities greater than one year are classified as long-term investments. All investments are classified as available-for-sale and are reported at fair value with net unrealized gains (losses) reported, net of tax, using the specific identification method as other comprehensive gain/(loss) in stockholders' equity. The cost of the investments was not significantly different than the fair value for the fiscal years presented. The fair value of the Company's available-for-sale securities are based on quoted market prices at the balance sheet dates.

Cash equivalents and investments consist of the following (in thousands) at market value:

	July 31, 2003	July 27, 2002
Government obligations	$10,001	$22,319
Corporate obligations	21,148	6,431
Commercial paper	4,796	598
Total	$35,945	$29,348
Included in cash, cash equivalents	$ 3,401	$11,450
Included in short-term investments	27,864	7,952
Included in long-term investments	4,680	9,946
Total	$35,945	$29,348

Restricted Cash

During fiscal year 2000, the Company established letters of credit of approximately $2.3 million that are used to collateralize payments related to the Fremont building lease. As of July 31, 2003 and July 27, 2002, the Company had approximately $0.9 million and $1.4 million, respectively, of restricted cash related to this building lease.

Inventories

Inventories related to our online operations consist of finished goods are that are valued using the average cost method. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the estimated useful lives or the corresponding lease term. Property and equipment consist of the following (in thousands):

	July 31, 2003	July 27, 2002
Computer and office equipment (useful lives of 2 to 3 years)	$ 6,238	$ 6,295
Furniture and fixtures (useful lives of 2 to 4 years)	2,209	2,464
Leasehold improvements (useful lives of lesser of estimated life or lease term)	3,762	3,748
Software (useful lives of 2 to 5 years)	2,090	2,016
Total property and equipment	14,299	14,523
Less: Accumulated depreciation and amortization	(10,032)	(7,300)
Property and equipment, net	$ 4,267	$ 7,223

Depreciation expense for the years ended July 31, 2003, July 27, 2002, and July 28, 2001 was $3.2 million, $4.4 million, and $4.9 million, respectively.

Goodwill and Intangibles and Impairment of Long-Lived Assets

In connection with the acquisitions of TruSolutions, Inc. ("TruSolutions"), Precision Insight, Inc. ("Precision Insight"), NetAttach, Inc. ("NetAttach"), and OSDN (formerly known as "Andover.Net, Inc."), the Company recorded $381.3 million of goodwill and intangibles during fiscal 2000. The Company amortized $97.9 million of goodwill and intangibles in fiscal 2001. In connection with the restructuring plans in fiscal year 2001, the Company wrote off goodwill and intangibles associated with BNW, Life, Alabanza (companies previously acquired prior to fiscal year 2000) and TruSolutions in the amount of $59.7 million as the Company had exited these lines of business and expected no future cash flows. In connection with the Company's restructuring plans in fiscal year 2002, the Company wrote off goodwill and intangibles associated with NetAttach, and Precision Insight in the amount of $30.6 million due to the exit of the professional services and Linux software engineering businesses.

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of long-lived assets may not be recoverable in accordance with SFAS No. 144, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted future cash flows over the remaining life of the long-lived assets in measuring whether they are recoverable. If the estimated undiscounted future cash flows exceed the carrying value of the asset, a loss is recorded as the excess of the asset's carrying value over fair value. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. See Note 4 for details on impairment charges recognized during fiscal years 2002 and 2001.

The Company performed an assessment of the carrying value of its long-lived assets to be held and used including significant amounts of goodwill and other intangible assets recorded in connection with the Company's OSDN acquisition at July 28, 2001. The Company performed the assessment pursuant to SFAS No. 144 due to the significant slowdown in the economy affecting current operations and expected future sales, as well as the general decline of technology valuations. The conclusion of that assessment was that the decline in market conditions within the industry was significant and other than temporary. As a result, the Company recorded during the fourth quarter of fiscal year 2001 a charge of $160.0 million to reduce goodwill and other intangible assets associated with the acquisition of OSDN, based on the amount by which the carrying value of these assets exceeded their fair value. The charge is included in the caption "Impairment of long-lived assets" in the consolidated statements of operations. Fair value was determined based on discounted future cash flows.

Effective July 29, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible assets." Upon adoption of SFAS No. 142, the Company no longer amortized goodwill. Pursuant to SFAS No. 142, the Company tests goodwill for impairment. SFAS 142 requires that goodwill be tested for impairment at the "reporting unit level" ("Reporting Unit") at least annually and more frequently upon the occurrence of certain events, as defined by SFAS No. 142. During the quarter ended July 27, 2002 goodwill was tested for impairment and the Company determined that it had only one Reporting Unit, providing application software products and related OSDN products and services. First, the Company determined whether its carrying amount exceeded its "fair value", which would indicate that goodwill may be impaired. Based on this test, the Company determined that goodwill could be impaired. Therefore, the Company compared the "implied fair value" of goodwill, as defined by SFAS No. 142, to its carrying amount to determine whether there was an impairment loss. As a result of the impairment test, the Company determined that the carrying value was impaired and it recorded an impairment loss of $3.6 million. The charge is included in the caption "Impairment of long-lived assets" in the statements of operations. There was no carrying value associated with goodwill at July 31, 2003 to be tested for impairment.

Intangible assets are amortized on a straight-line basis over three to five years. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of these intangible assets may not be recoverable. When factors indicate that the intangible assets should be evaluated for possible impairment, the Company uses an estimate of the related business segment's undiscounted net income over the remaining useful life of the intangible assets in measuring whether they are recoverable. An evaluation was performed on the intangible assets during the quarter ended July 27, 2002. As a result of this evaluation, the Company determined that the carrying value was impaired and an impairment loss was recorded for $8.6 million. The charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the statements of operations. No events or circumstances occurred during the fiscal year ended July 31, 2003 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2003.

The changes in the carrying amount of the goodwill and intangible assets are as follows (in thousands):

	As of July 31, 2003		As of July 27, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Domain and trade names	$ 5,922	$ (5,901)	$ 5,922	$ (4,457)
Purchased technology	2,534	(2,534)	2,534	(1,830)
Total intangible assets	8,456	(8,435)	8,456	(6,287)
Goodwill	60,362	(60,362)	60,362	(60,362)
Total changes in Goodwill and intangible assets	$68,818	$(68,797)	$68,818	$(66,649)

The aggregate amortization expense of intangible assets, net of restructuring charges was $2.1 million and $11.7 million for the fiscal years ending July 31, 2003 and July 27, 2002, respectively. The estimated total amortization expense of acquired intangible assets is $12,700 and $8,500 for the fiscal years ending 2004 and 2005, respectively, at which point intangible assets will be fully amortized.

The changes in the net carrying amount of goodwill for the years ended July 31, 2003, and July 27, 2002 are as follows (in thousands):

	July 31, 2003	July 27, 2002
Balance as of July	$—	$ 49,114
Amortization in the period	—	—
Goodwill additions	—	45
Write-off of goodwill	—	(49,159)
Balance as of July	$—	$ —

Revenue Recognition

Software Revenues

Revenues from software license agreements follows American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, are recognized when objective, persuasive evidence of an agreement exists, delivery of the product has occurred, provided the arrangement does not require significant customization of the software, the fee is fixed or determinable and collectibility is probable.

For perpetual licenses, the Company uses the residual method to recognize revenues. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, revenues are deferred and recognized when delivery of those elements occurs or when fair value can be established. A typical perpetual license agreement may include professional services, maintenance and training. Revenue from non-essential professional services is recognized as the work is performed based on fair value. When an agreement includes professional services that are significant or essential to the functionality of the software, the Company uses the percentage of completion contract accounting method for the entire arrangement, including license fees. Maintenance revenues are recognized ratably over the term of the maintenance period (generally one year). Software maintenance agreements provide technical support and the right to unspecified updates/upgrades on an if-and-when-available basis. Fair value for the ongoing maintenance obligations are based upon separate sales or maintenance sold to customers or upon renewal rates quoted in the contract, when these exist. The unrecognized portion of amounts paid in advance for licenses and services are recorded as deferred revenue.

For term arrangements, which include licenses and bundled post-contract support ("PCS"), the Company uses ratable revenue recognition. Under ratable revenue recognition, the only undelivered element is PCS and objective evidence of fair value of PCS does not exist. If the term license agreement includes multiple elements (such as training and non-essential professional services), then the Company defers revenue until all elements except PCS are delivered, at which time revenue is recognized ratably over the remaining contract term.

If the fee due from the customer is not fixed or determinable, the Company recognizes revenues at the earlier of the due date or when cash is received from the customer, assuming all other revenue recognition criteria have been met. If a significant portion of the fee is due after 120 days, the Company considers the fee not to be fixed or determinable.

Online Revenues

Advertising revenues are derived from the sale of advertising space on our various Web sites. Advertising revenues are recognized over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonable assured. Our obligations typically include guarantees of a minimum number of "impressions" (times that an advertisement is viewed by users of our online services over a specified period of time). To the extent that minimum guaranteed impressions are not met, the Company does not recognize the corresponding revenues until the guaranteed impressions are achieved. Barter revenue transactions which totaled $2,000,000, 2,000,000 and 2,400,000 for the fiscal years ended July 31, 2003, July 27, 2002 and July 28,2001, respectively, are recorded at their estimated fair value based on the Company's historical experience of selling similar advertising for cash in accordance with Emerging Issues Task Force ("EITF") Issue 99-17, "Accounting for Advertising Barter Transactions." The Company broadcasts banner advertising in exchange for similar banner advertising on third party Web sites.

E-commerce revenues are derived from the online sale of consumer goods and digital animations. E-commerce revenues from the sale of consumer goods are recognized in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Under SAB 101, product revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable and collectibility is reasonably assured. In general, the Company recognizes e-commerce revenue upon the shipment of goods. The Company does grant customers a right to return e-commerce products. Such returns are recorded as incurred and have been immaterial for the periods presented. The majority of the revenues derived from digital animation sales are related to membership arrangements. As a result, we recognize the value ratably over the term of the contract, normally 3 or 12 months.

Other Revenues

The Company's revenue recognition policy related to its former hardware systems business follows SEC SAB No. 101, "Revenue Recognition in Financial Statements." Under SAB No. 101, the Company recognized product revenues from the sale of Linux-based servers, components, and desktop computers when persuasive evidence of an arrangement existed, delivery occurred, the sales price is fixed or determinable and collectibility is reasonably assured. In general, the Company recognizes product revenue upon shipment of the goods. The Company does not grant customers any rights to return these products.

The Company recognizes revenues from customer support services, including on-site maintenance and technical support on a pro-rata basis over the term of the related service agreement. The Company recognizes revenues from professional service contracts upon completion of the project, or using the percentage of completion method of the project where project costs could be reasonably estimated. The Company records any payments received prior to revenue recognition as deferred revenue.

Advertising Expenses

The Company expenses advertising costs as incurred. Total advertising expenses were $2.5 million, $2.7 million and $8.3 million for fiscal years ending July 31, 2003, July 27, 2002 and July 28, 2001, respectively.

Stock-Based Compensation

The Company accounts for its employee stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost is recognized for any of the Company's fixed stock options granted to employees when the exercise price of the option equals or exceeds the fair value of the underlying common stock as of the grant date for each stock option. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Deferred stock-based compensation is included as a component of stockholders' equity and is being amortized by charges to operations over the vesting period of the options and restricted stock consistent with the method described in FIN No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

Had compensation cost been recognized based on the fair value at the date of grant for options granted and Employee Stock Purchase Plan issuances during the three fiscal years ended July 31, 2003, July 27, 2003 and July 28, 2003 the Company's pro forma net loss and net loss per share would have been as follows (in thousands, except per share amounts):

	Fiscal Year Ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Net loss as reported	$(13,798)	$(91,038)	$(525,268)
Add back employee stock-based compensation expense related to stock options included in reported net loss	144	1,671	61,268
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards, net of related tax effects	(8,774)	(10,590)	(20,332)
Pro forma net loss	$(22,428)	$(99,957)	$(484,332)
Basic and diluted net loss per share	$ (0.25)	$ (1.72)	$ (10.78)
Pro forma basic and diluted net loss per share	$ (0.41)	$ (1.88)	$ (9.94)

The Company calculated the fair value of each option grant on the date of the grant and stock purchase right using the Black-Scholes option-pricing model as prescribed by SFAS. No. 123 using the following assumptions:

	Stock Option Plans For the fiscal year ended			ESPP Plans For the fiscal year ended		
	July 31, 2003	July 27, 2002	July 28, 2001	July 31, 2003	July 27, 2002	July 28, 2001
Expected life (years)	4.8	4	4	0.5	0.5	0.6
Risk-free interest rate	3%	3.7%	5.1%	1.1%	2.4%	5.2%
Volatility	108%	100%	100%	95%	100%	100%
Dividend yield	None	None	None	None	None	None

Software Development Costs

In accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed," development costs incurred in the research and development of new software products are expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to a net realizable value evaluation. Technological feasibility is established upon the completion of an integrated working model. To date, the Company's software development has been completed concurrent with the establishment of technological feasibility and, accordingly, all software development costs have been charged to research and development expense in the accompanying statements of operations.

In accordance with SOP 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" costs incurred related to internal use software are capitalized and amortized over their useful lives.

Computation of Per Share Amounts

In accordance with SFAS No. 128, basic net loss per common share has been calculated using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. For the years ended July 31, 2003, July 27, 2002 and July 28, 2001, the Company has excluded all stock options from the calculation of diluted net loss per common share because all such securities are antidilutive for those periods.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Year Ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Net loss	$(13,798)	$(91,038)	$(525,268)
Basic and diluted:			
Weighted average shares of common stock outstanding	54,117	53,290	51,410
Less: Weighted average shares subject to repurchase	(7)	(226)	(2,669)
Shares used in computing basic and diluted net loss per share	54,110	53,064	48,741
Basic and diluted net loss per share	$ (0.25)	$ (1.72)	$ (10.78)

The following potential common shares have been excluded from the calculation of diluted net loss per share for all periods presented because they are anti-dilutive (in thousands):

	Year Ended		
	July 31, 2003	July 27, 2002	July 28, 2001
Anti-dilutive securities:			
Options to purchase common stock	9,433	12,308	10,834
Common stock subject to repurchase	—	29	923
Total Anti-dilutive securities	9,433	12,337	11,757

Comprehensive Loss

Comprehensive loss is comprised of net loss and other non-owner changes in stockholders' equity, including foreign currency translation gains or loss and unrealized gains or losses on available-for sale marketable securities.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes". Due to the Company's loss position in fiscal years 2003, 2002 and 2001, there was no provision for income taxes for the years ended July 31, 2003, July 27, 2002 and July 28, 2001. Deferred tax assets are recognized for anticipated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and their respective tax bases. A valuation allowance has been recorded for the total deferred tax assets as management believe it is more likely than not that these assets will not be realized as a result of uncertainties regarding realization of the assets based on the lack of profitability to date and the uncertainty of future profitability.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supercedes previous accounting guidance, principally EITF issue No. 94-3. The Company is required to adopt SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of the company's commitment to an exit plan. SFAS No. 146 also established that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring plans. If the Company continues to record significant restructuring charges in the future, the adoption of SFAS No. 146 could have a significant impact on its results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee or indemnification. In addition, FIN No. 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN No. 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 has not had a material effect on these consolidated financial statements.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. The pronouncement is effective for VA Software commencing with its fiscal year 2004 and is not expected to have a material impact on VA Software's consolidated results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." This Statement amends FASB SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosures of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the estimate of the market value of the Company's stock at the date of the grant over the amount an employee must pay to acquire its stock. The Company adopted the interim disclosure provisions for our financial reports during the quarter ended April 26, 2003 and has adopted the annual disclosure provisions of SFAS No. 148 in our financial reports for the fiscal year ended July 31, 2003. As the adoption of this standard involves disclosures only, it has not had a material impact on our consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." Generally, a variable interest entity ("VIE") is a corporation, partnership, trust or any other legal structure used for business purposes that either does not have equity investors with substantive voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. A VIE often holds financial assets and may be passive or it may engage in such activities as research and development or other activities on behalf of another company. FIN No. 46 requires that a VIE be consolidated by a company if that company is subject to a majority of the VIE's risk of loss or entitled to receive a majority of the VIE's residual returns or both. A company that consolidates a VIE is referred to as the primary beneficiary of that entity. The consolidation requirements of FIN No. 46 apply immediately to VIEs created after January 31, 2003. The consolidation requirements apply to entities existing prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003 regardless of when the VIE was established. The Company has adopted the disclosure provisions and will adopt the consolidation requirements as of August 1, 2003. The adoption of the consolidation requirements of FIN No. 46 did not have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 addresses certain financial instruments that, under previous guidance, could be accounted for as equity, but now must be classified as liabilities in statements of financial position. These financial instruments include: 1) mandatory redeemable financial instruments, 2) obligations to repurchase the issuer's equity shares by transferring assets, and 3) obligations to issue a variable number of shares. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The implementation of SFAS No. 150 is not expected to have a material effect on the Company's consolidated financial statements.

Supplier Concentration

Prior to exiting the hardware systems business in fiscal year 2001, the Company was dependent on a single contract manufacturer for substantially all of its manufacturing and supply chain management, including component procurement and inventory management for its systems and services segment. Beginning July 29, 2001, under the software application business, no supplier concentration exists.

Concentrations of Credit Risk and Significant Customers

The Company's investments are held with two reputable financial institutions, both institutions are headquartered in the United States. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash trade receivables. The Company provides credit, in the normal course of business, to a number of companies and performs ongoing credit evaluations of its customers. As of July 31, 2003, no gross accounts receivables were concentrated with one customer. As of July 27, 2002 approximately 40% of gross accounts receivables were concentrated with one customer, Lavaca Systems, Inc. A reserve representing 100% of the gross accounts receivable related to this customer has been established.

For the fiscal year ended July 31, 2003, one customer, Intel Corporation, accounted for approximately 17% of net revenues. For the fiscal year ended July 27, 2002, one customer, Intel Corporation, accounted for approximately 20% of net revenues. For the fiscal year ended July 28, 2001, one customer, Akamai Technologies, Inc., accounted for approximately 25% of net revenues. Going forward, the company does not anticipate that anyone customer will represent more than 10% of net revenues.

3. Acquisitions and Divestitures

There were no acquisitions or divestitures during the fiscal years ended 2003 and 2002. During the fiscal year ended July 28, 2001, the Company completed a number of acquisitions accounted for using the purchase method and as such, the purchase price was allocated to the assets acquired and the liabilities assumed based on estimated fair values on the date of acquisition. The consolidated financial statements include the operating results of each business from the date of acquisition. Amounts allocated to goodwill and purchased intangible assets have been amortized on a straight-line basis over three to five years through July 28, 2001. As of July 29, 2001, in accordance with SFAS No. 142, "Goodwill and Other Intangible assets," the Company no longer amortizes goodwill. Other intangible assets continue to be amortized on a straight-line basis over three to five years.

Brave New Worlds, Inc.

On September 26, 2000, in an acquisition accounted for under the purchase method of accounting, the Company acquired all of the outstanding shares of Brave New Worlds, Inc. ("BNW") for approximately \$2.5 million. The consideration included approximately 35,000 shares of the Company's common stock with a fair market value of \$1.7 million based on the average closing price for three days prior to the acquisition closing date and cash of approximately \$750,000. The purchase agreement contained additional payments to be made in common stock that were solely contingent upon the continued employment of certain key employees for a period of four years. Maximum future payments contingent on employment of the key employees was to be \$4.8 million in stock (approximately 97,000 shares) and was payable after 12 months, 24 months, 36 months and 48 months. The contingent payments were accounted for as compensation expense on a pro rata basis over the term of the employment condition and not as purchase price. Upon consummation of the acquisition, the Company established an escrow for these contingent payments. The disclosures of the allocation of purchase price and pro forma data have been omitted as the amounts are not material. In February 2001, in response to the general slowdown in the economy, the Company adopted a plan to reduce operating costs. The plan involved the divestiture of the managed services business, including the recently acquired BNW. Charges were recorded to write down the net book value of the BNW net assets acquired to the Company's estimate of proceeds to be received on the sale of the business, which was estimated to be nominal. In addition, compensation expense of \$1.4 million was recorded for the acceleration of a portion of the contingent consideration related to severance arrangements made with terminated BNW employees. The sale of BNW was completed on June 10, 2001 for minimal proceeds. The charges associated with this divestiture have been recorded as restructuring costs and other special charges in the statement of operations (see Note 4).

Life BVBA

On September 29, 2000, in an acquisition accounted for under the purchase method of accounting, the Company acquired all of the outstanding shares of Life BVBA ("Life") for approximately $860,000. The consideration included approximately 14,000 shares of the Company's common stock with a fair market value of $660,000 based on the average closing price for three days prior to the acquisition closing date and cash of approximately $200,000. The purchase agreement contained additional payments to be made in common stock that were solely contingent upon the continued employment of certain key employees for a period of four years. Maximum future payments contingent on employment of the key employees were capped at $2.0 million in stock (approximately 43,000 shares) and was originally payable after 12 months, 24 months, 36 months and 48 months. Upon consummation of the acquisition, the Company established an escrow for these contingent payments. The disclosures of the allocation of purchase price and pro forma data have been omitted as the amounts are not material. In February 2001, in response to the general slowdown in the economy, the Company adopted a plan to reduce operating costs. The plan involved the divestiture of the managed services business, including the recently acquired Life. The sale of Life was completed on April 25, 2001 for minimal proceeds. In addition, compensation expense of $1.3 million was recorded for the acceleration of the contingent consideration related to severance arrangements made with terminated Life employees. The charges associated with this divestiture have been recorded as restructuring costs and other special charges in the statement of operations (see Note 4).

Help Desk Facility

On November 27, 2000, the Company acquired certain assets of Alabanza Corporation ("Alabanza") for approximately $3.6 million. The consideration included 224,090 shares of the Company's common stock valued at $2.6 million and cash of approximately $950,000. The agreement contained no additional contingent payments, options or commitments. In February 2001, in response to the general slowdown in the economy, the Company adopted a plan to reduce operating costs. In connection with these actions, the plan involved the divestiture of its managed services business, including the help desk facility recently acquired from Alabanza. Charges were recorded to write down the net book value of intangible assets to the Company's estimate of proceeds to be received on the sale of the assets, which was estimated to be nominal. The divestiture of Alabanza was completed on July 10, 2001 for approximately $0.5 million, which has been fully reserved for during restructuring. The charges associated with this divestiture were recorded as restructuring costs and other special charges in the statements of operations (see Note 4).

Software Technology

On December 7, 2000, the Company acquired certain assets of Lavaca Systems, Inc. ("Lavaca") for approximately $3.6 million. The consideration included 306,122 shares of the Company's common stock valued at $2.6 million and cash of approximately $1.0 million. The agreement contained no additional contingent payments, options or commitments. Purchased intangible assets included intellectual property and technology related to specific software applications of approximately $3.6 million. During the fourth quarter of fiscal 2001, charges were recorded to write down the net book value of intangible assets to the Company's estimate of proceeds to be received on the sale of the assets. The divestiture of Lavaca was completed in the first quarter of fiscal 2002 for minimal proceeds. The charges associated with this write-down have been recorded as restructuring costs and other special charges in the statements of operations (see Note 4).

4. Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, the Company adopted plans to exit the systems and hardware-related software engineering and professional services businesses, as well as exit a sublease agreement and reduce its general and administrative overhead costs. The Company exited these activities to pursue its software and online businesses and reduce its operating losses to improve cash flow. The Company recorded restructuring charges of $180.2 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $19.8 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases (with payments continuing until fiscal 2010, unless sublet completely). The accrual from non-cancelable lease payments includes management's estimates of sublease income. These estimates are subject to change based on actual events. The Company evaluates and updates, if applicable, these estimates quarterly. As of July 31, 2003, the Company had an accrual of approximately $14.5 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

The Company recorded a net restructuring credit of $0.3 million for the fiscal year ended July 31, 2003. This included $0.4 million of additional charges related to existing excess facilities as a result of the termination of a subtenant lease and $0.3 million of charges associated with the Company's fiscal 2002 plan to reduce its general and administrative overhead costs, net of $1.0 million credit adjustments to previously recorded restructuring reserves. As of July 31, 2003, the Company had an accrual of $0.4 million related to these charges.

In addition to the above, the Company recorded a $0.4 million net credit in cost of revenues in the consolidated statement of operations for the fiscal year ended July 31, 2003. The $0.4 million consisted of $23,000 associated with severance and other related costs attributable to the fiscal 2002 plan to align the Company's infrastructure with its operations, net of adjustments to previously recorded restructuring reserves of $0.4 million related to the systems warranty reserve and excess facility reserves originally established during fiscal 2001. As of July 31, 2003, no outstanding accruals remained related to these restructuring charges.

Below is a summary of the restructuring charges in operating expenses (in thousands):

	Total Charged To Operations Fiscal 2001	Total Charged To Operations Fiscal 2002	Total Charged To Operations Fiscal 2003	Total Cash Receipts/ (Payments)	Restructuring Liabilities at July 31, 2003
Cash Provisions:					
Other special charges relating to restructuring activities	$ 2,159	$ (888)	$ 78	$(1,349)	$ —
Facilities charges	6,584	9,401	191	(1,287)	14,889
Employee severance and other related charges	3,498	1,997	37	(5,532)	—
Total cash provisions	12,241	10,510	306	$(8,168)	$14,889
Non-cash:					
Write-off of goodwill and intangibles	59,723	30,632	—		
Write-off of other special charges relating to restructuring activities	4,434	5,442	(553)		
Write-off of accelerated options from terminated employees	1,352	—	—		
Acceleration of deferred stock compensation	35,728	352	(16)		
Total non-cash provisions	101,237	36,426	(569)		
Total provisions	$113,478	$46,936	$(263)		

Below is a summary of the changes to the restructuring liability (in thousands):

Changes in the total accrued restructuring liability	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
For the year ended July 28, 2001	$ —	$12,241	$(2,728)	$ 9,513
For the year ended July 27, 2002	$ 9,513	$10,510	$(2,029)	$17,994
For the year ended July 31, 2003	$17,994	$ 306	$(3,411)	$14,889

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
For the year ended July 28, 2001	$3,135	$ 6,378	$ 9,513
For the year ended July 27, 2002	$3,397	$14,597	$17,994
For the year ended July 31, 2003	$4,117	$10,772	$14,889

5. Commitments and Contingencies

The Company leases its facilities under operating leases that expire at various dates through fiscal year 2010. Future minimum lease payments under non-cancelable operating leases, net of sublease income, as of July 31, 2003 are as follows (in thousands):

	Gross Operating Leases	Sublease Income	Net Operating Leases
2004	$ 5,370	$ 615	$ 4,755
2005	4,916	309	4,607
2006	3,709	77	3,632
2007	3,511	—	3,511
2008	3,616	—	3,616
Thereafter	6,905		6,905
Total minimum lease payments...	$28,027	$1,001	$27,026

Effective June 1, 2000, the Company entered into a ten-year lease agreement for a new corporate facility.

Gross rent expense for the years ended July 31, 2003, July 28, 2002 and July 28, 2001 was approximately $3,889,401, $18,866,000 and $13,601,000, respectively. Rent expense was offset by sublease income of $2,436,655 and $5,966,578 for the years ended July 31, 2003 and July 27, 2002, respectively. $93,428 and $11,029,000 of the rent expense for the years ended July 31, 2003 and July 27, 2002, respectively, were attributable to an estimate of the loss related to idle facilities, which has been recorded as restructuring costs and other special charges in the statements of operations.

6. Litigation

The Company, two of its former officers (the "Former Officers"), and the lead underwriter in its initial public offering ("IPO") were named as defendants in a consolidated shareholder lawsuit in the United States District Court for the Southern District of New York, captioned *In re VA Software Corp. Initial Public Offering Securities Litigation*, 01-CV-0242. This is one of a number of actions coordinated for pretrial purposes as *In re Initial Public Offering Securities Litigation*, 21 MC 92 with the first action filed on January 12, 2001. Plaintiffs in the coordinated proceeding are bringing claims under the federal securities laws against numerous underwriters, companies, and individuals, alleging generally that defendant underwriters engaged in improper and undisclosed activities concerning the allocation of shares in the IPOs of more than 300 companies during late 1998 through 2000. Among other things, the plaintiffs allege that the underwriters' customers had to pay excessive brokerage commissions and purchase additional shares of stock in the aftermarket in order to receive favorable allocations of shares in an IPO. The consolidated amended complaint in the Company's case seeks unspecified damages on behalf of a purported class of purchasers of its common stock between December 9, 1999 and December 6, 2000. In October 2002, the court, pursuant to a stipulation, dismissed all claims against the Company's Former Officers without prejudice. On February 19, 2003, the court denied in part and granted in part the motion to dismiss filed on behalf of the defendants, including the Company. The court's order did not dismiss any claims against the Company. As a result, discovery may now proceed. A proposal has been made for the settlement and release of claims against the issuer defendants, including VA Software. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. If the settlement does not occur, and litigation against the Company continues, the Company believes it has meritorious defenses and intends to defend the case vigorously.

On February 28, 2003, a related case, captioned *Liu v. Credit Suisse First Boston, et al.*, Case No. 03-20459, was filed in the United States District Court for the Southern District of Florida. The *Liu* plaintiff was not alleged to have bought or sold VA Software stock. The Company was not served with the *Liu* complaint. The Complaint related generally to the ongoing IPO-related litigation currently pending in the United States District Court for the Southern District of New York, described above. On June 19, 2003, the *Liu* plaintiff filed an amended complaint that dropped the VA Software defendants from the litigation.

The Company is subject to various claims and legal actions arising in the ordinary course of business. The Company has accrued for estimated losses in the accompanying consolidated financial statements for those matters where it believes that the likelihood that a loss will occur is probable and the amount of loss is reasonably estimable.

7. Guarantees and Indemnifications

As permitted under Delaware law, the Company has agreements whereby the Company's officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's term in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer liability insurance designed to limit the Company's exposure and to enable the Company to recover a portion of any future amounts paid. As a result of the Company's insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2003.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally, the Company's business partners, subsidiaries and/or customers, in connection with any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is insignificant. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2003.

The Company warrants that its software products will perform in all material respects in accordance with the Company's standard published specifications in effect at the time of delivery of the licensed products to the customer for a specified period, which generally does not exceed ninety days. Additionally, the Company warrants that its maintenance services will be performed consistent with generally accepted industry standards through the completion of the agreed upon services. If necessary, the Company would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history, however, the Company has not incurred significant expense under its product or services warranties. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2003.

The Company warrants that its hardware products related to its previous hardware business will perform in all material respects in accordance with the Company's standard published specifications in effect at the time of delivery of the products to the customer for the life of the product, typically 36 months. The remaining estimated fair value of these agreements related to the Company's previous hardware business is minimal at July 31, 2003. Accordingly, the Company has a liability of approximately $12,000 recorded for these agreements as of July 31, 2003.

8. Retirement Savings Plan

The Company maintains an employee savings and retirement plan which is intended to be qualified under Section 401(k) of the Internal Revenue Code and is available to substantially all full-time employees of the Company. The plan provides for tax deferred salary deductions and after-tax employee contributions. Contributions include employee salary deferral contributions and discretionary employer contributions. To date, there have been no employer discretionary contributions.

9. Common Stock

In October 1999, the Company's board of directors approved the reincorporation into Delaware by way of a merger with a newly-formed Delaware subsidiary in connection with the Company's IPO. In conjunction with the IPO, the Company issued 4,400,000 shares of common stock with an initial public offering price of $30.00 per share. Upon closing of the initial public offering, all of the outstanding shares of convertible preferred stock were automatically converted into 19,921,322 shares of common stock. In addition, the underwriters exercised their option to purchase 660,000 additional shares to cover the over-allotments of shares at the $30.00 per share offering price. The IPO raised approximately $141,000,000 after underwriting fees and $139,000,000 after all other direct costs. In fiscal year 2003, the Company cancelled 270,407 shares of its common stock, which has been recorded as treasury stock in the balance sheet and statement of stockholders' equity. In fiscal 2002, the Company cancelled 10,934 shares of its common stock which has been recorded as treasury stock in the balance sheet and statement of stockholders' equity.

As of July 31, 2003 there were 55,470,064 shares of common stock issued and outstanding. VA Software is authorized to issue 250,000,000 shares of common stock, $0.001 par value. Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are available and when declared by the Board of Directors. No cash dividends have been declared or paid through July 31, 2003.

As of July 31, 2003, the Company had reserved shares of its common stock for future issuance as follows:

1998 Stock Option Plan and Assumed Plans	21,039,118
1999 Director Option Plan	1,250,000
1999 Employee Stock Purchase Plan	2,225,391
	24,514,509

Stock Repurchase Agreements

In connection with the exercise of options pursuant to the Company's Stock Option Plan, employees entered into restricted stock purchase agreements with the Company. Under the terms of these agreements, the Company has a right to repurchase any unvested shares at the original exercise price of the shares upon termination of the employee. The repurchase right lapses ratably over the vesting term of the original option grant. As of July 31, 2003, there were no shares of the Company's common stock subject to repurchase by the Company.

Stock Option Plan

In fiscal year 1999, the Company adopted and the board of directors approved the 1998 Plan. A total of 35,106,353 shares of common stock have been reserved for issuance under the 1998 Plan, subject to an annual increase of the lesser of 4,000,000 shares or 4.9% of the then outstanding common stock or an amount to be determined by the Board of Directors. Through July, 31, 2003, 38,404,566 options have been granted under the 1998 Plan. Under the 1998 Plan, the board of directors may grant to employees and consultants options and/or stock purchase rights to purchase the Company's common stock at terms and prices determined by the board of directors. The Plan will terminate in 2008. Nonqualified options granted under the 1998 Plan must be issued at a price equal to at least 85% of the fair market value of the Company's common stock at the date of grant. All options may be exercised at any time within 10 years of the date of grant or within three months of termination of employment, or such shorter time as may be provided in the stock option agreement, and vest over a vesting schedule determined by the board of directors.

The Company's 1999 Director's Option Plan (the "Directors' Plan") was adopted by the Company's board of directors in October 1999. A total of 1,250,000 shares of common stock have been reserved for issuance under the Directors' Plan, subject to an annual increase of the lesser of 250,000 shares, 0.5% of the then outstanding common stock or an amount determined by the board of directors. Through July 31, 2003, 550,000 options have been granted under the Directors' Plan. Under the Directors' Plan, options are granted when a non-employee director joins the board of directors following the IPO and at each annual meeting where the director continues to serve on the board of directors. The Directors' Plan establishes an automatic grant of 80,000 shares of common stock to each non-employee director who is elected after the completion of the IPO. The Directors' Plan also provides that upon the date of each annual stockholders' meeting, each non-employee director who has been a member of the board of directors for at least six months prior to the date of the stockholders' meeting will receive automatic annual grants of options to acquire 20,000 shares of common stock. Each automatic grant will have an exercise price per share equal to the fair market value of the common stock at the date of grant, will vest 25% immediately upon the grant date and monthly thereafter and become fully vested three years after the date of grant. Each automatic grant will have a term of ten years. In the event of a merger with another corporation or the sale of substantially all of its assets, each non-employee director's outstanding option will become fully vested and exercisable. Options granted under the Directors' Plan must be exercised within 3 months of the end of the non-employee director's tenure as a member of the board of directors, or within 12 months after a non-employee director's termination by death or disability, provided that the option does not terminate by its terms earlier. Unless terminated sooner, the Directors' Plan terminates automatically in 2009.

The Company has assumed certain option plans and the underlying options of companies which the Company has acquired (the "Assumed Plans"). Options under the Assumed Plans have been converted into the Company's options and adjusted to effect the appropriate conversion ratio as specified by the applicable acquisition agreement, but are otherwise administered in accordance with the terms of the Assumed Plans. Options under the Assumed Plans generally vest over four years and expire ten years from the date of grant. No additional options will be granted under the Assumed Plans.

The following is a summary of the option activity under all of the stock option plans for the years ended July 31, 2003, July 27, 2002 and July 28, 2001.

		Options Outstanding	
	Options Available for Grant	Number of Shares	Weighted Average Exercise Price
Balance at July 28, 2000	7,509,685	9,533,518	11.77
Authorized	3,293,288	—	—
Granted	(8,683,574)	8,683,574	9.10
Exercised	—	(2,395,276)	1.25
Cancelled	4,272,107	(4,987,636)	16.62
Repurchases	923,844	—	—
Balance at July 28, 2001	7,315,350	10,834,180	9.72
Authorized	2,901,816	—	—
Granted	(8,082,800)	8,082,800	1.15
Exercised	—	(511,674)	0.63
Cancelled	5,970,320	(6,097,405)	8.79
Repurchases	523,751	—	—
Balance at July 27, 2002	8,628,437	12,307,901	4.94
Authorized	2,904,105	—	—
Granted	(1,584,600)	1,584,600	1.25
Exercised	—	(1,499,274)	0.92
Cancelled	2,906,164	(2,960,715)	9.24
Repurchases	2,500	—	—
Balance at July 31, 2003	12,856,606	9,432,512	3.61

Outstanding Options				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.02 – \$0.96	770,610	6.01	\$ 0.22	629,109	\$ 0.06
\$0.99 – \$0.99	3,158,168	8.20	\$ 0.99	1,024,589	\$ 0.99
\$1.00 – \$2.32	2,248,877	8.92	\$ 1.52	497,484	\$ 1.75
\$2.49 – \$8.13	2,256,099	7.76	\$ 4.18	1,535,526	\$ 4.61
\$8.50 – \$112.06	998,758	7.17	\$17.93	721,968	\$19.26
\$0.02 – \$112.06	9,432,512	7.98	\$ 3.61	4,408,676	\$ 5.20

During fiscal years 2003, 2002 and 2001, there were no options or stock purchase rights granted outside of the 1998 Plan outstanding. Total options exercisable at July 31, 2003 and July 27, 2002 were 4,408,676 and 4,116,898, respectively.

Employee Stock Purchase Plan

In October 1999, the Company adopted an Employee Stock Purchase Plan ("ESPP"). Under the terms of the ESPP, the maximum aggregate number of shares of stock that may be issued under the ESPP is 2,500,000, cumulatively increased annually by an amount equal to the lesser of (a) one percent (1%) of the then issued and outstanding shares of common stock, (b) an amount determined by the Board of Directors, or (c) 500,000 shares of common stock. During each six-month offering period, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the common stock is 85% of the lesser of the fair value as of the beginning or ending of the offering period. A total of 274,609 shares of common stock were issued under the ESPP through July 31, 2003. At July 31, 2003, 2,225,391 shares were available for issuance.

Employee Stock Option and Stock Purchase Plan

The Company elected to follow APB No. 25, *Accounting for Stock Issued to Employees*, in accounting for our employee stock options because the alternative fair value accounting provided for under SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the Company's employee's stock options generally equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's consolidated financial statements.

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options, including shares issued under the Employee Stock Purchase Plan, collectively called "options," under the fair value method of that statement. The fair value of options granted during fiscal 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes option-pricing model assuming no expected dividends and the following weighted average assumptions:

The weighted average fair value of options granted during fiscal years 2003, 2002 and 2001 was \$0.97, \$0.81 and \$6.52, respectively. Pursuant to the provisions of SFAS No. 123, the compensation cost associated with options granted in fiscal years 2003, 2002 and 2001 were estimated on the grant date using the Black-Scholes model and the following assumptions:

	Stock Option Plans For the fiscal year ended			ESPP Plans For the fiscal year ended		
	July 31, 2003	July 27, 2002	July 28, 2001	July 31, 2003	July 27, 2002	July 28, 2001
Expected life (years)	4.8	4	4	0.5	0.5	0.6
Risk-free interest rate	3%	3.7%	5.1%	1.1%	2.4%	5.2%
Volatility	108%	100%	100%	95%	100%	100%
Dividend yield	None	None	None	None	None	None

For purposes of pro forma disclosure, the estimated fair value of the options was amortized to expense over the options' vesting period, for employee stock options, and the six-month purchase period, for stock purchases under the Employee Stock Purchase Plan and were included in the pro forma information in the *Summary of Significant Accounting Policies under Stock-Based Compensation.*

Deferred Stock Compensation

In connection with the grant of certain stock options to employees during fiscal 2000 and 1999, the Company recorded deferred stock compensation within stockholders' equity of approximately \$37.8 million, representing the difference between the estimated fair value of the common stock for accounting purposes and the option exercise price of these options at the date of grant. The Company amortizes the deferred stock compensation expense on an accelerated basis over the vesting period of the individual award which is generally equal to four years. This method of deferred stock expense amortization is in accordance with Financial Accounting Standards Board Interpretation No. 28. The amortization expense relates to options awarded to employees in all operating expense categories. The amortization of deferred stock compensation has not been separately allocated to these categories. The amount of deferred stock compensation from year to year has decreased as options for which accrued but unvested compensation has been recorded have been forfeited. The Company recorded amortization of deferred stock compensation related to these options of $0.1 million, $1.2 million and $10.6 million for the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001, respectively. In addition, in connection with acquisitions, the Company recorded $0.5 million and $50.7 million of amortization of deferred stock compensation during the fiscal years ended July 27, 2002 and July 28, 2001. No amortization of deferred stock compensation related to acquisitions was recorded during the fiscal year ended July 31, 2003. Further, in connection with the restructuring discussed above, the Company recorded an expense of approximately $35.7 million related to the acceleration of deferred stock compensation for the fiscal year ended July 28, 2001. Finally, the Company made adjustments during fiscal years 2003 and 2002 related to deferred stock compensation for stock options of terminated employees of a credit of $16,000 and $0.3 million, respectively. All adjustments have been included in restructuring costs and other special charges in the statements of operations.

10. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Due to the Company's loss position in fiscal years 2003, 2002 and 2001, there was no provision for income taxes for the years ended July 31, 2003, July 27, 2002 and July 28, 2001. A valuation allowance has been recorded for the total deferred tax assets as management believes there are uncertainties regarding realization of the assets based on the lack of consistent profitability to date and the uncertainty of future profitability.

The components of the net deferred tax assets are as follows (in thousands):

	July 31, 2003	July 27, 2002	July 28, 2001
Net operating loss carryforwards	$ 83,577	$ 80,446	$ 68,965
Other reserves and accruals	13,081	11,494	19,726
	96,658	91,940	88,691
Valuation allowance	(96,658)	(91,940)	(88,691)
Net deferred income tax asset	$ —	$ —	$ —

As of July 31, 2003, the Company has net operating loss carryforwards of approximately $233 million to offset future federal taxable income, which expires at various dates through fiscal year 2023. This amount includes approximately $12.5 million of net operating loss carryforwards from the acquisition of OSDN. The deferred tax assets related to the acquisition of OSDN of approximately $5.6 million as of June 7, 2000, will be used to reduce the tax provision if and when realized. The Company also has California net operating loss carryforwards of approximately $73 million to offset future California taxable income, which expire at various dates through fiscal year 2013. The net operating loss carryforwards also include approximately $21.3 million resulting from employee exercises of non-qualified stock options or disqualifying dispositions, the tax benefits of which, when realized, will be recorded as an addition to additional paid-in capital rather than a reduction of the provision for income taxes. The operating loss carryforwards to be used in future years is limited in accordance with the provisions of the Tax Reform Act of 1986 as the Company has experienced a cumulative stock ownership change of more than 50% over the last three years. The net operating loss carryforwards stated above are reflective of various federal and state tax limitations.

11. Segment and Geographic Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-making group, as defined under SFAS No. 131, are the Chief Executive Officer and the executive team. During fiscal 2001, the Company had two reportable business segments for revenue: systems and services and OSDN. The Company allocated its resources and evaluated performance of its separate segments based on revenue. As a result of the Company's decision to exit the systems business in the fourth quarter of fiscal 2001 and focus on its software application business, during fiscal 2002 the Company operated as one business segment, providing application software products and related OSDN products and services. During the fourth quarter of fiscal 2003, two separate businesses emerged and as of July 31, 2003, we operate as two reportable business segments: software and online.

Due to the significant amount of shared operating resources that are utilized by both of the business segments, the Company only reports segment information for revenues and cost of sales.

The accounting policies of the segments are the same as those described in the summary of significant accounting polices. There are no intersegment sales. Our chief operating decision maker evaluates performance based on each segment's revenue and gross margin rather than profit or similar measure. The Company's assets and liabilities are not discretely allocated or reviewed by segment.

(in thousands)	Software	Online	Other	Total Company
Year Ended July 31, 2003				
Revenue from external customers	$ 2,917	$20,551	$ 760	$ 24,228
Cost of revenues	$ 1,997	$11,166	$ (383)	$ 12,780
Gross margin	$ 920	$ 9,385	$ 1,143	$ 11,448
Year Ended July 27, 2002				
Revenue from external customers	$ 1,086	$15,967	$ 3,332	$ 20,385
Cost of revenues	$ 2,387	$10,393	$ (3,119)	$ 9,661
Gross margin	$(1,301)	$ 5,574	$ 6,451	$ 10,724
Year Ended July 28, 2001				
Revenue from external customers	$ —	$14,678	$120,212	$134,890
Cost of revenues	$ —	$10,497	$143,606	$154,103
Gross margin	$ —	$ 4,181	$(23,394)	$(19,213)

The Company marketed its products in the United States through its direct sales force. Revenues for each of the fiscal years ended July 31, 2003, July 27, 2002 and July 28, 2001 were primarily generated from sales to end users in the United States of America.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

Item 9A. *Controls and Procedures*

a) **Evaluation of disclosure controls and procedures.** Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b) **Changes in internal controls over financial reporting.** There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the quarter ended July 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information called for by this item is incorporated by reference to the sections entitled "Certain Beneficial Owners" and "Security Ownership of Directors and Executive Officers" in the Proxy Statement for the annual stockholders' meeting to be held on December 3, 2003.

Code of Ethics

The Company has adopted a Code of Ethics for Principal Executive and Senior Financial Officers. The Company has posted the text of this Code of Ethics on our Internet Web site at http://www.vasoftware.com/company/investor_relations/code_of_conduct/.

Item 11. ***Executive Compensation***

The information called for by this item is incorporated by reference to the section entitled "Compensation of Directors and Executive Officers" in the Proxy Statement for the annual stockholders' meeting to be held on December 3, 2003.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information called for by this item is incorporated by reference to the sections entitled "Certain Beneficial Owners" and "Security Ownership of Directors and Executive Officers" in the Proxy Statement for the annual stockholders' meeting to be held on December 3, 2003.

Item 13. ***Certain Relationships and Related Transactions***

The information called for by this item is incorporated by reference to the sections entitled "Certain Relationships and Related Transactions" in the Proxy Statement for the annual stockholders' meeting to be held on December 3, 2003.

Item 14. ***Principal Accountant Fees and Services.***

Not applicable.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) The following documents are filed as part of this report:

1. All Financial Statements:

See the Consolidated Financial Statements and notes thereto in Item 8 above.

2. Schedule II — Valuation and Qualifying Accounts are filed as part of this Form 10-K.

3. Exhibits:

See the Exhibit Index.

(b) *Reports on Form 8-K.*

On May 27, 2003, the Company furnished a Current Report on Form 8-K under Items 9 (Regulation FD Disclosure) and 12 (Results of Operations and Financial Condition) disclosing the issuance of a press release announcing its financial results for the third quarter ended April 26, 2003.

On August 27, 2003, the Company furnished a Current Report on Form 8-K under Items 9 (Regulation FD Disclosure) and 12 (Results of Operations and Financial Condition) disclosing the issuance of a press release announcing its financial results for the fourth quarter and fiscal year ended July 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VA SOFTWARE CORPORATION

By: /s/ALI JENAB

Ali Jenab
Chief Executive Officer, President
and Member of Board of Directors

Date: October 14, 2003

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Ali Jenab and Kathleen R. McElwee, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and does hereby ratify and confirm all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ALI JENAB Ali Jenab	Chief Executive Officer, President (principal executive officer) and Director	October 14, 2003
/s/ KATHLEEN R. MCELWEE Kathleen R. McElwee	Chief Financial Officer (principal accounting officer)	October 14, 2003
/s/ LARRY M. AUGUSTIN Larry M. Augustin	Chairman of the Board of Directors	October 14, 2003
/s/ ANDRE M. BOISVERT Andre M. Boisvert	Director	October 14, 2003
/s/ RAM GUPTA Ram Gupta	Director	October 14, 2003
/s/ DOUGLAS LEONE Douglas Leone	Director	October 14, 2003
/s/ ROBERT M. NEUMEISTER, JR. Robert M. Neumeister, Jr.	Director	October 14, 2003
/s/ CARL REDFIELD Carl Redfield	Director	October 14, 2003
/s/ DAVID B. WRIGHT David B. Wright	Director	October 14, 2003

VA SOFTWARE CORPORATION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year Ended July 28, 2001				
Allowance for doubtful accounts	$ 1,475	$ 3,968	$ 1,196	$ 4,247
Allowance for excess and obsolete inventory	$ 1,171	$24,441	$ 7,265	$18,347
Year Ended July 27, 2002				
Allowance for doubtful accounts	$ 4,247	$(1,096)	$ 1,985	$ 1,166
Allowance for excess and obsolete inventory	$18,347	$(4,378)	$13,939	$ 30
Year Ended July 31, 2003				
Allowance for doubtful accounts	$ 1,166	$ (19)	$ 1,003	$ 144
Allowance for excess and obsolete inventory	$ 30	$ (6)	$ —	$ 24

EXHIBIT INDEX

Exhibit Number	
3.1**	— Amended and Restated Certificate of Incorporation of the Registrant
3.2**	— Bylaws of the Registrant
4.1**	— Specimen Common Stock Certificate
10.1**‡	— Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2**‡	— 1998 Stock Plan and forms of agreement thereunder
10.3**‡	— 1999 Employee Stock Purchase Plan
10.4**‡	— 1999 Director Option Plan
10.5#	— First Amended and Restated Registration Rights Agreement between Registrant and certain holders of preferred stock
10.6##	— Loan and Security Agreement between Registrant and Comerica Bank — California
10.7†***	— Master Lease Agreement between Boca Global, Inc. and Bordeaux Partners LLC
10.8†###	— Master Lease Agreement between Registrant and Renco Investment Company
10.9****	— Consent of Linus Torvalds
23.1	— Consent of PricewaterhouseCoopers LLP, Independent Public Accountants
23.2	— Notice regarding Consent of Arthur Andersen LLP
24.1	— Power of Attorney (see signature page)
31.01	— Certification Of Chief Executive Officer Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002
31.02	— Certification Of Chief Financial Officer Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002
32.01	— Certification Of Chief Executive Officer Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002
32.02	— Certification Of Chief Financial Officer Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

† Confidential treatment has been requested by the Registrant as to certain portions of this exhibit. The omitted portions have been separately filed with the Commission.

* Incorporated by reference to the corresponding exhibit of Registrant's form S-4 and the amendment thereto (Commission registration no. 333-35704).

** Incorporated by reference to the corresponding exhibit of Registrant's form S-1 and the amendment thereto (Commission registration no. 333-88687).

*** Incorporated by reference from Exhibit 10.16 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).

**** Incorporated by reference from Exhibit 10.18 of Registrant's Quarterly Report on Form 10-Q for the period ended January 28, 2000 filed on March 13, 2000 (Commission file number 000-28369).

Incorporated by reference from Exhibit 10.6 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).

Incorporated by reference from Exhibit 10.9 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).

Incorporated by reference from Exhibit 10.14 of Registrant's Annual Report on Form 10-K for the period ended June 28, 2000 filed on October 26, 2000 (Commission file number 000-28369).

‡ Denotes a management contract or compensatory plan or arrangement.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-88687, 333-38766, 333-38768, 333-38874, 333-71944, 333-92391, 333-92409, 333-59096 and 333-101965) of VA Software Corporation of our report dated August 20, 2003, relating to the financial statements and financial statement schedule, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
October 14, 2003

EXHIBIT 23.02

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the “Securities Act”), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Form 10-K is incorporated by reference into VA Software Corporation’s filings on Form S-8 Nos. 333-88687, 333-38766, 333-38768, 333-38874, 333-71944, 333-92391, 333-92409 and 333-59096 (collectively, the “Registration Statements”) and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

On April 17, 2002, VA Software Corporation (“VA Software”) dismissed Arthur Andersen LLP (“Arthur Andersen”) as its independent auditor and appointed PricewaterhouseCoopers LLP to replace Arthur Andersen. Both the engagement partner and the manager for VA Software’s prior fiscal year audit are no longer with Arthur Andersen. As a result, VA Software has been unable to obtain Arthur Andersen’s written consent to the incorporation by reference into the Registration Statements of its audit report with respect to VA Software’s financial statements as of July 28, 2001 and July 28, 2000 and for the years then ended. Under these circumstances, Rule 437a under the Securities Act and Rule2-02 of Regulation S-X promulgated by the Securities Exchange Commission permit VA Software to file this Form 10-K without a written consent from Arthur Andersen. As a result, however, Arthur Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Arthur Andersen under Section 11(a) of the Securities Act for any purchases of securities under the Registration Statements made on or after the date of this Form 10-K. To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who are liable under Section 11(a) of the Securities Act, including VA Software’s officers and directors, may still rely on Arthur Andersen’s original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

EXHIBIT 31.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Ali Jenab, certify that:

1. I have reviewed this annual report on Form 10-K of VA Software Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 14, 2003

/s/ ALI JENAB

Ali Jenab
Chief Executive Officer

EXHIBIT 31.02

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Kathleen R. McElwee, certify that:

1. I have reviewed this annual report on Form 10-K of VA Software Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 14, 2003

/s/ KATHLEEN R. MCELWEE

Kathleen R. McElwee
Chief Financial Officer

EXHIBIT 32.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ali Jenab, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of VA Software Corporation on Form 10-K for the fiscal year ended July 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of VA Software Corporation.

By: /s/ ALI JENAB
Name: Ali Jenab
Title: Chief Executive Officer

EXHIBIT 32.02

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathleen R. McElwee, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of VA Software Corporation on Form 10-K for the fiscal year ended July 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of VA Software Corporation.

By: /s/ KATHLEEN R. MCELWEE
Name: Kathleen R. McElwee
Title: Chief Financial Officer