Letter to Stockholders

Notice of 2004 Annual Meeting and Proxy Statement

2004 Annual Report to Stockholders

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Proxy Statement and 2004 Annual Report to Stockholders

October 29, 2004

To our Stockholders:

In my letter to you last year, I stated that I felt VA Software was well positioned for growth in fiscal year 2004. I cited an increasing market for SourceForge software, a growing interest in open source and Linux that would drive our online advertising revenues and the right-sizing of our organization as we move toward profitability. As I look back on our accomplishments during the past year, I am proud to say that our positioning is on target.

SourceForge, our enterprise software application, provides a secure, centralized, enterprise-grade solution for optimizing and managing distributed development. Whether teams are distributed across the building, the country or around the world, SourceForge provides an easy-to-use, web-accessible solution that:

- Integrates disparate tools and processes;
- Expands visibility and control;
- Improves development efficiency; and
- Empowers collaboration and innovation.

Simply put, SourceForge optimizes distributed development by helping organizations deliver higher quality software in less time and with greater manageability and consistency.

We introduced the 4.1 release of SourceForge to our customers in June 2004 after a six month, multi-customer beta testing period. The 4.1 version is built on a platform-independent Java 2 Enterprise Edition (J2EE) architecture and includes an open application programming interface (API) and complementary software development kit to ease integration for enterprises with a heterogeneous development tools environment. As the year progressed, we saw steady increases in SourceForge revenue, increased size of deals and an accelerating sales cycle. We believe that the functionality introduced with SFEE 4.1 is uniquely addressing a growing business concern among our customers and prospects and has contributed to our sales success.

We invested in our sales and marketing teams for SourceForge during the year. Darryll Dewan, an industry-veteran, joined VA in October 2003 to lead the sales and support teams to record sales levels. Sheila Baker joined the SourceForge team in June 2004 to lead our marketing efforts.

During fiscal year 2004, 42 new accounts selected SourceForge. As of July 31, 2004, we had sold our solution to 97 customers, including: Acxiom, American Traffic Solutions, AZG, Bluetooth Special Interest Group, Booz Allen Hamilton, Bowman Systems, Bristol Myers Squibb, Cadence Design Systems, CC Intelligent Solutions, CGI Atlantic, Cisco, CNA Trust, Cometa Networks, Cornell University, Creative Advanced Technology Center, DTE Energy, Diversa, Eaton, Emic Networks, Enbridge Pipelines, ETAS, Euclid Discoveries, First American Corp, Fleet Numerical Meteorology and Oceanography Center, The Foundry, Fujitsu Limited, General Atomics, Global Grid Forum, Harris Corporation, Hewlett-Packard Company, IBM, Infravio, Lawrence Livermore National Laboratory, LEGATO Systems, Los Alamos National Laboratory, Lockheed Martin, Matsushita Avionics, MIT Lincoln Laboratories, Montage DMC, Myrio, National Singapore University, Nexterna, Nortel, Northrop Grumman, NTT Communications, Open SystemC Initiative, The Orphanage, Osaka Gas Information System Research Institute, Panhandle-Plains Student Loan Center, Persist Technologies, Pfizer, Pitney Bowes, Planet Group, Pratt & Whitney, RSA Security, Sandia National Laboratories, Singlestep Technologies, Singingfish, Space and Naval Warfare Systems Control (SPAWAR, Department of the Navy), Sony Pictures ImageWorks, Spectel, Spirent Communications, Sun Microsystems, 3Soft, TNO Physics and Electronics Lab, Transwitch, U.S. Air Force, U. S. Army Research Laboratory, USDA Forest Service and Verisign. With sales to new accounts and follow-on sales to existing accounts, revenue from our software business increased by over 71% to $5.0 million during fiscal year 2004.

During our fourth quarter, OSDN became OSTG (ostg.com) in recognition of our network's unique combination of news and information sites for IT managers and development professionals that address market trends driving the rapid adoption of open source technologies for business and the desktop. In addition, OSTG relaunched several of its IT-focused sites. OSTG sites, including SourceForge.net, Slashdot.org, Linux.com, NewsForge.com, DevChannel.org, ITMJ.com and freshmeat.net collectively generate more than 250 million page views, and serve more than 16 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. OSTG 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. OSTG 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 OSTG can be measured by the number of visitors, growing to 16 million by the end of fiscal 2004 compared to 10 million at the beginning of our fiscal year 2004; by the number of projects being developed on SourceForge.net, up from 67,000 at the beginning of our fiscal year 2004 to over 86,000 as we closed our fiscal year 2004; and by advertising revenue which increased by 71% to $6.7 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. Fiscal year 2004 revenue totaled $29.3 million, compared to $24.2 million for fiscal year 2003. On a GAAP basis, our net loss declined to $7.6 million, or $0.13 per share, during fiscal year 2004 compared to $13.8 million, or $0.25 per share, during fiscal year 2003. We closed fiscal year 2004 with a fourth quarter loss of $0.8 million, or $0.01 per share. We entered into sublease agreements for the remaining excess space that we had in Fremont and Sunnyvale, California and moved into a more cost-effective and appropriately-sized space that we already leased in Fremont. We completed a private placement with an institutional investor in November 2003, which provided net proceeds of $14.5 million. We completed fiscal year 2004 with $45.5 million in cash and marketable securities.

As we enter fiscal year 2005, we are optimistic about the opportunities ahead. We anticipate substantial growth for both our SourceForge and OSTG businesses. The adoption rate of SourceForge is accelerating as we sell to more new customers and the use of SourceForge expands within our existing customers. They clearly see the value that SourceForge provides in improved visibility and control to manage the costs and risks of decentralized software development. We believe that the positioning of OSTG as a major network addressing the needs of the IT community in the move toward Linux and open source will result in increased revenue and market share. And finally, we believe that with accelerating revenue and the cost structure that we have put in place, we are poised for profitability.

Sincerely,

Ali Jenab
President and Chief Executive Officer

VA SOFTWARE

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on December 8, 2004

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of VA Software Corporation (the "Company"), a Delaware corporation, will be held on Wednesday, December 8, 2004 at 9:00 a.m., local time, at the Company's principal executive offices located at 46939 Bayside Parkway, Fremont, CA 94538, for the following purposes:

1. To elect three (3) Class II 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 BDO Seidman, LLP as the Company's independent accountants for the fiscal year ending July 31, 2005 (Proposal Two); and
3. To transact such other business as may properly be brought before the meeting or 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 11, 2004 are entitled to notice of and to vote at the meeting.

Fremont, California
October 29, 2004

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 2004 Annual Meeting of Stockholders. The Proxy Statement and the related proxy form are being distributed on or about October 29, 2004. 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;**
- **Vote by mail by completing and returning a written proxy card; or**
- **Attend our 2004 Annual Meeting of Stockholders and vote in person.**

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on December 7, 2004. Internet and telephone voting are available 24 hours per day; if you vote via the 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 the 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 CORPORATION
46939 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 Corporation (the "Company") for use at our Annual Meeting of Stockholders (the "Meeting") to be held at the Company's principal executive offices located at 46939 Bayside Parkway, Fremont, California 94538, on Wednesday, December 8, 2004, 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, 2004, 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 29, 2004 to all stockholders entitled to vote at the Meeting.

STOCKHOLDERS MAY RECEIVE A COPY OF THE COMPANY'S 2004 FORM 10-K NOT INCLUDING EXHIBITS AT NO CHARGE. IF YOU PREFER A COPY OF THE 2004 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 CORPORATION, 46939 BAYSIDE PARKWAY, FREMONT, CALIFORNIA, 94538, ATTN: INVESTOR RELATIONS.

Record Date and Share Ownership

Stockholders of record at the close of business on October 11, 2004 (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 stock 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 61,381,488 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 as follows:

1. Delivering to us at our principal offices (Attention: Investor Relations) a written notice of revocation before such proxy is used; 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 7, 2004 (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 7, 2004 (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) prior to the use of the original proxy; or

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

Voting

On all matters, each stockholder shall be entitled to one vote for each share of the Company's capital stock held by such stockholder. (See "*Proposal One — To Elect Three (3) Class II 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. We may, upon request, reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. In addition, 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 BDO Seidman, LLP as our independent accountants for the fiscal year ending July 31, 2005; 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.

Deadline for Receipt of Stockholder Proposals

Proposals of stockholders that are intended for inclusion in our proxy statement relating to our 2005 Annual Meeting of Stockholders must be received by us at our principal executive offices at 46939 Bayside Parkway, Fremont, CA 94538, Attention: General Counsel, not later than July 1, 2005 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. By signing the proxy card, you are granting the persons named in the Proxy such 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 27, 2004, the one-year anniversary of 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 stockholder; (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 11, 2004, 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 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 61,381,488 shares of Common Stock outstanding as of October 11, 2004. 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]	5,170,187	8.3%
Ali Jenab[3]	1,429,113	2.3%
Carl Redfield[4]	416,669	*
Kathleen R. McElwee[5]	208,854	*
Darryll E. Dewan[6]	193,166	*
Douglas Leone[7]	180,215	*
Colin Bodell[8]	178,854	*
Andrew Anker[9]	76,333	*
David B. Wright[10]	75,000	*
Robert M. Neumeister, Jr.[11]	59,166	*
Andre Boisvert[12]	48,333	*
Ram Gupta[13]	41,250	*
Patrick J. Ferrell[14]	15,625	*
Sheila Baker [15]	6,250	*
All directors and officers as a group (14 persons)[16]	8,099,015	12.5%

* 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 Corporation, Attention: Stock Plan Manager, 46939 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 864,999 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(3) Includes 1,429,113 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(4) Includes 135,000 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(5) Includes 208,854 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(6) Includes 191,666 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(7) Includes 175,000 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(8) Includes 178,854 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(9) Includes 23,333 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(10) Includes 75,000 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(11) Includes 59,166 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(12) Includes 48,333 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(13) Includes 41,250 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(14) Includes 15,625 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(15) Includes 6,250 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

(16) Includes the shares beneficially owned by the directors and officers set forth on the above table as well as 3,452,443 shares subject to options that are exercisable within sixty (60) days of October 11, 2004.

PROPOSAL ONE

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

Our Board of Directors has nine authorized directors and currently consists of nine 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 2006;

— Class II consists of Andrew Anker, 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 II 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 II directors for election to the Board. The nominees for election by the stockholders to these three positions are:

— Andrew Anker;

— Ram Gupta; and

— Carl Redfield.

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 II Director at the Meeting will continue until our annual meeting of stockholders held in 2007 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 the 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 above 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 legal effect on the election of directors 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	41	President, Chief Executive Officer and Class III Director
Sheila Baker	45	Senior Vice President, Marketing
Colin Bodell	42	Senior Vice Present, Product Development
Darryll E. Dewan	53	Executive Vice President, Worldwide Field Operations
Patrick J. Ferrell	48	Senior Vice President and General Manager, OSTG
Kathleen R. McElwee	49	Senior Vice President and Chief Financial Officer
Directors		
Larry M. Augustin	42	Chairman and Class I Director
Andrew Anker	39	Class II Director
Andre Boisvert(1)	51	Class I Director
Ram Gupta(2)	42	Class II Director
Douglas Leone(1)	47	Class I Director
Robert M. Neumeister, Jr.(2)	54	Class III Director
Carl Redfield(2)	57	Class II Director
David B. Wright(1)	53	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.

Sheila Baker has served as our Senior Vice President of Marketing since June 2004. From February 2001 through June 2004, Ms. Baker served as MontaVista Software Inc.’s vice president of marketing. MontaVista Software is a provider of embedded Linux software. From May 2000 through December 2000, Ms. Baker served as Magically, Inc.’s chief operating officer, Americas. Magically is an application service provider, focused on communication and collaboration technologies for Internet browsers and wireless application protocol (WAP) enabled phones. From April 1998 through May 2000, Ms. Baker served as the Santa Cruz Operation Inc.’s vice president, US channel sales. The Santa Cruz Operation is a provider of UNIX server software.

Colin Bodell has served as our Senior Vice President and Chief Technology Officer since June 2004. From October 2001 until June 2004, Mr. Bodell served as our Senior Vice President of Product Development. 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.

Darryll E. Dewan has served as our Executive Vice President of Worldwide Field Operations since January 2004, and as our Executive Vice President of Worldwide Sales from October 2003 through December 2003. From August 2003 through September 2003, Mr. Dewan was a private investor. From January 2003 through July 2003, Mr. Dewan was vice president of global account sales for QAD, Inc., a provider of enterprise resource planning (ERP) software applications. From November 2002 through January 2003, Mr. Dewan served as president of global alliances and strategic accounts for i2 Technologies, Inc., a provider of supply chain management software and services. From July 2002 through November 2002, Mr. Dewan served as i2's executive vice president of global alliances and strategic accounts. From April 2002 through July 2002, Mr. Dewan served as i2's president of national account division sales. From December 2000 through April 2002, Mr. Dewan served as i2's senior vice president of national account division sales. From October 1999 through December 2000, Mr. Dewan served as i2's senior vice president of strategic original equipment manufacturers. From June 1999 through October 1999, Mr. Dewan served as i2's group vice president of United States geographical accounts.

Patrick J. Ferrell has served as Senior Vice President of OSTG since April 2004. From August 2003 through March 2004 Mr. Ferrell served as chief financial officer and vice president of business development for Sportsweb One, Inc., an online network of sports-related Web sites. From October 1999 through August 2003, Mr. Ferrell served as managing director of Xscape Velocity, Inc., a management consulting firm focused on seed-level companies with Internet content strategies. From November 1988 through September 1999, Mr. Ferrell served as president and chief executive officer of Infotainment World, Inc., now known as IDG Entertainment, a subsidiary of International Data Group, a technology media, research and event company.

Kathleen R. McElwee has served as our Senior Vice President and Chief Financial Officer since September 2004 and as our Vice President and Chief Financial Officer from January 2002 through August 2004. From July 2000 until January 2002, Ms. McElwee was senior vice president of finance and chief financial officer of The 3DO Company, a developer, publisher and distributor of interactive entertainment software for advanced entertainment systems. Ms. McElwee 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.

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.

Andrew Anker has served on our Board of Directors since September 2004. Mr. Anker has served as Six Apart Limited's executive vice president of corporate development since June 2004. Six Apart is a provider of personal publishing systems and services. From July 2003 through May 2004, Mr. Anker was a private investor. From March 1999 through June 2003, Mr. Anker was a general partner with August Capital, a venture capital fund focused on investing in early-stage technology companies. Mr. Anker joined August Capital in April 1998. From March 1994 through February 1998, Mr. Anker served as co-founder and chief executive officer of Wired Digital, Inc., an Internet-based news and media company. Mr. Anker served as a member of the board of directors of ImproveNet, Inc. from March 1999 until December 2002.

Andre Boisvert has served on our Board of Directors since March 2002. From April 2001 until April 2004, Mr. Boisvert 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 from July 2002 until April 2004 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 has served on our Board of Directors since February 2002. From August 2000 through October 2004, Mr. Gupta served as executive vice president, products and technology for PeopleSoft, Inc. a provider of enterprise application software. 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, including Agitar Software, Inc., Aruba Wireless Networks, Inc., Certus, Inc., Metreo, Inc., and RouteScience Technologies, Inc.

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. Since September 2004, Mr. Redfield has served as senior vice president, New England executive sponsor, of Cisco Systems, Inc., a provider of Internet Protocol-based (IP) networking solutions. From February 1997 through September 2004, Mr. Redfield served as Cisco Systems' senior vice president, manufacturing and logistics. 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. Since August 2004, Mr. Wright has served as executive vice president, office of the chief executive officer, strategic alliances and global accounts, for EMC Corporation, a provider of products, services, and solutions for information storage and management. From October 2003 until August 2004, Mr. Wright served as an EMC executive vice president and president of EMC's Legato Systems division, which develops, markets and supports enterprise class storage software products and services. From October 2000 until its acquisition by EMC in October 2003, Mr. Wright served as president and chief executive officer of Legato Systems, Inc. Mr. Wright joined Legato Systems 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. Mr. Wright serves on the Board of Directors of Aspect Communications Corporation, ISO Properties, Inc., and Metatomix, 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 of the total number of shares subject to the options vesting on the date of grant and one thirty-sixth of the remaining unvested shares 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 additional options granted to non-employee directors will vest over a three year period following the date of grant with one quarter of the total number of shares subject to the options vesting on the date of grant and one thirty-sixth of the remaining unvested shares vesting each month thereafter. The vesting of the options granted to our non-employee directors under the Director Plan 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 of the Company.

Employee directors, including Mr. Jenab, are eligible to participate in our 1999 Employee Stock Purchase Plan 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 six meetings during the fiscal year ended July 31, 2004 ("Fiscal Year 2004"). With the exception of Ram Gupta and David Wright, who attended 55% and 71%, respectively, of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which Messrs. Gupta and Wright served, no director serving throughout Fiscal Year 2004 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. Anker joined our Board of Directors on September 20, 2004, so he was not a member of our Board of Directors during Fiscal Year 2004.

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 II 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 and 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 five (5) meetings during Fiscal Year 2004.

The Compensation Committee consists of Messrs. Leone, Boisvert and Wright, each of whom is "independent," as such term is defined by the listing standards of The Nasdaq Stock Market. 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 eight (8) meetings during Fiscal Year 2004.

Although VA Software has no nominating committee, in accordance with the listing standards of The Nasdaq Stock Market, the Board of Director's independent directors fulfill the role of a nominating committee. It is the view of the Board of Directors that it is appropriate not to have a nominating committee because of the active involvement of the independent directors in the nominating process.

The independent directors assist the Board of Directors in identifying and evaluating qualified individuals to become directors, determine the composition of the Board of Directors and its committees and monitor the process to assess Board of Director effectiveness. The consideration of any candidate for director will be based on the independent directors' assessment of the individual's background, experience, skills and abilities, and if such characteristics qualify the individual to fulfill the needs of the Board of Directors at that time. While the Board of Directors has not established specific minimum qualifications for director candidates, the independent directors believe that candidates and nominees should reflect a Board that is predominately independent and that is comprised of directors who (1) are of high integrity, (2) have broad, business-related knowledge and experience, (3) have qualifications that will increase overall Board effectiveness and (4) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit committee members.

The independent directors consider nominees proposed by a number of sources, including management and stockholders. To recommend a prospective nominee for the independent directors' consideration, stockholders should submit the candidate's name and contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and VA Software within the last three years and evidence of the nominating person's ownership of VA Software Common Stock to VA Software's Corporate General Counsel in writing at the following address: 46939 Bayside Parkway, Fremont, CA 94538.

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 this Proxy Statement. The Audit Committee may make additional recommendations to our Board for further revision of the Audit Committee charter to reflect evolving best practices.

Independence of the Board of Directors. The Board of Directors has determined that, with the exception of Mr. Jenab, who is the President and Chief Executive Officer of the Company, and Mr. Augustin, who served as our Chief Executive Officer from March 1995 until July 2002, all of its members are "independent directors" as defined in the listing standards of The Nasdaq Stock Market.

Contacting the Board of Directors. Any stockholder who desires to contact our Chairman of the Board of Directors or the other members of our Board of Directors may do so electronically by sending an email to the following address: ir@vasoftware.com. Alternatively, a stockholder can contact our Chairman of the Board of Directors or the other members of the Board of Directors by writing to: Board of Directors, c/o Chairman of the Board of Directors, VA Software Corporation, 46939 Bayside Parkway, Fremont, CA 94538. Communications received electronically or in writing will be reviewed by the General Counsel and distributed to the Chairman of the Board of Directors or the other members of the Board of Directors as appropriate depending on the facts and circumstances outlined in the communication received.

Attendance at Annual Stockholder Meetings by the Board of Directors. The Company has not adopted a formal policy regarding attendance by members of the Board of Directors at the Company's annual meeting of stockholders. The Company's informal policy is that it encourages, but does not require, directors to attend. Messrs. Augustin, Boisvert, Jenab and Redfield attended the Company's 2003 Annual Meeting of Stockholders; the other members of the Board of Directors did not attend.

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 and directors. We require all employees and directors to adhere to the Code of Conduct in addressing the legal and ethical issues encountered in conducting their work. Employees and directors 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 II NOMINEES LISTED ABOVE.

PROPOSAL TWO

TO RATIFY THE APPOINTMENT OF BDO SEIDMAN, LLP AS OUR INDEPENDENT ACCOUNTANTS FOR THE FISCAL YEAR ENDING JULY 31, 2005

Our Audit Committee has selected BDO Seidman, LLP ("BDO"), an independent registered public accounting firm, to audit our financial statements for our fiscal year ending July 31, 2005 ("Fiscal Year 2005"), 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 PricewaterhouseCoopers LLP with BDO Seidman, LLP in Fiscal Year 2004

On June 3, 2004, the Audit Committee dismissed PricewaterhouseCoopers LLP ("PwC") as our independent accountants for the fiscal year ended July 31, 2004 ("Fiscal Year 2004") and engaged BDO Seidman, LLP as our independent registered public accounting firm for Fiscal Year 2004. BDO audited our financial statements for Fiscal Year 2004.

During the fiscal year ended July 31, 2003 ("Fiscal Year 2003") and the subsequent interim period through June 3, 2004, there were no disagreements between us and PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PwC's satisfaction, would have caused PwC to make a reference to the subject matter of the disagreement in connection with its reports. The audit report of PwC on our consolidated financial statements as of and for Fiscal Year 2003 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

During Fiscal Year 2003 and the subsequent interim period through June 3, 2004, we did not consult with BDO 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 BDO 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

Under the SEC's proxy disclosure requirements relating to auditor fees, implemented pursuant to the Sarbanes-Oxley Act of 2002, 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.

BDO Fees	Fiscal Year 2004	Fiscal Year 2003
Audit Fees[(1)]	$120,000	—
Audit-related Fees[(2)]	$ 0	—
Tax Fees[(3)]	$ 45,000	—
All Other Fees[(4)]	$ 0	—
Total BDO Fees	**$165,000**	—

PwC Fees	Fiscal Year 2004	Fiscal Year 2003
Audit Fees[(1)]	$ 98,200	$177,500
Audit-related Fees[(2)]	$ 3,046	$ 0
Tax Fees[(3)]	$ 0	$220,000
All Other Fees[(4)]	$ 0	$ 0
Total PwC Fees	**$101,246**	**$397,500**

The categories in the above table have the definitions assigned under Item 9 of Schedule 14A promulgated under the Securities Exchange Act of 1934. With respect to VA Software's Fiscal Year 2004 and Fiscal Year 2003, these categories include the following components:

1. "**Audit fees**" includes fees for audit services principally related to the year-end examination and the quarterly reviews of VA Software's consolidated financial statements, consultation on matters that arise during a review or audit, reviews of SEC filings and statutory audit fees.

2. "**Audit related fees**" includes fees which are for assurance and related services other than those included in Audit fees.

3. "**Tax fees**" includes fees for tax compliance, tax-related services and advice.

4. "**All other fees**" includes fees for all other non-audit services, including, but not limited to, publications and consulting services on special projects.

Pre-approval Policies and Procedures

The Audit Committee has adopted a policy regarding non-audit services provided by BDO, 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, with subsequent ratification by the Audit Committee, 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 BDO as set forth herein are compatible with maintaining BDO'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 BDO as the Company's independent accountants, to audit the consolidated financial statements of the Company for our Fiscal Year 2005.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF BDO SEIDMAN, LLP AS INDEPENDENT ACCOUNTANTS FOR FISCAL YEAR 2005.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all compensation paid or accrued during Fiscal Years 2004, 2003 and 2002 to: (i) our Chief Executive Officer during Fiscal Year 2004, (ii) each of our three other most highly compensated executive officers whose annual compensation exceeded $100,000 for Fiscal Year 2004, and (iii) two additional individuals 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 2004.

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Positions	Fiscal Year	Salary	Bonus	Securities Underlying Options	All Other Compensation
Ali Jenab	2004	$433,847	$135,487[(1)]	812,500	—
Chief Executive Officer, President	2003	$400,000	$158,823[(1)]	200,000	—
and Director	2002	$400,000	$255,702[(1)]	2,000,000	—
Colin Bodell	2004	$268,847	$ 73,880[(2)]	375,000	—
Senior Vice President and Chief	2003	$250,000	$ 25,000	100,000	—
Technology Officer	2002	$192,308	$ 20,000	400,000	—
Kathleen R. McElwee	2004	$230,769	$ 70,139[(3)]	375,000	—
Senior Vice President and	2003	$200,000	$ 25,000	100,000	—
Chief Financial Officer	2002	$102,308	—	400,000	—
Darryll E. Dewan	2004	$192,308	—	900,000	$ 60,280[(4)]
Executive Vice President of	2003	—	—	—	—
Worldwide Field Operations	2002	—	—	—	—
Richard French	2004	$205,847	$ 88,760[(5)]	150,000	$130,000[(5)]
Former Senior Vice President and	2003	$250,000	$ 25,000	100,000	—
General Manager, OSTG	2002	$250,000	—	400,000	—
Greg Orzech	2004	$128,260	$ 24,193[(6)]	—	$140,273[(6)]
Former Senior Vice President, Sales	2003	$197,692	—	200,000	$ 70,436[(6)]
	2002	$180,000	—	200,000	$ 37,156[(6)]

(1) In September 2004, Mr. Jenab was paid $68,400 of the $135,487 amount listed under Fiscal Year 2004 Bonus for his attainment of Compensation Committee-established Fiscal Year 2003 performance criteria. 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) In September 2004, Mr. Bodell was paid $42,750 of the $73,880 amount listed under Fiscal Year 2004 Bonus for his attainment of Compensation Committee-established Fiscal Year 2003 performance criteria.

(3) In September 2004, Ms. McElwee was paid $34,200 of the $70,139 amount listed under Fiscal Year 2004 Bonus for her attainment of Compensation Committee-established Fiscal Year 2003 performance criteria.

(4) Pursuant to a Fiscal Year 2004 compensation agreement we entered into with Mr. Dewan at the commencement of his employment with the Company in October 2003, we paid Mr. Dewan $60,280 in commission payments.

(5) In September 2004, Mr. French was paid $42,750 of the $88,760 amount listed under Fiscal Year 2004 Bonus for his attainment of Compensation Committee-established Fiscal Year 2003 performance criteria. Pursuant to a separation agreement we entered into with Mr. French in Fiscal Year 2004, we paid Mr. French $130,000.

Mr. French ceased serving as our Sr. Vice President and General Manager of OSTG, Inc., and his employment with the Company terminated, on May 4, 2004.

(6) In September 2004, Mr. Orzech was paid $24,193 listed under Fiscal Year 2004 Bonus for his attainment of Compensation Committee-established Fiscal Year 2003 performance criteria. Pursuant to a separation agreement we entered into with Mr. Orzech in Fiscal Year 2004, we paid Mr. Orzech $105,000. Mr. Orzech ceased serving as our Sr. Vice President of Sales on January 29, 2004, and his employment with the Company terminated, on February 27, 2004. Pursuant to a Fiscal Year 2004 compensation agreement we entered into with Mr. Orzech at the commencement of Fiscal Year 2004, we paid Mr. Orzech $35,273 in commission payments. 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 2004. 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 6,086,221 options granted to employees during Fiscal Year 2004. 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	487,500[1]	8.01%	$2.4500	07/01/2014	$ 751,136	$1,903,526
	325,000[1]	5.34%	$2.9800	12/10/2013	$ 609,084	$1,543,540
Colin Bodell	150,000[1]	2.46%	$2.9800	12/10/2013	$ 281,116	$ 712,403
	225,000[1]	3.70%	$2.4500	7/01/2014	$ 346,678	$ 878,551
Kathleen R. McElwee	150,000[1]	2.46%	$2.9800	12/10/2013	$ 281,116	$ 712,403
	225,000[1]	3.70%	$2.4500	07/01/2014	$ 346,678	$ 878,551
Darryll E. Dewan	500,000[2]	8.22%	$4.5700	10/27/2013	$1,437,024	$3,641,701
	100,000[1]	1.64%	$2.9800	12/10/2013	$ 187,411	$ 474,935
	300,000[1]	4.93%	$2.4500	07/01/2014	$ 462,238	$1,171,401
Richard French	150,000[1]	2.46%	$2.9800	12/10/2013	$ 281,116	$ 712,403
Greg Orzech	—	—	—	—	—	—

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

(2) One quarter of the shares subject to each option vest and become exercisable one year following the date of grant, and one forty-eighth of the shares subject to each option vest and become exercisable each month thereafter.

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 2004 and exercisable and unexercisable stock options held by our executive officers named in the summary compensation table at July 31, 2004. The value of unexercised in-the-money options is based on a value of $1.94 per share, the fair market value of our Common Stock as of Friday, July 30, 2004, the last trading day of Fiscal Year 2004, 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, 2004		Value of Unexercised In-the-Money Options at July 31, 2004[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ali Jenab	700,000	$2,255,745	1,123,644	1,602,606	$333,291	$674,709
Colin Bodell	76,250	$ 216,518	96,041	538,543	$ 53,823	$132,980
Kathleen R. McElwee	172,916	$ 312,368	126,041	563,543	$ 13,958	$ 40,479
Darryll E. Dewan	—	—	14,583	885,417	—	—
Richard French	221,250	$ 524,004	362,081	—	$ 68,166	—
Greg Orzech	170,800	$ 395,471	446,281	—	$ 26,180	—

(1) Total value of vested options based on fair market value of Company's Common Stock of $1.94 per share as of Friday, July 30, 2004.

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 to insert change of control and termination of employment provisions. (In September 2004, one of these three members of the Company's senior management voluntarily resigned his position with the Company; the two who remain employed by the Company are hereinafter referred to as the "Senior Managers.")

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 Ms. McElwee's, Mr. Bodell's, Mr. Dewan's or one of the Senior Manager's position at any time for any reason not deemed by us to be for cause, such individual will be entitled to receive compensation equal to six (6) months of such individual's annual base salary and six (6) months of accelerated vesting. Ms. McElwee, Mr. Bodell, Mr. Dewan or the Senior Manager, as applicable, 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 Ms. McElwee, Mr. Bodell, Mr. Dewan or the Senior Manager, as applicable, 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, 2004. Some compensation amounts earned by our executive officers during the fiscal year ended July 31, 2004 were paid during Fiscal Year 2005. Actual compensation paid during Fiscal Year 2004 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 are targeted to be aligned with median base salary increases, if any, for similarly-situated executives as set forth in "The High-Tech Global Compensation Survey: Executive Functional Area," provided by Culpepper and Associates, Inc. ("Culpepper"), to which the Company subscribes. Culpepper provides the Compensation Committee with up-to-date, verified data for executive positions at comparable companies based on revenue, geographic location and industry sector. For Fiscal Year 2005, the Compensation Committee has determined to leave base salaries for executive officers unchanged from Fiscal Year 2004.

Bonuses. The Compensation Committee evaluates each executive officer individually to determine a bonus for the fiscal half years 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 2004, based upon attainment of Compensation Committee-established Fiscal Year 2003 performance criteria, the Compensation Committee awarded Fiscal Year 2003 bonuses of $34,200 and $42,750 to Ms. McElwee and Mr. Bodell, respectively. In March 2004, based upon attainment of Compensation Committee-established first half of Fiscal Year 2004 performance criteria, the Compensation Committee awarded first half Fiscal Year 2004 bonuses of $35,939 and $31,130 to Ms. McElwee and Mr. Bodell, respectively.

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 (utilizing the Culpepper data and median target described above), 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.

In September 2004, the Compensation Committee granted Mr. Jenab a bonus of $68,400 in accordance with Compensation Committee-established Fiscal Year 2003 performance criteria. The Compensation Committee believes that Mr. Jenab performed well throughout Fiscal Year 2004, providing valuable assistance and leadership as we grew our online and application software businesses. In March 2004, the Compensation Committee granted Mr. Jenab a bonus of $67,087 in accordance with Compensation Committee-established first half of Fiscal Year 2004 performance criteria. In addition, during Fiscal Year 2004, the Compensation Committee granted Mr. Jenab options to purchase 812,500 shares of our Common Stock.

In determining Mr. Jenab's Fiscal Year 2004 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. For Fiscal Year 2005, based on the same methodology, the Compensation Committee has determined to leave Mr. Jenab's base salary unchanged from Fiscal Year 2004.

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 is attached as Appendix A to this 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 of Directors 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 of Directors 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 of Directors.

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 2004

The Audit Committee discussed with BDO Seidman, LLP ("BDO"), 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, BDO'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 BDO required by Independence Standards Board Standard No. 1, (Independence Discussions with Audit Committees) and has discussed with BDO its independence.

The Audit Committee discussed with BDO 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 2004.

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 2004 for filing with the Securities and Exchange Commission. The Audit Committee and the Board of Directors have also recommended, subject to stockholder ratification, the selection of BDO as our independent accountants for Fiscal Year 2005.

Respectfully Submitted By:

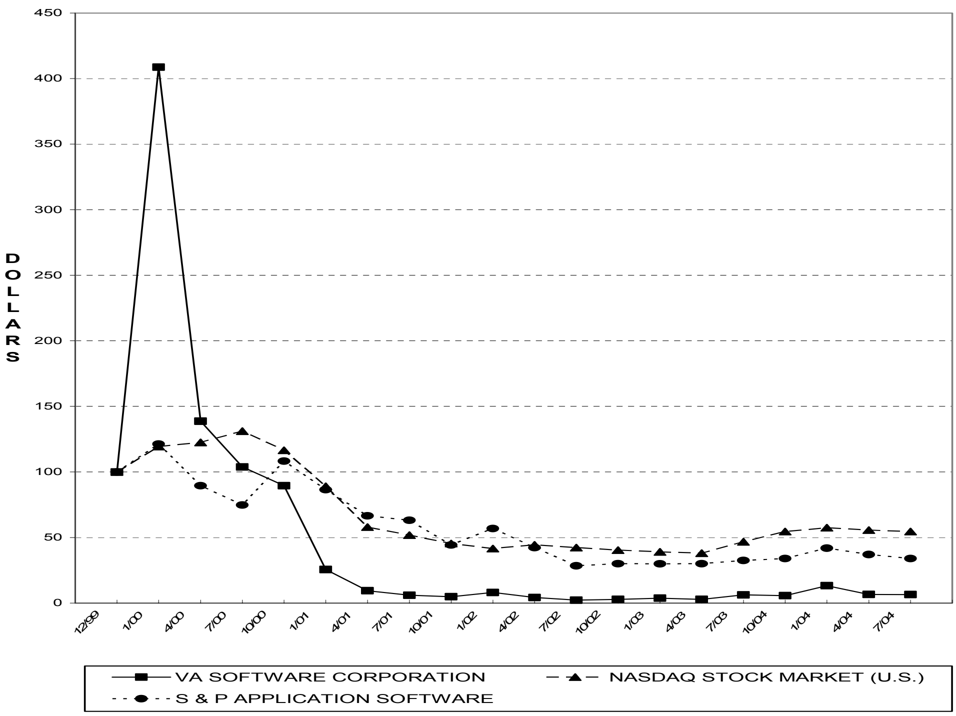
MEMBERS OF THE AUDIT COMMITTEE

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, 2004. Returns for the indices are weighted based on market capitalization at the beginning of each measurement point.

COMPARISON OF 56 MONTH 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	7/31/04
VA Software Corporation	100.00	103.75	6.00	2.20	6.27	6.47
NASDAQ Stock Market (U.S.) Index	100.00	131.16	51.77	42.30	46.75	54.50
S&P Application Software Index	100.00	74.74	63.16	28.47	32.46	34.02

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 2004 all of our executive officers, directors and ten-percent stockholders complied with all applicable filing requirements.

RELATED PARTY TRANSACTIONS

In October 2002, we adopted our Code of Conduct, which governs, among other things, related-party transactions. Under our Code of Conduct, related party transactions are disfavored and are therefore avoided wherever possible. Nonetheless, if a related-party transaction with a non-executive officer or non-director is deemed “unavoidable,” such proposed transaction must first be fully disclosed to the Company’s Chief Financial Officer (“CFO”). If the CFO determines that the proposed related-party transaction is material to the Company, then the transaction must be reviewed and approved in writing by the Company’s Audit Committee in advance of consummating the proposed transaction. In addition, any proposed related-party transaction involving a director or executive officer of the Company must be reviewed and approved in writing in advance by the disinterested members of the Company’s Audit Committee.

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.

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 29, 2004

Appendix A

VA SOFTWARE CORPORATION

a Delaware corporation

CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

PURPOSES

The purpose of the Audit Committee of the Board of Directors of VA Software Corporation, a Delaware corporation (the **"Company"),** shall be to:

1. Oversee the accounting and financial reporting processes of the Company and audits of the financial statements of the Company;
2. Assist the Board in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance, and (iv) the Company's internal accounting and financial controls;
3. Prepare the report that the rules of the Securities and Exchange Commission (the **"SEC")** require be included in the Company's annual proxy statement;
4. Provide the Company's Board with the results of its monitoring and recommendations derived therefrom; and
5. 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.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

MEMBERSHIP

The Audit Committee members will be appointed by, and will serve at the discretion of, the Board of Directors and will consist of at least three members of the Board of Directors. Members of the Audit Committee must meet the following criteria (as well as any criteria required by the SEC):

Each member will be an independent director, as defined in the rules of the (i) NASDAQ and (ii) SEC;

Each member will be able to read and understand fundamental financial statements, in accordance with the NASDAQ National Market Audit Committee requirements; and

At least one member will have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a principal financial officer or other senior officer with financial oversight responsibilities.

RESPONSIBILITIES

The responsibilities of the Audit Committee shall include:

1. Reviewing on a continuing basis the adequacy of the Company's system of internal controls, including meeting periodically with the Company's management and the independent auditors to review (i) the adequacy of such controls; (ii) policies regarding information technology and management information systems; and (iii) before release the disclosure regarding such system of internal controls required under

SEC rules to be contained in the Company's periodic filings and the attestations or reports by the independent auditors relating to such disclosure;

2. Appointing, compensating and overseeing the work of the independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work;
3. Pre-approving audit and non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible); in this regard, the Audit Committee shall have the sole authority to approve the hiring and firing of the independent auditors, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors;
4. Reviewing and providing guidance with respect to the external audit and the Company's relationship with its independent auditors by (i) reviewing the independent auditors' proposed audit scope, approach and independence; (ii) obtaining on a periodic basis a statement from the independent auditors regarding relationships and services with the Company which may impact independence and presenting this statement to the Board of Directors, and to the extent there are relationships, monitoring and investigating them; (iii) discussing with the Company's independent auditors the financial statements and audit findings, including any significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management and any other matters described in SAS No. 61, as may be modified or supplemented; and (iv) reviewing reports submitted to the audit committee by the independent auditors in accordance with the applicable SEC requirements;
5. Conducting a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors;
6. Reviewing and discussing with management and the independent auditors the annual audited financial statements and quarterly unaudited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to filing the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively, with the SEC;
7. Directing the Company's independent auditors to review before filing with the SEC the Company's interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
8. Reviewing before release the unaudited quarterly operating results in the Company's quarterly earnings release;
9. Overseeing compliance with the requirements of the SEC for disclosure of independent auditor's services and audit committee members, member qualifications and activities;
10. Reviewing, approving and monitoring the Company's code of ethics for its senior financial officers;
11. Reviewing management's monitoring of compliance with the Company's Standards of Business Conduct and with the Foreign Corrupt Practices Act;
12. Reviewing, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements;
13. Providing oversight and review at least annually of the Company's risk management policies, including review of the Company's investment policies and performance for cash and short-term investments;
14. If necessary, instituting special investigations with full access to all books, records, facilities and personnel of the Company;
15. As appropriate, obtaining advice and assistance from outside legal, accounting or other advisors;

16. Reviewing and approving in advance any proposed, substantive related party transactions;
17. Reviewing its own charter, structure, processes and membership requirements;
18. Providing a report in the Company's proxy statement in accordance with the rules and regulations of the SEC; and
19. Establishing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

MEETINGS

The Audit Committee will meet at least four times each year. The Audit Committee may establish its own schedule and shall provide such schedule to the Board of Directors in advance.

The Audit Committee will meet separately with the Company's president and separately with the Company's chief financial officer at such times as are appropriate to review the financial controls of the Company. The Audit Committee will meet separately with the independent auditors of the Company at such times as it deems appropriate to fulfill the responsibilities of the Audit Committee under this charter.

MINUTES

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

REPORTS

In addition to preparing the report in the Company's proxy statement in accordance with the rules and regulations of the SEC, the Audit Committee will summarize its examinations and recommendations to the Board of Directors as may be appropriate, consistent with the Committee's charter.

COMPENSATION

Members of the Audit Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board of Directors or any committee thereof.

DELEGATION OF AUTHORITY

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full Audit Committee at its scheduled meetings.

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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, 2004

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.)*

46939 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 [X] No [ ]

As of September 30, 2004, there were 61,375,375 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 January 31, 2004 (based on the closing price for the Common Stock on the NASDAQ National Market for such date) was approximately $221,646,778. 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 2004 Annual Meeting of Stockholders ("Proxy Statement") to be held on December 8, 2004, and to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year ended July 31, 2004, 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 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 this Business section under "Competition" and 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.

Introduction

We were incorporated in California in January 1995 and reincorporated in Delaware in December 1999. From the date of our incorporation through October 2001, we sold Linux-based hardware systems and services under the name VA Linux Systems, Inc. On June 27, 2001, we announced our decision to exit our Linux-based hardware business. Today, we do business under the name VA Software Corporation and we develop, market and support a software application known as SourceForge Enterprise Edition ("SourceForge") and also own and operate OSTG, Inc. ("OSTG") and its wholly-owned subsidiaries, a network of Internet Web sites, offering advertising, retail and animation services and products.

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/company/*. The contents of this Web site are not intended to be incorporated by reference into this report or any other report we file with the SEC. 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.

Business Overview

We currently view our business in four operating segments: SourceForge, Online Media, E-commerce and Online Images. For segment and geographic financial information, see Note 10 of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

SourceForge

Our SourceForge segment focuses on our SourceForge Enterprise Edition software products and services.

SourceForge is a proprietary, Web-based software application designed for corporate and public-sector information technology ("IT") professionals and software engineering organizations. SourceForge combines software development and collaboration tools with the ability to track, measure, and report on software project activity in real-time. SourceForge improves the software development process by capturing and archiving software development code, documentation and communication in a central location. It enables managers to gain insight and improved visibility into software development activity, thereby providing better resource and requirements management, defect tracking and the ability to resolve critical problems earlier in the development cycle. Organizations with distributed, offshore and/or outsourced software development teams can achieve improved productivity, communication, coordination, collaboration, project clarity and insight through SourceForge's standard set of development tools and secure, centralized code, documentation and communication repository.

Our SourceForge segment represented 17%, 12% and 5% of net revenues during fiscal 2004, 2003 and 2002, respectively.

Online Media

Our Online Media segment consists of a network of Internet Web sites serving the IT professional and software development communities. As of September 15, 2004, OSTG reaches more than 16 million unique visitors and serves more than 250 million page views per month. We believe that OSTG is the most dynamic community-driven media network on the Web and a cornerstone of the Open Source software development community. OSTG attracts IT decision-makers and buyers, from chief technology officers to project managers. Technologists, developers and system administrators turn to OSTG sites to create debate and make IT news. OSTG is supported by sponsors and advertisers who want to reach the unique demographic of IT professionals and developers that visit our OSTG Web sites. Our OSTG Web sites include:

- SourceForge.net, our flagship Web site and software development center. As of September 15, 2004, SourceForge.net was the development home for more than 87,000 software development projects and had more than 915,000 registered users.
- Slashdot.org, our leading discussion site for technologically-inclined individuals. Slashdot is dedicated to providing the IT and software development communities with cutting-edge technology, science and culture news and interactive commentary.
- 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.
- ITManagersJournal.com, a Web site delivering strategic and technical information to help top-level IT professionals implement enterprise-level open source and proprietary architecture, applications, and infrastructure solutions.

Our Online Media segment represented 33%, 43% and 44% of net revenues during fiscal 2004, 2003 and 2002, respectively.

E-commerce

Our E-commerce segment provides online sales of a variety of retail products of interest to the software development and IT communities through ThinkGeek, Inc. ("ThinkGeek"), a wholly-owned subsidiary of OSTG. We believe we offer a significantly broader range of unique products in a centralized location than are available in traditional stores. We do not have the shelf display space limitations that bricks-and-mortar stores do. Our customers are able to buy electronics, office gadgets, apparel, caffeinated products and other specialty items with a single check-out. Consumers can either access the information directly through our Web site, or get free help from our customer care representatives and experts by contacting them by e-mail at orders@thinkgeek.com or by telephone at 1-888-GEEKSTUFF.

Our E-commerce segment represented 43%, 35% and 28% of net revenues during fiscal 2004, 2003 and 2002, respectively.

Online Images

Our Online Images segment provides online sales of three-dimensional art, animations and presentations through Animation Factory, Inc. ("Animation Factory"), a wholly-owned subsidiary of OSTG. Our online image products are either sold in the form of a CD or as a subscription which offers subscribers a dynamic downloadable collection of easy to use animations that work in email, Web pages and presentations. We believe we offer an array of unique animations on the Web giving customers access to over 300,000 animations and 50,000 Web designs. Consumers can either access the information directly through our Web site, or get free help from our customer care representatives and experts by contacting them by e-mail through *www.animationfactory.com* or by telephone at 1-800-525-2475.

Our Online Images segment represented 7%, 7% and 6% of net revenues during fiscal 2004, 2003 and 2002, respectively.

Sales and Marketing

SourceForge

We primarily market and sell our SourceForge software products (software, professional services, maintenance and support and training) directly to our end users through our SourceForge field sales organization, on the Internet at www.vasoftware.com and on our various OSTG 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.

Online Media

We primarily market and sell our Internet advertisements via OSTG's direct sales organization and its Web sites. In addition, we have entered into co-marketing agreements with certain third parties with respect to marketing and/or selling advertising space on OSTG Web sites.

E-commerce

Our E-commerce marketing and promotion strategy is designed to increase customer traffic to our store, add new customers, build strong customer loyalty, maximize repeat purchases and develop incremental revenue opportunities. In addition, we have entered into co-marketing agreements with certain third parties with respect to marketing our E-commerce Web site. We intend to continue to use the unique capabilities of the Internet as a means to encourage new and repeat customers to our Web sites. Our advertising campaigns are focused on the OSTG Web sites which enables OSTG to direct customers to our products through a link to our Web site. In addition, we currently offer a customer retention program, Geek Points, which is designed to add new customers and build customer loyalty. Through this program, customers are rewarded for shopping with us. When the customer signs up for Geek Points, they earn points on all of their purchases. Rewards for Geek Points participants include special promotions, discounts and access to products available only to those customers enrolled in the program.

Online Images

We primarily market and sell our Online Images products through the Internet on our www.animationfactory.com Web site. In addition, we have entered into co-marketing agreements with certain third parties with respect to marketing our Animation Factory Web site.

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 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.

Online Media

We believe that the success of OSTG 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.

E-commerce

We have implemented a broad array of services and systems for customer service, product searching, order processing and order fulfillment functions, including, among other things:

- Accepting and validating customer orders;
- Organizing, placing and managing orders with vendors and fulfillment partners;
- Receiving product and reserving inventory for specific customer orders; and
- Managing shipment of products to customers based on various ordering criteria.

These services and systems use a combination of our own proprietary technologies and commercially available, licensed technologies. We focus our internal development efforts on creating and enhancing the specialized, proprietary software that is unique to our business.

Our core online merchandise catalog, customer interaction, order collection, fulfillment and back-end systems are proprietary to ThinkGeek. The systems are designed to provide real-time connectivity to our distribution center systems. These include an inventory-tracking system, a real-time order tracking system, an executive information system and an inventory replenishment system. Our Internet servers use SSL technology to help conduct secure communications and transactions. We continue to invest in improving the E-commerce customer service, order processing, shipping and tracking systems.

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, Borland Software

Corporation, Collabnet, Inc., International Business Machines Corporation, Microsoft Corporation, Serena Software, Inc., 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.

Online Media

The market for Internet services provided by OSTG is highly competitive. Advertisers have many alternatives available to reach their target audience, including print (e.g., Ziff Davis Media's *eWeek* and International Data Group's *Computerworld*), general portal sites (e.g., aol.com, yahoo.com, google.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 SourceForge business, many of our competitors in our Online Media business have substantial competitive advantages including greater resources that can be devoted to the development, promotion and sale of their online services; more established sales forces and channels; greater software and Web site development experience; and greater name recognition.

E-commerce

The market for Internet products provided by ThinkGeek is highly competitive. We compete with Internet portals and online service providers that feature shopping services, such as America Online, MSN and Yahoo!, and with other online or mail-order retailers. We believe that there are a number of competitive factors in our market, including company credibility, product selection and availability, convenience, price, privacy, Web site features, functionality and performance, ease of purchasing, customer service and reliability and speed of order shipment.

Similar to our potential competitors in our SourceForge and Online Media businesses, many of our competitors in our E-commerce business have substantial competitive advantages including greater resources that can be devoted to the development, promotion and sale of their online products; 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. Any pricing pressures or loss of potential customers resulting from our failure to compete effectively would reduce our revenues.

Online Images

The market for online images provided by Animation Factory is competitive. Competitive factors in this industry include the quality, relevance and diversity of the image library, customer service, pricing, accessibility of our images and our speed of fulfillment. Our primary competitor is Jupiter Media Corporation.

Intellectual Property Rights

We protect our intellectual property through a combination of copyright, trademark, 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, SourceForge.net, Slashdot, ThinkGeek, Freshmeat, OSTG, VA Software, the VA logo and Animation Factory 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.

Seasonality

With the exception of our E-commerce business, our revenues have not been significantly impacted by seasonality. Our 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 E-commerce revenues occurred in our second fiscal quarter, which in fiscal year 2005 will begin on November 1, 2004, and end on January 31, 2005. 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.

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, 2004, our employee base totaled 122, including 37 in operations, 30 in sales and marketing, 36 in research and development and 19 in finance and administration.

Item 2. *Properties*

Our principal locations are as follows:

Location	Purpose	Approximate Size (in square feet)	Expiration of Lease
United States of America			
Fremont, California	100% sublet through lease expiration date	102,544	2010
Fremont, California	Corporate headquarters; SourceForge and OSTG sales and marketing, administration, research & development	36,767	2010
Sunnyvale, California	100% sublet through lease expiration date	45,647	2005
San Diego, California	100% sublet through lease expiration date	39,010	2005
Fairfax, Virginia	ThinkGeek operations	2,400	2005
Sioux Falls, South Dakota	Animation Factory research & development	1,800	2005

Item 3. *Legal Proceedings*

Information with respect to this Item may be found in Note 5 of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, which information is incorporated into this Item 3 by reference.

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

Not applicable.

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 11, 2004, there were 892 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, 2004:		
Fourth Quarter	$2.48	$1.69
Third Quarter	$4.03	$1.98
Second Quarter	$5.26	$2.98
First Quarter	$5.84	$1.92
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

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, 2004, 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 plans approved by stockholders	12,034,708[2]	$3.29	13,544,502 [3]–[6]

(1) The table does not include information for equity compensation plans assumed by the Company in acquisitions. As of July 31, 2004, a total of 97,164 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 OSTG. The weighted average exercise price of all outstanding options granted under these plans at July 31, 2004 is $38.86. The Company does not grant additional awards under these assumed plans.

(2) Includes 11,542,624 options outstanding under the Company's 1998 Stock Plan and 492,084 options outstanding under the Company's 1999 Director's Plan.

(3) Includes 2,635,875 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, or 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, or 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, 2004, July 31, 2003 and July 27, 2002 and the balance sheet data as of July 31, 2004 and July 31, 2003 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, 2001 and July 28, 2000 and the balance sheet data as of July 27, 2002, July 28, 2001 and July 28, 2000 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, 2004	July 31, 2003	July 27, 2002	July 28, 2001	July 28, 2000
Selected Consolidated Statements of Operations Data:					
Net revenues	$ 29,261	$ 24,228	$ 20,385	$ 134,890	$120,296
Cost of revenues	15,537	12,780	9,661	154,103	98,181
Gross margin	13,724	11,448	10,724	(19,213)	22,115
Loss from operations	(11,007)	(14,882)	(93,248)	(531,798)	(95,387)
Net loss	(7,640)	(13,798)	(91,038)	(525,268)	(89,758)
Dividend related to convertible preferred stock	—	—	—	—	(4,900)
Net loss attributable to common stockholders	$ (7,640)	$(13,798)	$(91,038)	$(525,268)	$ (94,658)
Basic and diluted net loss per share	$ (0.13)	$ (0.25)	$ (1.72)	$ (10.78)	$ (3.52)
Shares used in computing basic and diluted net loss per share	59,684	54,110	53,064	48,741	26,863
Selected Balance Sheet data at year-end:					
Cash, cash equivalents and investments	$ 44,042	$ 38,847	$ 53,046	$ 80,083	$174,032
Working capital	$ 25,866	$ 28,825	$ 33,486	$ 62,444	$169,930
Total assets	$ 53,679	$ 48,495	$ 66,968	$ 173,033	$585,099
Liabilities, net of current portion	$ 9,192	$ 11,953	$ 15,575	$ 13,178	$ 1,656
Total stockholders' equity (deficit)	$ 35,770	$ 27,202	$ 39,388	$ 126,362	$543,875

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. From the date of our incorporation through October 2001, we sold Linux-based hardware systems and services under the name VA Linux Systems, Inc. On June 27, 2001, we announced our decision to exit our Linux-based hardware business. Today, we do business under the name VA Software Corporation and we develop, market and support a software application known as SourceForge Enterprise Edition ("SourceForge") and also own and operate OSTG, Inc. ("OSTG") and its wholly-owned subsidiaries, a network of Internet Web sites, offering advertising, retail and animation services and products.

We currently view our business in four operating segments: SourceForge, Online Media, E-commerce and Online Images. Our SourceForge segment focuses on our SourceForge software products and services. Our Online Media segment represents a network of Internet Web sites serving the IT professional and software development communities. Our E-commerce segment provides online sales of a variety of retail products of interest to the software development and IT communities through ThinkGeek, Inc. ("ThinkGeek") a wholly-owned subsidiary of OSTG. Our Online Images segment provides online sales of digital animation sold in the form of CD's or as a subscription offered through Animation Factory, Inc., a wholly-owned subsidiary of OSTG.

Our goals for fiscal 2004 were to continue to add new SourceForge customers, grow our returning SourceForge customer base, and broaden our advertising base for OSTG while increasing traffic, all with a focus towards driving the Company towards profitability.

Within the SourceForge segment, we released new versions of our award winning SourceForge collaborative software development platform featuring broader integration with enterprise environments and tools, more powerful access controls to protect intellectual property, and improved management visibility into the status of critical project tasks. In addition, during fiscal 2004 the number of customers to which we have sold our SourceForge products increased to 97.

Within the Online Media segment, we reached record levels of page views, unique visitors and advertisers.

Net revenues during fiscal 2004 increased as compared to fiscal 2003 primarily due to increased sales in our SourceForge, E-commerce and Online Images businesses, offset by a decrease in our Online Media business and other revenue derived from our previous hardware business. SourceForge sales increased due to an increase in the number of customers to whom we have licensed SourceForge. E-commerce and Online Images sales increased due to an increase in our customer base related to these segments.

Net revenues during fiscal 2003 increased as compared to fiscal 2002 primarily due to an increase in our SourceForge, Online Media, E-commerce and Online Images businesses, offset by a decrease in other revenue derived from our previous hardware business. SourceForge sales increased due to an increase in the number of customers to whom we have licensed SourceForge. Online Media increased due to the increase in the number of impressions delivered in 2003 as compared to 2002. E-commerce and Online Images sales increased due to an increase in our customer base related to these segments.

Our sales continue to be primarily attributable to customers located in the United States of America.

Headcount during fiscal 2004 increased slightly as compared to fiscal 2003 and this increase was primarily related to the OSTG media business as we position ourselves to capitalize on online advertisers' growing interest in open source software.

For total operations, the net loss was $7.6 million, $13.8 million and $91.0 million during fiscal year 2004, 2003 and 2002, respectively, or $0.13, $0.25 and $1.72, respectively, in basic and diluted net loss per share.

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 impairment of long-lived assets, restructuring reserves for excess facilities for non-cancelable leases, income taxes, and contingencies and litigation.

Revenue Recognition

SourceForge Revenues

SourceForge software revenues consist principally of fees for licenses of our SourceForge software products, maintenance, consulting and training. We recognize all software revenue using the residual method in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions." 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 vendor specific 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. Company-specific objective evidence of fair value of maintenance and other services is based on our customary pricing for such maintenance and/or services when sold separately. At the outset of the arrangement with the customer, we defer revenue for the fair value of its undelivered elements (e.g., maintenance, consulting and training) and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (i.e., software product) when the basic criteria in SOP 97-2 have been met. If such evidence of fair value for each undelivered element of the arrangement does not exist, we defer all revenue from the arrangement until such time that evidence of fair value does exist or until all elements of the arrangement are delivered.

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, (iv) collectibility is probable and (v) the arrangement does not require services that are essential to the functionality of the software.

Persuasive evidence of an arrangement exists. We determine that persuasive evidence of an arrangement exists with respect to a customer when we have a written contract, which is signed by both us and the customer, or a purchase order from the customer when the customer has previously executed a standard license arrangement with us. We do not offer product return rights.

Delivery has occurred. Our software may be either physically or electronically delivered to the customer. We determine that delivery has occurred upon shipment of the software pursuant to the billing terms of the agreement or when the software is made available to the customer through electronic delivery.

The fee is fixed or determinable. If at the outset of the customer engagement we determine that the fee is not fixed or determinable, we recognize revenue when the fee becomes due and payable. Fees due under a contract are generally deemed not to be fixed or determinable if a significant portion of the fee is beyond our normal payment terms, which are generally no greater than 120 days from the date of invoice.

Collectibility is probable. We determine whether collectibility is probable on a case-by-case basis. When assessing probability of collection, we consider the number of years in business, history of collection, and product acceptance for each customer. We typically sell to customers, for whom there is a history of successful collection. New customers are subject to a credit review process, which evaluates the customer's financial position and ultimately such customer's ability to pay. If we determine from the outset that collectibility is not probable based upon our review process, revenue is recognized as payments are received.

We allocate revenue on software arrangements involving multiple elements to each element based on the relative fair value of each element. Our determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence ("VSOE"). We align our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenue to the maintenance, support and professional services components of our perpetual license arrangements. We sell our professional services separately, and have established VSOE for professional services on that basis. VSOE for maintenance and support is determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, we recognize revenue from perpetual licenses upon delivery using the residual method in accordance with SOP 98-9.

Services revenues consist of professional services and maintenance fees. In general, our professional services, which are comprised of software installation and integration, business process consulting and training, are not essential to the functionality of the software. Our software products are fully functional upon delivery and implementation and do not require any significant modification or alteration of products for customer use. Customers purchase these professional services to facilitate the adoption of our technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately from professional services, which are generally billed on a time-and-materials basis. We recognize revenue from professional services as services are performed.

Maintenance agreements are typically priced based on a percentage of the product license fee and have a one-year term, renewable annually. Services provided to customers under maintenance agreements include technical product support and unspecified product upgrades. Deferred revenues from advanced payments for maintenance agreements are recognized ratably over the term of the agreement, which is typically one year.

We expense all manufacturing, packaging and distribution costs associated with software license sales as cost of license revenues.

Online Media Revenues

Online Media revenues are derived from the sale of advertising space on our various Web sites. We recognize Online Media 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. Our barter arrangements are documented with our standard customer insertion order (and accompanying terms and conditions) or, in certain limited instances, via an alternative written contract negotiated between the parties. The standard terms and conditions include, but are not limited to, the Web sites for each company that will display the impressions, the time frame that the impressions will be displayed, and the number, type and size of impressions to be delivered.

E-commerce Revenues

E-commerce revenues are derived from the online sale of consumer goods. We recognize E-commerce revenues from the sale of consumer goods in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." Under SAB 104, 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.

Online Images Revenues

Software revenues related to digital animations consist of fees for licenses and memberships for our animation software products. We recognize all software revenue using the residual method in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" as described in detail above. We offer two Animation Factory membership agreement options: Gold and Platinum. Both Gold and Platinum memberships are available for either a three-month or one-year term. Revenues related to animation memberships are recognized over the life of the membership term.

Impairment of Long-Lived Assets

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 Statement of Financial Accounting Standards "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.

Restructuring Costs and Other Special Charges

As discussed in Note 3 of the notes to the consolidated financial statements, we have recorded significant restructuring charges in connection with exiting our hardware systems, managed services, and professional services and Linux software engineering services businesses during the fiscal years ended 2002 and 2001. A significant portion of these charges related to excess facilities primarily from non-cancelable leases or other costs for the abandonment or disposal of property and equipment. During the third quarter of fiscal 2004, in connection with our original 2002 restructuring plan which included an assumption to sublet all idle facilities, the Company relocated its Fremont, California headquarters to a smaller building in the same complex. In addition, during the third quarter of fiscal 2004, the Company reached an agreement in principal to sublet unoccupied portions of properties that it leases in Fremont, California and Sunnyvale, California (also included as part of the original 2002 restructuring plan). As a result of the change in circumstances, original accruals were reevaluated and adjusted accordingly. All charges as a result of restructuring activities have been recorded in accordance with Emerging Issues Task Force "EITF" 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)". Restructuring charges recorded in fiscal 2004 were considered adjustments to the original restructuring plans, therefore, Statements of Financial Accounting Standards "SFAS" No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" was not applicable. The remaining accrual from non-cancelable lease payments is based on current circumstances. These accruals are subject to change should actual circumstances change. We will continue to evaluate and update, if applicable, these accruals quarterly.

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.

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 twelve quarters of operations focused on building our application software business, and accordingly have a limited 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 continue to be derived from our other businesses and we face numerous risks and uncertainties that commonly confront 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 included in this Form 10-K.

	For the years ended		
	July 31, 2004	July 31, 2003	July 27, 2002
Consolidated Statements of Operations Data:			
Net revenues	100.0	100.0	100.0
Cost of revenues	53.1	52.7	47.4
Gross margin	46.9	47.3	52.6
Operating expenses:			
Sales and marketing	34.5	40.4	61.4
Research and development	23.0	32.3	39.8
General and administrative	15.9	26.6	53.2
Restructuring costs and other special charges	11.0	(1.1)	230.2
Amortization of deferred stock compensation	0.1	0.6	8.2
Amortization of goodwill and intangible assets	0.0	8.9	57.5
Impairment of long-lived assets	0.0	1.0	59.6
Total operating expenses	84.5	107.7	509.9
Loss from operations	(37.6)	(60.4)	(457.3)
Remeasurement of warrant liability	5.4	0.0	0.0
Interest and other income, net	6.2	4.5	10.8
Net loss	(26.0)%	(56.9)%	(446.5)%

Net Revenues

	Year Ended			% Change	% Change
($ in thousands)	July 31, 2004	July 31, 2003	July 27, 2002	Fiscal 2003 to 2004	Fiscal 2002 to 2003
SourceForge revenues	$ 4,995	$ 2,918	$ 1,086	71%	169%
Online Media revenues	$ 9,728	$10,405	$ 9,007	(7%)	16%
E-commerce revenues	$12,567	$ 8,565	$ 5,722	47%	50%
Online Images revenues	$ 1,922	$ 1,580	$ 1,238	22%	28%
Other revenues	$ 49	$ 760	$ 3,332	(93%)	(77%)
Net revenues	$29,261	$24,228	$20,385	21%	19%

Net revenues increased during fiscal 2004 as compared to fiscal 2003 due primarily to an increase in our SourceForge, E-commerce and Online Images businesses, offset by a decrease in our Online Media revenue and other revenue derived from our previous hardware business.

Net revenues increased during fiscal 2003 as compared to fiscal 2002 due primarily to an increase in our SourceForge, Online Media, E-commerce and Online Images businesses, offset by a decrease in other revenue derived from our previous hardware business.

Sales for the fiscal years ended 2004, 2003, and 2002 were primarily to customers located in the United States of America.

For the fiscal year ended July 31, 2004, no one customer represented 10% or greater of net revenues. For the fiscal year ended July 31, 2003, one customer, Intel Corporation, accounted for approximately 17% of net revenues. Going forward, we do not anticipate that any one customer will represent more than 10% of net revenues.

Net Revenues by Segment

SourceForge Revenues

($ in thousands)	Year Ended July 31, 2004	July 31, 2003	July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
SourceForge revenues	$4,995	$2,918	$1,086	71%	169%
Percentage of total net revenues	17%	12%	5%		
Aggregate # of customers sold to	97	55	24	76%	129%
Avg contract value	$ 75	$ 60	$ 53	25%	13%

SourceForge revenues consist principally of fees for licenses of our SourceForge software products, maintenance, consulting and training.

The growth during fiscal 2004 was primarily related to the SourceForge licensing component of SourceForge revenue. During the year, we released the next generation of our SourceForge collaborative software development platform, increased the number of customers to whom we have licensed SourceForge from 55 to 97 and increased our average contract value.

The growth during fiscal 2003 was primarily related to the SourceForge licensing component of SourceForge revenue. During the year, we increased the number of customers to whom we have licensed SourceForge from 24 to 55 and increased our average contract value.

We expect SourceForge revenues to continue to increase as our new and returning customer base grows, our average contract value increases and the length of the sales cycle decreases.

Online Media Revenues

($ in thousands)	Year Ended July 31, 2004	July 31, 2003	July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
Online Media revenues	$9,728	$10,405	$9,007	(7%)	16%
Percentage of total net revenues	33%	43%	44%		

Online Media revenues are primarily derived from cash and barter sales of advertising space on our various Web sites, as well as sponsorship and royalty related arrangements associated with advertising on these Web sites.

($ in thousands)	Year Ended July 31, 2004	July 31, 2003	July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
Cash advertising	$6,744	$ 3,944	$2,793	71%	41%
Barter advertising	1,427	1,957	2,014	(27%)	(3%)
Sponsorships	715	4,350	4,000	(84%)	9%
Donations	412	—	—	100%	—%
Other	430	154	200	279%	(23%)
Online Media revenues	$9,728	$10,405	$9,007	(7%)	16%

Cash advertising revenue is derived from the number of impressions delivered and the average CPM rate (i.e., the average rate at which we receive revenue per 1,000 banner advertisements (impressions) we display to users of our online services) charged for the impressions delivered.

Barter advertising is derived from banner advertising delivered in exchange for similar banner advertising on third-party Web sites. We record barter revenue transactions at their estimated fair value based on our historical experience of selling similar advertising for cash.

Sponsorship revenue is derived from non-CPM rate Web marketing programs that are used to increase brand awareness. Revenue related to sponsorships is recognized ratably over the term of the marketing program. Sponsorship revenue in fiscal 2002 and 2003 was primarily derived from one customer, Intel. The decrease in sponsorship revenue in fiscal 2004 was the result of Intel not renewing its contract for fiscal 2004.

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	**July 31, 2004**	**July 31, 2003**	**July 27, 2002**		
Cash advertising	$ 6,744	$ 3,944	$ 2,793	71%	41%
Impressions delivered	1,162,028	563,795	168,585	106%	234%
Average CPM rate	$ 5.80	$ 7.00	$ 16.57	(17%)	(58%)

The growth during fiscal 2004 and 2003 in cash advertising revenue is primarily due to the increase in the number of impressions delivered. The increase in the number of impressions was primarily due to general improvement in demand for our online advertising. We expect the growth of our cash advertising revenue to outpace that of the general online advertising market. We believe that our prominent position in serving the growing Open Source software and Linux markets, along with our favorable online visitor demographics, make us an attractive advertising vehicle for advertising customers.

E-commerce Revenues

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	**July 31, 2004**	**July 31, 2003**	**July 27, 2002**		
E-commerce revenues	$ 12,567	$ 8,565	$ 5,722	47%	50%
Percentage of total net revenues	43%	35%	28%		
# of Orders (per year)	201,542	138,495	88,334	46%	57%
Avg order size (in whole dollars)	$ 62.35	$ 61.84	$ 64.78	1%	(5%)

E-commerce revenues are derived from the online sale of consumer goods, including shipping, net of any returns and allowances. The growth in fiscal 2004 and 2003 is primarily due to increased consumer awareness of our site as a result of expanded advertising, a broader product offering which attracted a larger customer base, as well as Web site enhancements and affiliate programs that drove more traffic to our site. As a result of our efforts we experienced a 46% and 57% increase in the number of orders placed during fiscal 2004 and 2003, respectively. We expect E-commerce revenues to continue to grow as our E-commerce customer base grows.

Online Images Revenues

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	**July 31, 2004**	**July 31, 2003**	**July 27, 2002**		
Online Images revenues	$ 1,922	$ 1,580	$ 1,238	22%	28%
Percentage of total net revenues	7%	7%	6%		

Online Images revenues are derived from the online sale of three-dimensional art, animations and presentations.

The growth in fiscal 2004 and 2003 is primarily due to increased consumer awareness of our site as a result of a broader product offering which attracted a larger customer base, as well as Web site enhancements and affiliate programs that drove more traffic to our site. We expect Online Images revenues to continue to grow as our customer base grows.

Other Revenues

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	**July 31, 2004**	**July 31, 2003**	**July 27, 2002**		
Other revenues	$ 49	$ 760	$ 3,332	(94%)	(77%)
Percentage of total net revenues	0.2%	3.1%	16.3%		

Other revenues are derived from our former hardware, and related customer support, and professional services businesses. The decrease in other revenues in fiscal 2004 and 2003 is the direct result of exiting these former businesses. We expect other revenues to be eliminated in fiscal 2005 and thereafter.

Our revenue recognition policy related to our former hardware systems business followed SAB 101, "Revenue Recognition in Financial Statements." Under SAB 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 these products.

We recognized revenues from hardware related 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 hardware related 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.

Cost of Revenues/Gross Margin

	Year Ended			% Change	% Change
($ in thousands)	July 31, 2004	July 31, 2003	July 27, 2002	Fiscal 2003 to 2004	Fiscal 2002 to 2003
Cost of revenues	$15,537	$12,780	$ 9,661	22%	32%
Gross margin	$13,724	$11,448	$10,724	20%	7%
Gross margin %	47%	47%	53%		

Cost of revenues consist of personnel costs and related overhead associated with providing software professional services, personnel costs and related overhead associated with providing and running advertising campaigns and product costs associated with our E-commerce business. The above analysis is inclusive of any restructuring charges that were originally classified as cost of revenues or adjustments to those original restructuring charges. The below analysis represents cost of revenues, excluding all restructuring charges and adjustments:

	Year Ended			% Change	% Change
($ in thousands)	July 31, 2004	July 31, 2003	July 27, 2002	Fiscal 2003 to 2004	Fiscal 2002 to 2003
Cost of revenues	$15,537	$12,780	$ 9,661	22%	32%
Add back restructuring recoveries	12	432	5,807	(97%)	(93%)
Cost of revenues (excl restructuring)	$15,549	$13,212	$15,468	18%	(15%)
Gross margin (excl restructuring)	$13,712	$11,016	$ 4,917	24%	124%
Gross margin % (excl restructuring)	47%	45%	24%		

The restructuring credits in fiscal 2004, 2003, and 2002 were related to adjustments of prior period restructuring charges associated with inventory and warranty reserves in connection with our former hardware business. The $5.8 million credit in fiscal 2002 related to the reversal of inventory reserves and was 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.

The increase in gross margins excluding the prior period restructuring reserves adjustments was primarily the result of improvements in the SourceForge and Online Media businesses.

Cost of Revenues/Gross Margin by Segment (Excluding Restructuring)

SourceForge Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2004	Year Ended July 31, 2003	Year Ended July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
SourceForge cost of revenues	$1,860	$1,997	$ 2,387	(7%)	(16%)
SourceForge gross margin	$3,135	$ 921	$(1,301)	240%	171%
SourceForge gross margin %	63%	32%	(120%)		

SourceForge cost of revenues consist of personnel costs associated with providing software customer and professional services. The increase in our SourceForge gross margin percentages for fiscal 2004 and 2003 was primarily the result of leveraging our fixed personnel costs while increasing revenue levels.

Online Media Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2004	Year Ended July 31, 2003	Year Ended July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
Online Media cost of revenues	$2,969	$3,852	$5,088	(23%)	(24%)
Online Media gross margin	$6,759	$6,553	$3,919	3%	67%
Online Media gross margin %	69%	63%	44%		

Online Media cost of revenues consist of personnel costs and related overhead associated with developing the editorial content of the sites and providing and running advertising campaigns. The increase in Online Media gross margin percentages for fiscal 2004 was driven by the decrease in costs associated with editorial content and advertising delivery. The increase in Online Media gross margin percentages for fiscal 2003 was primarily driven by the increase in revenues while continuing to reduce the costs associated with editorial content and advertising delivery.

E-commerce Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2004	Year Ended July 31, 2003	Year Ended July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
E-commerce cost of revenues	$10,225	$7,025	$4,708	46%	49%
E-commerce gross margin	$ 2,342	$1,540	$1,014	52%	52%
E-commerce gross margin %	19%	18%	18%		

E-commerce cost of revenues consist of product costs, shipping and fulfillment costs and personnel costs associated with the operations and merchandising functions. E-commerce cost of revenues in absolute dollars has increased consistent with increased E-commerce revenue levels. E-commerce gross margin percentages have remained relatively flat for fiscal years 2004, 2003 and 2002. We expect E-commerce cost of revenues in absolute dollars to increase proportionately with E-commerce revenues. In addition, we expect E-commerce overall gross margins to improve slightly as volume grows.

Online Images Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2004	Year Ended July 31, 2003	Year Ended July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
Online Images cost of revenues	$ 495	$ 339	$ 222	46%	52%
Online Images gross margin	$1,427	$1,241	$1,016	15%	22%
Online Images gross margin %	74%	79%	82%		

Online Images cost of revenues consist of direct material and production costs for animation CDs. The decrease in our Online Images gross margin percentages for fiscal 2004 and 2003 was primarily due to increased server capacity and bandwidth usage as the business has grown from year to year.

Operating Expenses

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.

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	July 31, 2004	July 31, 2003	July 27, 2002		
Sales & Marketing	$10,093	$9,791	$12,513	3%	(22%)
Percentage of total net revenues	34%	40%	61%		
Headcount	30	27	29		

The increase in absolute dollars in fiscal 2004 compared to 2003 was primarily related to an increase in employee expenses, including commission, of $0.5 million and an increase in credit card fees associated with our e-commerce business of $0.3 million. Of the $0.5 million in employee expenses, $0.4 million was related to commission expense and was a direct result of increased revenue across all businesses. The increase in credit card fees was directly related to our increase in E-commerce business year over year. These increases were offset by a decrease in our Online Media marketing expense related to barter of $0.6 million. We intend to continue to decrease our barter expense in the future consistent with our barter revenue as we begin to decrease barter related programs. The decrease as a percentage of net revenues was due to increased revenue levels. We believe our sales and marketing expenses in absolute dollars 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.

The decrease in absolute dollars in fiscal 2003 compared to fiscal 2002 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 Systems Japan K.K. ("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. The decrease as a percentage of net revenues was primarily due to decreased spending levels as described above as well as increased revenue levels.

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.

	Year Ended			% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
($ in thousands)	July 31, 2004	July 31, 2003	July 27, 2002		
Research & Development	$6,732	$7,815	$8,122	(14%)	(4%)
Percentage of total net revenues	23%	32%	40%		
Headcount	36	34	44		

The decrease in absolute dollars in fiscal 2004 compared to fiscal 2003 was primarily due to a decrease in the use of SourceForge outside contractors of $0.4 million and decreased employee related expenses of $0.7 million. The decrease in SourceForge contractors was specifically related to Cybernet Software Solutions, Inc. and was the direct result of completing the development phase of SourceForge 3.4. The decrease in employee-related expenses was primarily due to a reduction in salary expense during fiscal 2004 as the average R&D headcount declined to 38 in fiscal 2004 from 42 in fiscal 2003. 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 research and development expenses to increase slightly in absolute dollars and decrease as a percentage of revenue in the future.

The decrease in absolute dollars in fiscal 2003 compared to fiscal 2002 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. 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.

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 consolidated 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, bad debts and professional fees for accounting and legal services.

($ in thousands)	Year Ended July 31, 2004	Year Ended July 31, 2003	Year Ended July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
General & Administrative	$4,665	$6,455	$10,850	(28%)	(41%)
Percentage of total net revenues	16%	27%	53%		
Headcount	19	17	27		

The decrease in absolute dollars in fiscal 2004 as compared to fiscal 2003 was primarily related to the reversal of legal expenses in 2004 of $1.4 million, $0.9 million of which was associated with the IPO Securities Litigation that was ultimately paid by one of our insurers, $0.3 million of which related to a lawsuit that was favorably resolved, and $0.2 million of which related to a lawsuit that was considered probable at the time of accrual but was considered highly unlikely at July 31, 2004. In addition, fiscal 2003 expenses included a charge of $0.3 million resulting from a California Sales Tax audit associated with our former hardware business. In 2004, no expense was incurred related to sales tax audits. The decrease as a percentage of net revenues was primarily due to our decreased expense levels related to prior period accrual reversals as described above as well as increased revenue levels. We expect general and administrative expenses to return to fiscal 2003 levels in absolute dollars and decrease as a percentage of revenue in the future.

General and administrative expenses for fiscal year 2002 included the reversal of excess bad debt provisions of $1.0 million and $0.9 million of accrued legal expenses associated with the IPO Securities Litigation. Excluding these charges, the decrease in absolute dollars in fiscal 2003 as compared to fiscal 2002 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. 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.

Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, we adopted plans to exit our hardware 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 current SourceForge, Online Media, E-commerce and Online Images businesses and reduce our operating losses to improve cash flow. We recorded restructuring charges of $168.5 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $8.1 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases. During the third quarter of fiscal 2004, in connection with our original 2002 restructuring plan which included an assumption to sublet all idle facilities, we relocated our Fremont, California headquarters to a smaller building in the same complex. As a result of the change in circumstances, original accruals were reevaluated and we accordingly recorded a restructuring adjustment of $2.9 million. Included in the $2.9 million dollar restructuring adjustment was $2.5 million of expense related to writing off leasehold improvements and fixed assets and an additional $0.4 million expense related to excess facilities from non-cancelable leases. In addition, during the third quarter of fiscal 2004, we reached an agreement in principal to sublet unoccupied portions of properties that we lease in Sunnyvale, California and Fremont, California, which was finalized in the fourth quarter of fiscal 2004. As a result of the change in circumstances due to the agreement in principal, original accruals were reevaluated and we accordingly recorded a restructuring adjustment of $0.3 million in the third quarter of fiscal 2004. The $3.2 million total adjustment to restructuring expenses in fiscal 2004 has been recorded in the consolidated statement of operations for that period. The remaining accrual from non-cancelable lease payments is based on current circumstances. These accruals are subject to change should actual circumstances change. We will continue to evaluate and update, if applicable, these accruals quarterly. As of July 31, 2004, we had an accrual of approximately $11.3 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

We 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, 2004, no outstanding accruals remained related to these net restructuring activities related to fiscal year 2003.

All charges as a result of restructuring activities have been recorded in accordance with Emerging Issues Task Force "EITF" 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)". Restructuring charges recorded in fiscal 2004 were considered adjustments to the original restructuring plans, therefore, Statements of Financial Accounting Standards "SFAS" No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" was not applicable.

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 Charged To Operations Fiscal 2004	Total Cash Receipts\ (Payments)	Restructuring Liabilities at July 31, 2004
Cash Provisions:						
Other special charges relating to restructuring activities	$ 2,159	$ (888)	$ 78	$ —	$ (1,349)	$ —
Facilities charges	6,584	9,401	191	713	(5,606)	11,283
Employee severance and other related charges	3,498	1,997	37	—	(5,532)	—
Total cash provisions	12,241	10,510	306	713	$(12,487)	$11,283
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)	2,496		
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)	2,496		
Total provisions	$113,478	$46,936	$(263)	$3,209		

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 27, 2002	$ 9,513	$10,510	$ (2,029)	$17,994
For the year ended July 31, 2003	$17,994	$ 306	$ (3,411)	$14,889
For the year ended July 31, 2004	$14,889	$ 713	$ (4,319)	$11,283

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
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
For the year ended July 31, 2004	$ 3,440	$ 7,843	$11,283

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 ("FASB") Interpretation No. ("FIN") 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 $20,000, $0.1 million and $1.2 million for fiscal years 2004, 2003 and 2002, respectively. These stock options are fully amortized as of July 31, 2004. In addition, in connection with acquisitions, we recorded $0.5 million of deferred stock compensation during fiscal year 2002. No amortization of deferred stock compensation related to acquisitions was recorded during fiscal years 2004 and 2003. Further, 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. These adjustments have been included in restructuring costs and other special charges in the consolidated statements of operations.

Goodwill and Intangibles and Impairment of Long-Lived Assets

In connection with the acquisitions of Precision Insight, Inc. ("Precision Insight") and NetAttach, Inc. ("NetAttach"), we recorded $42.0 million of goodwill and intangibles during fiscal 2000. In connection with our restructuring plans in fiscal year 2002, we wrote off the remaining 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. This was included in restructuring costs and other special charges in the consolidated statements of operations for fiscal 2002.

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.

In connection with the acquisition of OSTG (known at the time of acquisition as "Andover.net, Inc."), the Company recorded $83.6 million of goodwill and intangibles during fiscal 2000. During the quarter ended July 27, 2002 the goodwill was tested for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." First, the Company 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 remaining carrying value was impaired and recorded an impairment loss of $3.6 million. The charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the consolidated statements of operations. No carrying value related to OSTG goodwill remained at July 31, 2003.

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 related to OSTG 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 impairment charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the consolidated statements of operations. Intangible asset amortization of $12,000, $2.1 million and $11.7 million was recorded in fiscal 2004, 2003 and 2002, respectively. The intangible asset carrying value at July 31, 2004 is $14,000 and relates to domain and trade names associated with our current SourceForge and OSTG businesses. No events or circumstances occurred during fiscal year 2004 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2004.

Remeasurement of Warrant Liability, Interest and Other Income, Net

On November 6, 2003, we entered into a securities purchase agreement in which we completed a private placement of 3,529,412 shares of our common stock with The Riverview Group LLC ("Riverview") at an issue price of $4.25 per share for aggregate proceeds of approximately $15 million (the "Private Placement"). In connection with the Private Placement, the Company retained Wharton Capital Partners Ltd. ("Wharton") to act as a financial consultant and placement agent. Also in connection with the Private Placement, Riverview and Wharton received three-year warrants to purchase a total of 705,883 and 25,000 shares of our common stock, respectively, at an exercise price of $6.00 and $6.14 per share, respectively (collectively, the "Warrants"). We entered into a registration rights agreement with Riverview on November 6, 2003 (the "Registration Rights Agreement") in which we agreed to provide certain registration rights under the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder, and applicable state securities laws with respect to the common stock and the warrants issued to Riverview.

Pursuant to the terms of the Registration Rights Agreement, we filed a registration statement (the "Registration Statement") on Form S-3 in order to register the common stock and warrants issued in the Private Placement. The SEC declared the Registration Statement effective on April 30, 2004. Before the effective date of the Registration Statement, the shares of our common stock sold in the Private Placement and the shares of our common stock underlying the Warrants did not have the same rights as the other shares which were included in the Equity section of the Consolidated Balance sheet. Therefore, the shares of our common stock sold in the Private Placement and the shares of our common stock underlying the Warrants were classified as liabilities on the Consolidated Balance sheet. Liabilities must be reported at fair value as of the balance sheet date. Initially the Warrants were valued as of November 6, 2003, and revalued on January 31, 2004 using the Black-Scholes valuation model and then, on April 30, 2004, the effective date of the Registration Statement, revalued again using the same Black-Scholes valuation model. As a result of these remeasurements, a non-cash credit adjustment of $1.9 million was recorded to properly value the liability. In addition, a $0.3 million non-cash expense was recorded as a result of not having the common stock shares associated with the Private Placement registered. Both adjustments have been recorded in "Remeasurement of warrant liability" in the consolidated statement of operations. Further, as a result of the S-3 becoming effective on April 30, 2004, our remaining liability for the warrants of $0.6 million was reclassified to equity as of that date.

Interest and Other Income, Net

($ in thousands)	Year Ended July 31, 2004	July 31, 2003	July 27, 2002	% Change Fiscal 2003 to 2004	% Change Fiscal 2002 to 2003
Interest Income	$911	$1,132	$1,714	(20%)	(34%)
Interest Expense	$ (5)	$ (8)	$ (32)	(38%)	(75%)
Other Income (Expense)	$895	$ (40)	$ 528	421%	(108%)

Although we received an additional $14.5 million in proceeds associated with a Private Placement offering, net of issuance costs, in the second quarter of fiscal 2004, we experienced a decline in interest income in fiscal 2004 as compared to fiscal 2003 as a result of the continuing decline in interest rates. We expect our cash balance to continue to decrease to support our operations, however, interest income may fluctuate as interest rates fluctuate. Refer to Item 7A "Quantitative and Qualitative Disclosures About Market Risk".

The decrease in interest income in fiscal 2003 as compared to fiscal 2002 was due to decreased cash balances as well as decreased returns on our cash as a result of declining interest rates from the prior year.

Other income and expenses increased in fiscal 2004 as compared to fiscal 2003 primarily due to proceeds received from a legal settlement in fiscal 2004 of $1.0 million.

Other income and expenses decreased in fiscal 2003 as compared to fiscal 2002 primarily due to our decreased investment in VA Linux Japan that resulted in a loss of $0.9 million in fiscal 2002.

Income Taxes

As of July 31, 2004, we had $310.6 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 2024 and fiscal year 2014, 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

(in thousands)	Year Ended July 31, 2004	July 31, 2003	July 27, 2002
Net cash provided by (used in):			
Operating activities	$(10,912)	$(15,809)	$(35,092)
Investing activities	(2,322)	(14,448)	11,272
Financing activities	17,840	1,400	113
Effect of exchange rate changes on cash and cash equivalents	55	12	1,367
Net change in cash and cash equivalents	$ 4,661	$(28,845)	$(22,340)

Our principal sources of cash as of July 31, 2004 are our existing cash, cash equivalents, short-term and long-term investments of $44.0 million, which excludes restricted cash of $1.5 million. During fiscal 2004, cash and cash equivalents increased by $4.7 million, and short-term and long-term investments increased by $0.5 million. This increase is primarily due to cash provided by proceeds from the private placement offering and sale of common stock through our employee benefit plans, offset by cash used in operations and payments for capital expenditures.

The cash flow discussion below describes the cash used or provided by in one period as compared to the cash used or provided by in the previous period. As such, the year to year fluctuations discussed can be calculated from the consolidated statements of cash flows.

Operating Activities

The decrease in cash usage related to operating activities in fiscal 2004, as compared to fiscal 2003, was primarily the result of a decrease in net loss (excluding all non-cash items) of $3.4 million, an increase in accrued liabilities and other of $1.3 million and an increase in accounts payable of $2.0 million. The increased cash flow from accrued liabilities and other was primarily related to the growth in SourceForge bookings and therefore deferred revenue in 2004 as compared to 2003. The increased cash flow from accounts payable was primarily the result of our continued efforts to decrease expenses as well as the timing of payments. The increase in cash flow was offset by an increase in accounts receivable of $0.9 million, an increase in inventories of $0.6 million and a decrease in accrued restructuring of $0.5 million. The increased cash usage related to accounts receivable was primarily the result of increased SourceForge sales in July 2004 compared to July 2003. The increased cash usage related to inventories was primarily the result of higher volume purchases in the fourth quarter of fiscal 2004 compared to the fourth quarter of fiscal 2003. These higher volume purchases were made as a result of long lead times and to secure exclusive inventory that would not be available later in the year. Finally, the increased cash usage related to accrued restructuring was the result of increased payments on excess facilities in 2004 compared to 2003 of $1.4 million, offset by a decrease in cash payments related to severance agreements of $0.5 million. Cash payments made on excess facilities in 2004 was $4.3 million, compared to $2.9 million in 2003. The variance in the restructuring accrual compared to the payments made in 2004 was the $0.7 million adjustment recorded based on the change in events related to excess facilities that occurred in the third and fourth quarters of fiscal 2004. Payments made to former employees for severance agreements in 2003 were $0.5 million. A decrease in cash outflow of $0.5 million in 2004 compared to 2003 resulted as no restructuring related severance payments were made in 2004. 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.

The decrease in cash usage related to operating activities in fiscal 2003, as compared to fiscal 2002, was primarily the result of a decrease in net loss (excluding all non-cash items) of $30.0 million, an increase in accrued liabilities and other of $6.1 million, an increase in other long-term liabilities of $0.6 million and an increase in accounts payable of $11.0 million. The decreased cash usage related to accrued liabilities, other long-term liabilities and accounts payable was due to the exiting of our former hardware and related businesses at the end of fiscal 2001. A significant amount of liabilities relating to this former hardware business remained at the end of 2001 creating large cash outflows in 2002. The increase in cash flow in fiscal 2003, as compared to fiscal 2002 was offset by an increase in accounts receivable of $11.6 million, an increase in inventories of $2.1 million, an increase in prepaids and other assets of $3.1 million and a decrease in accrued restructuring of $11.6 million. The increased cash usage related to accounts receivable, prepaids and inventory in 2003 compared to 2002 was primarily the result of exiting the former hardware business at the end of fiscal 2001. Accounts receivable decreased dramatically in fiscal 2002 as a result of all the previous hardware sales collected during that year. The 2002 revenue base to be collected in fiscal 2003 was much smaller than the 2001 revenue base to be collected in fiscal 2002. As a result, we had less cash inflow related to receivables in fiscal 2003 compared to fiscal 2002. Inventory also decreased dramatically in fiscal 2002 as we sold off remaining excess hardware inventory for cash. In fiscal 2003, no remaining hardware inventory existed and all inventory purchases were associated with our current E-commerce business. Prepaids and other assets also decreased dramatically in fiscal 2002, creating significant cash inflow in that year, as we transitioned to our new infrastructure. The increased cash usage related to accrued restructuring was primarily the result of increased payments on excess facilities in 2003, as compared to 2002 of $1.8 million, cash received in fiscal 2002 of $2.5 million as the result of a sublease termination on one of the Company's idle facilities, offset by a decrease in payments related to severance agreements of $2.6 million. Cash payments made on excess facilities in fiscal 2003 were $2.9 million, compared to $1.1 million in fiscal 2002. Payments made to former employees for severance agreements in fiscal 2003 were $0.5 million, compared to $3.1 million in fiscal 2002. The variance in the restructuring accrual compared to the payments made in 2003 was the $10.5 million additional restructuring charges booked during fiscal 2002 that primarily related to idle facilities.

Investing Activities

During the past three fiscal years our investing activities have primarily included changes in our restricted cash, purchases of property and equipment, purchases and sales of marketable securities and proceeds on the sale of our Japan investment.

Net cash used in investing activities decreased in fiscal 2004, as compared to fiscal 2003, due primarily to a decrease in net purchases of marketable securities of $14.1 million. The decrease in net purchases of marketable securities was the result of our strategic decision in fiscal 2003 to increase our short- and long-term investments and decrease our cash equivalent investments in an effort to maximize our rate of return. As a result, 2003 experienced much higher cash outflows related to marketable security purchases than 2004. This decrease was offset by higher capital expenditures of $0.7 million and an increase in our restricted cash of $1.0 million in fiscal 2004, as compared to 2003, primarily as a result of moving into a new facility during fiscal 2004.

Net cash used in investing activities increased in fiscal 2003, as compared to fiscal 2002, due primarily to an increase in net purchases of marketable securities of $19.6 million and proceeds received from the sale of our VA Linux Japan investment of $5.1 million. The increase in net purchases of marketable securities was the result of our strategic decision in fiscal 2003 to increase our short- and long-term investments and decrease our cash equivalent investments in an effort to maximize our rate of return. As a result, 2003 experienced much higher cash outflows related to marketable security purchases than 2002. This increase was offset by a decrease in our restricted cash of $1.0 million in fiscal 2003, as compared to fiscal 2002. In fiscal 2002, we generated $1.5 million in cash due to the release of restricted cash, compared to $0.5 million generated in fiscal 2003.

Financing Activities

During the past three fiscal years our investing activities have primarily included cash proceeds from the sale of our common stock through employee benefit plans and private placement offerings, and payments on notes payable.

Net cash provided by financing activities increased in fiscal 2004, as compared to fiscal 2003, primarily due to the $14.5 million of proceeds received upon the private placement of 3,529,412 shares of our common stock. In addition, net cash provided by financing activities increased in fiscal 2004, as compared to fiscal 2003, due to an increase of $2.0 million in net proceeds from the sale of common stock through our employee benefit plans.

Net cash provided by financing activities increased in fiscal 2003, as compared to fiscal 2002, primarily due to an increase of $1.0 million in net proceeds from the sale of common stock through our employee benefit plans. In addition, net cash provided by financing activities increased in fiscal 2003, as compared to fiscal 2002, due to a decrease in notes payable of $0.2 million.

For the fiscal years ended July 31, 2004 and 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. 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, 2004 and July 31, 2003, we had outstanding letters of credit issued under a line of credit of approximately $1.5 million and $0.9 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 fiscal year 2005 under the terms of our existing lease agreement. The remaining $1.0 million will decline as the Company meets certain financial covenants.

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 2005 under our current business strategy.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. The following table summarizes our fixed contractual obligations and commitments as of July 31, 2004 (in thousands):

	Gross Operating Leases	Sublease Income	Net Operating Leases	Purchase Obligations	Total Contractual Obligations
2005	$ 5,042	$ 970	$ 4,072	$968	$ 5,040
2006	3,741	1,123	2,618	—	2,618
2007	3,511	1,033	2,478	—	2,478
2008	3,616	1,064	2,552	—	2,552
2009	3,725	1,096	2,629	—	2,629
Thereafter	3,180	938	2,242	—	2,242
Total minimum lease payments	$22,815	$6,224	$16,591	$968	$17,559

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.

Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee or indemnification. In addition, FIN 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 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 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 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. Accordingly, we have no liabilities recorded for these agreements as of July 31, 2004.

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, 2004.

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, 2004.

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 did not have a material impact on our financial position or results of operations.

In December 2003, the FASB issued FIN 46R (revising FIN 46, which was issued in January 2003), entitled "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46R addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. Before concluding that it is appropriate to apply the voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity or a special purpose entity. FIN 46R became effective for VA Software during fiscal 2004 and the adoption of this statement did not have a material impact on our financial position or results of operations.

In December 2003, the SEC issued SAB 104, "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 has not had a material impact on our financial position or results of operations .

Risk Factors

CURRENT AND PROSPECTIVE INVESTORS IN VA SOFTWARE SECURITIES 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 SourceForge Business

Because the market for our SourceForge application software is still emerging, 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 deploy our software more broadly.

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 devoting the majority of our research and development spending on our SourceForge application, so if this software does not achieve market acceptance we are likely to experience continued operating losses.

Although in fiscal year 2004, which ended on July 31, 2004, approximately 17% of our revenue was derived from our SourceForge business, we devoted 69%, or $4.6 million, of our research and development spending to research and development associated with our SourceForge software application. We expect to continue to allocate the majority of our research and development resources to SourceForge for the foreseeable future. There can be no assurance, however, that we will be sufficiently successful in marketing, licensing, upgrading and supporting SourceForge to offset our substantial software research and development expenditures. A failure to grow SourceForge revenue sufficiently to offset SourceForge's significant research and development costs will materially and 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 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 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 SourceForge revenues may not grow or 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. We believe the success of our SourceForge business will become increasingly dependent on our ability to:

- support multiple platforms, including Linux, commercial UNIX and Microsoft Windows;
- 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 SourceForge 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 SourceForge varies and has often exceeded three and occasionally exceeded twelve months. Additionally, our sales cycle is complex because customers consider a number of factors before committing to license SourceForge. Factors that our customers and potential customers have informed us that they considered when evaluating SourceForge include product benefits, cost and time of implementation, and the ability to operate with existing and future computer systems and applications. We have found that customer evaluation, purchasing and budgeting processes vary significantly from company to company. We spend significant time and resources informing prospective customers about our SourceForge products, which may not result in completed transactions and associated revenue. 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 SourceForge products and future introductions of new software by our competitors and us may affect customer-purchasing decisions.

If we do not continue to receive repeat business from existing SourceForge customers, our revenue will not grow and may decline.

We generate a significant amount of our SourceForge license revenues from existing customers. Generally, our customers initially purchase a limited number of licenses as they evaluate, implement and adopt 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.

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.

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. The occurrence of such issues might cause our SourceForge revenue and operating results to fall below our publicly-stated expectations, the expectations of securities analysts or the expectations of investors. Failure to meet public expectations is likely to materially and adversely affect the trading price of our common stock.

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 SourceForge 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.

Risks Related To Our Online Media Business

If our online business fails to continue to deliver original and compelling content and services, we will be unable to attract and retain users, which will adversely affect our financial results.

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, 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, which would adversely affect our financial results.

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 modest growth of marketing and advertising budgets. Because we derive a large part of our revenues from advertising fees, the decreases in or delays 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.

If we fail to maintain our strategic relationship with IDG, our advertising revenue will not grow as anticipated and may decline, and our financial performance will suffer.

During the first quarter of fiscal year 2005, we entered into a marketing and sales agreement with International Data Group ("IDG"). Under the agreement with IDG, IDG's Global Solution's sales force will sell international advertising on OSTG's network of Web sites. If we are unable to maintain this strategic relationship with IDG, our ability to increase our online advertising sales may be harmed. In addition, IDG can terminate this relationship with us, pursue other relationships, or attempt to develop or acquire Web sites that compete with our Web sites for online advertising revenue. Even if we succeed in maintaining or expanding our relationship with IDG, the relationship may not result in additional online advertising customers or revenues.

Risks Related To Our E-Commerce Business

We cannot predict our E-commerce customers' preferences with certainty and such preferences may change rapidly. If we fail to accurately assess and predict our E-commerce customers' preferences, it will adversely impact our financial results.

Our E-commerce offerings on our ThinkGeek.com Web site are designed to appeal to IT professionals, software developers and others in technical fields. Misjudging either the market for our products or our customers' purchasing habits will cause our sales to decline, our inventories to increase and/or require us to sell our products at lower prices, all of which 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. Failure to properly assess our inventory needs will adversely affect our financial results.

In order to be successful, we must accurately predict our consumer tastes 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.

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 E-commerce 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 financial results will be adversely affected.

Our ThinkGeek E-commerce Web site is dependent upon a single third party fulfillment and warehouse provider. The satisfaction of our E-commerce customers is highly dependent upon fulfillment of orders in a professional and timely manner, so any decrease in the quality of service offered by our fulfillment and warehouse provider will adversely affect our reputation and the growth of our e-commerce business.

Our ThinkGeek E-commerce Web site's ability to receive inbound inventory and ship completed orders efficiently to our customers is substantially dependent on a third-party contract fulfillment and warehouse provider. We previously utilized the services of efillit Inc., a third-party contract fulfillment and warehouse provider located in Baltimore, Maryland. However, effective June 4, 2004, we transitioned from efillit to a new provider, Dotcom Distribution, Inc. ("Dotcom Distribution"), located in Edison, New Jersey, whom we believe will be able to satisfactorily accommodate ThinkGeek's future growth. If Dotcom Distribution fails to meet our future distribution and fulfillment needs, our relationship with and reputation among our E-commerce customers will suffer and this will adversely affect our E-commerce growth. Additionally, if Dotcom Distribution cannot meet our distribution and fulfillment needs, particularly during the peak holiday selling seasons, or our contract with Dotcom Distribution terminates, we may fail to secure a suitable replacement or second-source distribution and fulfillment provider on comparable terms, which would adversely affect our E-commerce financial results.

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 2005.

Since becoming a public company, we have experienced negative cash flow from operations and expect to experience negative cash flow from operations for all or part of fiscal year 2005. Our average net monthly cash flow shortfall during the quarter ended July 31, 2004 was approximately $0.7 million. Although this average net monthly cash flow shortfall approximation should not be relied upon as an indicator of our average net monthly cash flow shortfall in the future, it further illustrates that 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 2005. While we believe we will not require additional capital to fund continued operations through fiscal year 2005, 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 slowdown in technology or advertising spending, 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.

Certain factors specific to our businesses over which we have limited or no control may nonetheless adversely impact our quarterly total revenues and financial results.

The primary factors over which we have limited or no control that may adversely impact our quarterly total revenues and financial results include the following:

- specific economic conditions relating to IT spending;
- the discretionary nature of our software customers' purchase and budget cycles;
- the size and timing of software customer orders;
- long software sales cycles;
- our ability to retain skilled software engineers and sales personnel;
- the timing of announcements and releases of new or enhanced versions of our products and product upgrades;
- economic conditions relating to online advertising and sponsorship, and E-commerce;
- our ability to demonstrate and maintain attractive online user demographics;
- our ability to retain a skilled online advertising and sponsorship sales force;
- the addition or loss of specific online advertisers or sponsors, and the size and timing of advertising or sponsorship purchases by individual customers; and
- our ability to keep our Web sites operational at a reasonable cost.

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 will 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 cause delays in our ability to recognize revenue, which will adversely impact our quarterly financial results.

From time to time, the American Institute of Certified Public Accountants (AICPA), the Public Company Accounting Oversight Board (PCAOB) and the SEC will issue guidelines and interpretations regarding the recognition of revenue from software and other activities. These new guidelines and interpretations could result in a delay in our ability to recognize revenue. If the company has to delay the recognition of a significant amount of revenue in the future, this will have a material impact on the company's reported financial results.

We have a history of losses and expect to continue to incur net losses for the foreseeable future. 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.

We incurred a loss of $7.6 million for our fiscal year ended July 31, 2004, and we had an accumulated deficit of $747.4 million as of July 31, 2004. 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 beyond our fiscal year 2005.

Despite reductions in the size of our workforce, our business may fail to grow rapidly enough to offset our ongoing operating expenses.

During fiscal years 2001, 2002 and 2003, we substantially reduced the size of our workforce. As of July 31, 2004, we had 122 employees. 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 will not grow and may decline, which will adversely impact our financial results.

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 companies entrenched 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 Overall Business

If we fail to complete our internal control evaluations or if our independent registered public accounting firm does not attest to our evaluation in a timely manner, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), we will be required, beginning in our fiscal year 2005, to perform an evaluation of our internal controls over financial reporting and have our independent registered public accounting firm test and evaluate the design and operating effectiveness of such internal controls and publicly attest to such evaluation. We have prepared an internal plan of action for compliance with the requirements of Section 404, which includes a timeline and scheduled activities, although as of the date of this filing we have not yet completed the evaluation. Compliance with the requirements of Section 404 is expected to be expensive and time-consuming. If we fail to complete this evaluation in a timely manner, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

We may be subject to claims as a result of information published on, posted on or accessible from our Internet sites, which could be costly to defend and subject us to significant damage claims.

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, which could be costly to defend and subject us to significant damage claims.

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 business.

Our ability to successfully offer our services and grow our business requires an effective planning and management process. We updated our operations and financial systems, procedures and controls following our strategic decision to exit the hardware business. 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 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 2004, the closing sale prices of our common stock on the Nasdaq ranged from $1.69 to $2.48 per share and the closing sale price on July 30, 2004 was $1.94 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. 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, short-term investments and long-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, short-term investments and long-term investments (in thousands) that are subject to market risk and weighted-average interest rates, categorized by expected maturity dates, as of July 31, 2004. This table does not include money market funds because those funds are not subject to market risk.

(in thousands)	Maturing Within three months	Maturing within three months to one year	Maturing Greater than one year
As of July 31, 2004			
Cash equivalents	$7,163		
Weighted-average interest rate	1.49%		
Short-term investments		$17,145	
Weighted-average interest rate		3.81%	
Long-term investments			$15,933
Weighted-average interest rate			3.11%

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 REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
VA Software Corporation

We have audited the accompanying consolidated balance sheet of VA Software Corporation as of July 31, 2004, and the related consolidated statements of operations and other comprehensive income/(loss), stockholders' equity, and cash flows for the year then ended. We have also audited the financial statement schedule listed in the Index at Item 15(a) as of and for the year ended July 31, 2004. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VA Software Corporation at July 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule as of and for the year ended July 31, 2004, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ BDO Seidman, LLP

San Jose, California
August 20, 2004, except for the second paragraph of Note 5,
as to which the date is September 24, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated financial statements listed in the index present fairly, in all material respects, the financial position of VA Software Corporation and its subsidiaries at July 31, 2003, 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 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.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 20, 2003

VA SOFTWARE CORPORATION

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

	July 31, 2004	July 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,964	$ 6,303
Short-term investments	17,145	27,864
Restricted cash, current	450	450
Accounts receivable, net of allowances of $127 and $144, respectively	3,909	1,928
Inventories	1,069	388
Prepaid expenses and other assets	1,046	1,232
Total current assets	34,583	38,165
Property and equipment, net	1,208	4,267
Long-term investments	15,933	4,680
Restricted cash, non current	1,000	450
Other assets	955	933
Total assets	$ 53,679	$ 48,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,674	$ 863
Accrued restructuring liabilities, current portion	3,440	4,117
Accrued compensation	981	1,346
Deferred revenue	1,750	751
Accrued liabilities and other	872	2,263
Total current liabilities	8,717	9,340
Accrued restructuring liabilities, net of current portion	7,843	10,772
Other long-term liabilities	1,349	1,181
Total liabilities	17,909	21,293
Commitments and contingencies (Notes 4,5,6 and 7)		
Stockholders' equity:		
Common stock, $0.001 par value; authorized — 250,000,000; issued and outstanding — 61,184,857 shares in 2004 and 55,470,064 shares in 2003	62	56
Treasury stock	(4)	(4)
Additional paid-in capital	783,246	766,765
Deferred stock compensation	—	(20)
Accumulated other comprehensive gain (loss)	(171)	128
Accumulated deficit	(747,363)	(739,723)
Total stockholders' equity	35,770	27,202
Total liabilities and stockholders' equity	$ 53,679	$ 48,495

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

VA SOFTWARE CORPORATION

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

	Year Ended		
	July 31, 2004	July 31, 2003	July 27, 2002
Net revenues			
SourceForge revenues	$ 4,995	$ 2,918	$ 1,086
Online Media revenues	9,728	10,405	9,007
E-commerce revenues	12,567	8,565	5,722
Online Images revenues	1,922	1,580	1,238
Other revenues	49	760	3,332
Net revenues	29,261	24,228	20,385
Cost of revenues			
SourceForge cost of revenues	1,860	1,997	2,387
Online Media cost of revenues	2,969	3,802	5,463
E-commerce cost of revenues	10,225	7,025	4,708
Online Images cost of revenues	495	339	222
Other cost of revenues	(12)	(383)	(3,119)
Cost of revenues	15,537	12,780	9,661
Gross margin	13,724	11,448	10,724
Operating expenses:			
Sales and marketing	10,093	9,791	12,513
Research and development	6,732	7,815	8,122
General and administrative	4,665	6,455	10,850
Restructuring costs and other special charges	3,209	(263)	46,936
Amortization of deferred stock compensation	20	144	1,671
Amortization of goodwill and intangible assets	12	2,149	11,730
Impairment of goodwill, intangible assets and other long-lived assets	—	239	12,150
Total operating expenses	24,731	26,330	103,972
Loss from operations	(11,007)	(14,882)	(93,248)
Remeasurement of warrant liability	1,566	—	—
Interest income	911	1,132	1,714
Interest expense	(5)	(8)	(32)
Other income (expense), net	895	(40)	528
Net loss	$ (7,640)	$(13,798)	$ (91,038)
Other comprehensive income (loss):			
Unrealized (loss) gain on marketable securities and investments	(354)	30	209
Foreign currency translation gain	55	12	1,367
Comprehensive loss	$ (7,939)	$(13,756)	$ (89,462)
Net loss	$ (7,640)	$(13,798)	$ (91,038)
Basic and diluted net loss per share	$ (0.13)	$ (0.25)	$ (1.72)
Shares used in computing basic and diluted net loss per share	59,684	54,110	53,064

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

VA SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Treasury	Additional Paid-in	Deferred Stock	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Stock	Capital	Compensation	Income (Loss)	Deficit	Equity
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 27, 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
Issuance of common stock for cash related to options	2,186	2	—	3,402	—	—	—	3,404
Issuance of common stock related to Private Placement, net of issuance costs	3,529	4	—	12,866	—	—	—	12,870
Amortization of deferred stock compensation	—	—	—	—	20	—	—	20
Acceleration of stock options related to terminations	—	—	—	213	—	—	—	213
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	—	—	—	—	—	(299)	—	(299)
Net loss	—	—	—	—	—	—	(7,640)	(7,640)
BALANCE AT JULY 31, 2004	61,185	$62	$ (4)	$783,246	$ —	$ (171)	$(747,363)	$ 35,770

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

VA SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	July 31, 2004	July 31, 2003	July 27, 2002
Cash flows from operating activities:			
Net loss	$ (7,640)	$(13,798)	$(91,038)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,468	5,351	16,153
Remeasurement of warrant liability	(1,566)	—	—
Provision for bad debts	56	(19)	(1,096)
Provision for excess and obsolete inventory	9	(6)	(4,378)
Loss on disposal of assets	—	35	1,422
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 OSTG acquisition	—	—	1,313
Amortization of deferred stock compensation	20	144	1,671
Non-cash compensation expense	213	—	75
Non-cash restructuring expense	2,496	(569)	36,426
Impairment of long-lived assets	—	239	12,150
Changes in assets and liabilities:			
Accounts receivable	(2,036)	(1,178)	10,439
Inventories	(690)	(82)	2,046
Prepaid expenses and other assets	157	286	3,391
Accounts payable	812	(1,212)	(12,244)
Accrued restructuring liabilities	(3,606)	(3,105)	8,481
Accrued liabilities and other	(773)	(2,098)	(8,159)
Other long-term liabilities	168	203	(388)
Net cash used in operating activities	(10,912)	(15,809)	(35,092)
Cash flows from investing activities:			
Change in restricted cash	(550)	450	1,509
Purchase of property and equipment	(880)	(289)	(417)
Sale of property and equipment	—	8	—
Purchase of marketable securities	(44,976)	(34,335)	(32,917)
Sale of marketable securities	44,443	19,688	37,829
Cash proceeds on sale of Japan investment	—	—	5,059
Other, net	(359)	30	209
Net cash provided by (used in) investing activities	(2,322)	(14,448)	11,272
Cash flows from financing activities:			
Payments on notes payable	—	(42)	(273)
Proceeds from issuance of common stock	17,840	1,444	403
Repurchase of common stock	—	(2)	(17)
Net cash provided by financing activities	17,840	1,400	113
Effect of exchange rate changes on cash and cash equivalents	55	12	1,367
Net increase (decrease) in cash and cash equivalents	4,661	(28,845)	(22,340)
Cash and cash equivalents, beginning of year	6,303	35,148	57,488
Cash and cash equivalents, end of year	$ 10,964	$ 6,303	$ 35,148
Supplemental cash flow information:			
Cash paid for state taxes	$ 26	$ 16	$ 18
Cash paid for interest	$ 5	$ 8	$ 32

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

1. Organization and Operations of the Company:

Overview

VA Software Corporation (“VA Software” or the “Company”) was incorporated in California in January 1995 and reincorporated in Delaware in December 1999. From the date of its incorporation through October 2001, the Company sold Linux-based hardware systems and services under the name VA Linux Systems, Inc. On June 27, 2001, the Company announced its decision to exit its Linux-based hardware business. Today, the Company does business under the name VA Software Corporation and it develops, markets and supports a software application known as SourceForge Enterprise Edition (“SourceForge”) and owns and operates OSTG, Inc. (“OSTG”) and its wholly-owned subsidiaries, a network of Internet Web sites offering advertising, retail and animation services and products.

Prior to the quarter ended July 31, 2003, the Company operated on a 52-53 week year ending the Saturday before July 31. Beginning in the quarter ended July 31, 2003, the Company operates on regular calendar months with its year ending on July 31. This change did not have a material impact on the consolidated results of operations.

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 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 for fiscal 2002. As of July 31, 2004, VA Software’s investment in VA Linux Japan was approximately 14%. 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 and thereafter. The minority interest included in the results of operations prior to January 11, 2002 for VA Linux Japan was not material in fiscal 2002 and has been recorded in other income in the accompanying consolidated statements of operations. The operations of VA Linux Japan primarily relate to the Company’s former systems and services business.

Foreign Currency Translation

The functional currency of all the Company’s foreign subsidiaries is the country’s local currency. Operations related to all of the Company’s foreign subsidiaries were discontinued in 2001 and were included in the fiscal 2001 restructuring plan. Although the legal entities still exist as of July 31, 2004, no revenues were generated from these entities for any of the periods presented and the expenses were administrative in nature and were immaterial to the consolidated results of operations for all periods presented. Minimal cash balances have been maintained in these entities for legal purposes. Remaining balance sheet accounts are translated into U.S. dollars at exchange rates prevailing at balance sheet dates. Expenses are translated into U.S. dollars at average rates for the period. Gains and losses resulting from translation are charged or credited in other comprehensive income as a component of stockholders' equity. As of July 31, 2004 the Company did not hold any foreign currency derivative instruments. The Company is in the process of formally liquidating all of its foreign subsidiaries.

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. The Company currently operates as four reportable business segments: SourceForge, Online Media, E-commerce and Online Images.

The Company markets its products in the United States through its direct sales force and online Web sites. Revenues for each of the years ended July 31, 2004, July 31, 2003 and July 27, 2002 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, cash equivalents and investments consist of the following (in thousands) at market value:

	July 31, 2004	July 31, 2003
Government securities	$22,465	$10,001
Corporate securities	14,134	21,148
Asset backed securities	2,731	—
Money market funds	1,056	2,250
Commercial paper	911	4,796
Total Investments	$41,297	$38,195
Operating cash	2,745	652
Restricted cash	1,450	900
Total cash, cash equivalents, short-term investments & long-term investments	$45,492	$39,747
Included in cash and cash equivalents	$ 8,219	$ 5,651
Included in short-term investments	17,145	27,864
Included in Long-term investments	15,933	4,680
Total Investments	$41,297	$38,195

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, which had been reduced to $0.9 million at July 31, 2003. During fiscal year 2004, the Company revised the remaining letter of credit used to collateralize the Fremont building lease as a result of subletting the unoccupied space and moving into the smaller facility in the same complex. The revised letter of credit associated with this lease was $1.5 million at July 31, 2004.

Inventories

Inventories related to the Company's E-commerce and Online Images segments consist solely 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, 2004	July 31, 2003
Computer and office equipment (useful lives of 2 to 3 years)	$ 6,820	$ 6,238
Furniture and fixtures (useful lives of 2 to 4 years)	1,199	2,209
Leasehold improvements (useful lives of lesser of estimated life or lease term)	271	3,762
Software (useful lives of 2 to 5 years)	2,092	2,090
Total property and equipment	10,382	14,299
Less: Accumulated depreciation and amortization	(9,174)	(10,032)
Property and equipment, net	$ 1,208	$ 4,267

Depreciation expense for the years ended July 31, 2004, July 31, 2003, and July 27, 2002 was $1.4 million, $3.2 million, and $4.4 million, respectively.

Goodwill and Intangibles and Impairment of Long-Lived Assets

In connection with the acquisitions of Precision Insight, Inc. ("Precision Insight") and NetAttach, Inc. ("NetAttach"), the Company recorded $42.0 million of goodwill and intangibles during fiscal 2000. In connection with the Company's restructuring plans in fiscal year 2002, the Company wrote off the remaining 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. This is included in restructuring costs and other special charges in the consolidated statements of operations for fiscal 2002.

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.

In connection with the acquisition of OSTG (known at the time of acquisition as "Andover.Net, Inc."), the Company recorded $83.6 million of goodwill and intangibles during fiscal 2000. 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. However, pursuant to SFAS No. 142, the Company tests goodwill for impairment 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, the goodwill associated with OSTG was tested for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible assets." 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 remaining carrying value was impaired and recorded an impairment loss of $3.6 million. The charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the consolidated statements of operations. No carrying value remained related to OSTG goodwill at July 31, 2003.

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 related to OSTG 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, leaving a remaining carrying value of $2.1 million at July 31, 2002. The impairment charge is included in the caption "Impairment of goodwill, intangible assets and other long-lived assets" in the consolidated statements of operations. Intangible asset amortization of $12,000, $2.1 million and $11.7 million was recorded in fiscal 2004, 2003 and 2002, respectively. The intangible asset carrying value at July 31, 2004 of $14,000 relates to domain and trade names associated with our current SourceForge and OSTG businesses. No events or circumstances occurred during fiscal year 2004 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2004.

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

	As of July 31, 2004		As of July 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Domain and trade names	$5,927	$(5,913)	$5,922	$(5,901)
Purchased technology	2,534	(2,534)	2,534	(2,534)
Total intangible assets	$8,461	$(8,447)	$8,456	$(8,435)

The aggregate amortization expense of intangible assets, net of restructuring charges was $12,000 and $2.1 million for the fiscal years ending July 31, 2004 and July 31, 2003, respectively. The estimated total amortization expense of acquired intangible assets is $10,200 and $1,700 for the fiscal years ending 2005 and 2006.

Revenue Recognition

SourceForge Revenues

Software revenues are derived from fees for licenses of the Company's SourceForge software products, maintenance, consulting and training. The Company recognizes all software revenue using the residual method in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions." 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 vendor specific 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. Company-specific objective evidence of fair value of maintenance and other services is based on our customary pricing for such maintenance and/or services when sold separately. At the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (e.g., maintenance, consulting and training) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (i.e., software product) when the basic criteria in SOP 97-2 have been met. If such evidence of fair value for each undelivered element of the arrangement does not exist, the Company defers all revenue from the arrangement until such time that evidence of fair value does exist or until all elements of the arrangement are delivered.

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, (iv) collectibility is probable and (v) the arrangement does not require services that are essential to the functionality of the software.

Persuasive evidence of an arrangement exists. The Company determines that persuasive evidence of an arrangement exists with respect to a customer when the Company has a written contract, which is signed by both the Company and the customer, or a purchase order from the customer when the customer has previously executed a standard license arrangement with the Company. The Company does not offer product return rights.

Delivery has occurred. The Company's software may be either physically or electronically delivered to the customer. The Company determines that delivery has occurred upon shipment of the software pursuant to the billing terms of the agreement or when the software is made available to the customer through electronic delivery.

The fee is fixed or determinable. If at the outset of the customer engagement the Company determines that the fee is not fixed or determinable, the Company recognizes revenue when the fee becomes due and payable. Fees due under a contract are generally deemed not to be fixed or determinable if a significant portion of the fee is beyond the Company's normal payment terms, which are generally no greater than 120 days from the date of invoice.

Collectibility is probable. The Company determines whether collectibility is probable on a case-by-case basis. When assessing probability of collection, the Company considers the number of years in business, history of collection, and product acceptance for each customer. The Company typically sells to customers, for whom there is a history of successful collection. New customers are subject to a credit review process, which evaluates the customer's financial position and ultimately such customer's ability to pay. If the Company determines from the outset that collectibility is not probable based upon its review process, revenue is recognized as payments are received.

The Company allocates revenue on software arrangements involving multiple elements to each element based on the relative fair value of each element. The Company's determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence ("VSOE"). The Company aligns its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has sufficient VSOE to allocate revenue to the maintenance, support and professional services components of its perpetual license arrangements. The Company sells its professional services separately, and has established VSOE for professional services on that basis. VSOE for maintenance and support is determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, the Company recognizes revenue from perpetual licenses upon delivery using the residual method in accordance with SOP 98-9.

Services revenues consist of professional services and maintenance fees. In general, the Company's professional services, which are comprised of software installation and integration, business process consulting and training, are not essential to the functionality of the software. The Company's software products are fully functional upon delivery and implementation and do not require any significant modification or alteration of products for customer use. Customers purchase these professional services to facilitate the adoption of the Company's technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately from professional services, which are generally billed on a time-and-materials basis. The Company recognizes revenue from professional services as services are performed.

Maintenance agreements are typically priced based on a percentage of the product license fee and have a one-year term, renewable annually. Services provided to customers under maintenance agreements include technical product support and unspecified product upgrades. Deferred revenues from advanced payments for maintenance agreements are recognized ratably over the term of the agreement, which is typically one year.

Online Media Revenues

Online media revenues are primarily derived from cash and barter sales of advertising space on the Company's various Web sites, as well as sponsorship and royalty related arrangements associated with advertising on these Web sites. The Company recognizes Online Media 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. The Company's 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, the Company does not recognize the corresponding revenues until the guaranteed impressions are achieved. The Company records 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." The Company broadcasts banner advertising in exchange for similar banner advertising on third-party Web sites. The Company's barter arrangements are documented with its standard customer insertion order (and accompanying terms and conditions) or, in certain limited instances, via an alternative written contract negotiated between the parties. The standard terms and conditions include, but are not limited to, the Web sites for each company that will display the impressions, the time frame that the impressions will be displayed, and the number, type and size of impressions to be delivered. Barter revenue transactions totaled $1.4 million, $2.0 million and $2.0 million for the fiscal years ended July 31, 2004, July 31, 2003 and July 27, 2002, respectively.

E-commerce Revenues

E-commerce revenues are derived from the online sale of consumer goods. The Company recognizes E-commerce revenues from the sale of consumer goods in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." Under SAB 104, 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.

Online Images Revenues

Online Images revenues are derived from the online sale of three-dimensional art, animations and presentations that consist of fees for software licenses and memberships for these animation software products. Software revenues related to digital animations are recognized using the residual method in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" as described in detail above. Revenues recognized related to animation memberships are recognized over the life of the membership, typically 3 months or 12 months.

Other Revenues

The Company's revenue recognition policy related to its former hardware systems business followed 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 was fixed or determinable and collectibility was reasonably assured. In general, the Company recognized product revenue upon shipment of the goods. The Company did not grant customers any rights to return these products.

The Company recognized revenues from hardware related 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 recognized revenues from hardware related 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 recorded any payments received prior to revenue recognition as deferred revenue.

Advertising Expenses

The Company expenses advertising costs as incurred. Total advertising expenses were $2.1 million, $2.5 million and $2.7 million for fiscal years ending July 31, 2004, July 31, 2003 and July 27, 2002, respectively.

Stock-Based Compensation

The Company has elected to account 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 No. ("FIN") 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, 2004, July 31, 2003 and July 27, 2002 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, 2004	July 31, 2003	July 27, 2002
Net loss as reported	($ 7,640)	($13,798)	($ 91,038)
Add back employee stock-based compensation expense related to stock options included in reported net loss	20	144	1,671
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards, net of related tax effects	(6,410)	(8,774)	(10,590)
Pro forma net loss	($14,030)	($22,428)	($ 99,957)
Basic and diluted net loss per share	($ 0.13)	($ 0.25)	($ 1.72)
Pro forma basic and diluted net loss per share	($ 0.24)	($ 0.41)	($ 1.88)

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, 2004	July 31, 2003	July 27, 2002	July 31, 2004	July 31, 2003	July 27, 2002
Expected life (years)	4.9	4.8	4.0	0.5	0.5	0.5
Risk-free interest rate	3.5%	3.0%	3.7%	1.0%	1.1%	2.4%
Volatility	106%	108%	100%	98%	95%	100%
Dividend yield	None	None	None	None	None	None

The weighted average fair value of options granted during fiscal years 2004, 2003 and 2002 was $2.24, $0.97 and $0.81, respectively.

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 above.

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 consolidated 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 "Earnings Per Share," 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 fiscal years ended July 31, 2004, July 31, 2003 and July 27, 2002, 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, 2004	July 31, 2003	July 27, 2002
Net loss	$ (7,640)	$(13,798)	$(91,038)
Basic and diluted:			
Weighted average shares of common stock outstanding	59,684	54,117	53,290
Less: Weighted average shares subject to repurchase	—	(7)	(226)
Shares used in computing basic and diluted net loss per share	59,684	54,110	53,064
Basic and diluted net loss per share	$ (0.13)	$ (0.25)	$ (1.72)

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, 2004	July 31, 2003	July 27, 2002
Anti-dilutive securities:			
Options to purchase common stock	12,132	9,433	12,308
Common stock subject to repurchase	—	—	29
Total Anti-dilutive securities	12,132	9,433	12,337

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 2004, 2003 and 2002, there was no provision for income taxes in those years. 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 believes 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 November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee or indemnification. In addition, FIN 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 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 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 has not had a material effect on these 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 did not have a material impact on the Company's financial position or results of operations.

In December 2003, the FASB revised Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46, which was issued in January 2003. Before concluding that it is appropriate to apply the voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity or a special purpose entity. FIN 46R became effective for VA Software during fiscal 2004 and the adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In December 2003, the SEC issued SAB 104, "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 has not had a material impact on the Company's consolidated financial statements.

Supplier Concentration

No supplier concentration exists in the Company's SourceForge, Online Media, E-commerce and Online Images businesses.

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. The Company's investment policy limits the amount of risk exposure. 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. The credit risk in the Company's trade receivables is substantially mitigated by its credit evaluation process and reasonably short collection terms. The Company maintains reserves for potential credit losses and such losses have been within management's expectations. As of July 31, 2004 and July 31, 2003, no gross accounts receivables were concentrated with one customer.

For the fiscal year ended July 31, 2004 no one customer represented more than 10% of net revenues. 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, the company does not anticipate that any one customer will represent more than 10% of net revenues.

3. Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, the Company adopted plans to exit its hardware 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 SourceForge, Online Media, E-commerce and Online Images businesses and reduce its operating losses to improve cash flow. The Company recorded restructuring charges of $168.5 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $8.1 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases. During the third quarter of fiscal 2004, in connection with its original 2002 restructuring plan which included an assumption to sublet all idle facilities, the Company relocated its Fremont, California headquarters to a smaller building in the same complex. As a result of the change in circumstances, original accruals were reevaluated and accordingly the Company recorded a restructuring adjustment of $2.9 million. Included in the $2.9 million dollar restructuring adjustment was $2.5 million of expense related to writing off leasehold improvements and fixed assets and an additional $0.4 million expense related to excess facilities from non-cancelable leases. In addition, during the third quarter of fiscal 2004, the Company reached an agreement in principal to sublet unoccupied portions of properties that it leases in Sunnyvale, California and Fremont, California. As a result of the change in circumstances due to the agreement in principal, original accruals were reevaluated and, accordingly, the Company recorded a restructuring adjustment of $0.3 million in the third quarter of fiscal 2004. The $3.2 million total adjustment to restructuring expenses in fiscal 2004 has been recorded in the consolidated statement of operations for that period. The remaining accrual from non-cancelable lease payments is based on current circumstances. These accruals are subject to change should actual circumstances change. The Company will continue to evaluate and update, if applicable, these accruals quarterly. As of July 31, 2004, the Company had an accrual of approximately $11.3 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 in credit adjustments to previously recorded restructuring reserves. As of July 31, 2004, no outstanding accruals remained related to these restructuring charges.

All charges as a result of restructuring activities have been recorded in accordance with EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)." Restructuring charges recorded in fiscal 2004 were considered adjustments to the original restructuring plans, therefore, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was not applicable.

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 Charged To Operations Fiscal 2004	Total Cash Receipts\ (Payments)	Restructuring Liabilities at July 31, 2004
Cash Provisions:						
Other special charges relating to restructuring activities	$ 2,159	$ (888)	$ 78	$ —	$ (1,349)	$ —
Facilities charges	6,584	9,401	191	713	(5,606)	11,283
Employee severance and other related charges	3,498	1,997	37	—	(5,532)	—
Total cash provisions	12,241	10,510	306	713	$(12,487)	$11,283
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)	2,496		
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)	2,496		
Total provisions	$113,478	$46,936	$(263)	$3,209		

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 27, 2002	$ 9,513	$10,510	$ (2,029)	$17,994
For the year ended July 31, 2003	$17,994	$ 306	$ (3,411)	$14,889
For the year ended July 31, 2004	$14,889	$ 713	$ (4,319)	$11,283

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
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
For the year ended July 31, 2004	$ 3,440	$ 7,843	$11,283

4. 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, 2004 are as follows (in thousands):

	Gross Operating Leases	Sublease Income	Net Operating Leases
2005	$ 5,042	$ 970	$ 4,072
2006	3,741	1,123	2,618
2007	3,511	1,033	2,478
2008	3,616	1,064	2,552
2009	3,725	1,096	2,629
Thereafter	3,180	938	2,242
Total minimum lease payments	$22,815	$6,224	$16,591

Gross rent expense for the years ended July 31, 2004, July 31, 2003 and July 27, 2002 was approximately $3.0 million, $3.9 million and $18.9 million, respectively. This rent expense was offset by sublease income of $1.1 million, $2.4 million and $6.0 million for the years ended July 31, 2004, July 31, 2003 and July 27, 2002, respectively. In addition, rent expense of $0.7 million, $0.1 million and $11.0 million was recorded as a result of idle facilities charges for the years ended July 31, 2004, July 31, 2003 and July 27, 2002, respectively. These idle facilities charges have been recorded as restructuring costs and other special charges in the consolidated statements of operations.

5. 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. Pursuant to a tolling agreement, the individual defendants were dismissed without prejudice. On February 19, 2003, the court denied the Company's motion to dismiss the claims against it. The litigation is now in discovery. A proposal has been made for the settlement and release of claims against the issuer defendants, including the Company. 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 Nov 9, 2001, a former employee of the Company, who had worked as a sales person in the Company's former hardware business, filed a complaint captioned *Okerman v. VA Linux Systems, Inc. & Larry Augustin*, Civil No. 01-01825 (Norfolk Superior Court), in the Commonwealth of Massachusetts. As amended, the complaint alleges that changes made to certain commission and bonus plans during the plaintiff's tenure at the Company entitled him to recover damages for Breach of Contract, Breach of the Implied Covenant of Good Faith and Fair Dealing, violation of the Massachusetts Wage Act Statute, Promissory Estoppel, and Quantum Meruit. On June 25, 2002, the Court dismissed the Massachusetts Wage Act claim brought against the Company's former chief executive officer. On July 26, 2002, dismissal of the Wage Act claim in favor of the Company's former chief executive officer was upheld on interlocutory appeal. On July 9, 2003, the Court granted summary judgment in the Company's favor regarding claims for Breach of Contract, Promissory Estoppel, and Quantum Meruit, and granted judgment on the pleadings in favor of the Company regarding the Massachusetts Wage Act claim. On September 24, 2004, following a jury trial on the sole remaining claim for Breach of the Covenant of Good Faith and Fair Dealing, a jury awarded damages of $136,876 to the plaintiff. The Company is currently evaluating whether it will appeal the judgment.

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.

6. 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 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. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2004.

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 patent, 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, 2004.

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, 2004.

7. Retirement Savings Plan

The Company maintains an employee savings and retirement plan which is 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.

8. 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 2004, the Company cancelled 104,127 shares of its common stock, which has been recorded as treasury stock in the consolidated balance sheets and statement of stockholders' equity. In fiscal year 2003, the Company cancelled 270,407 shares of its common stock, which had been recorded as treasury stock in the consolidated balance sheets and statement of stockholders' equity. In fiscal 2002, the Company cancelled 10,934 shares of its common stock which had been recorded as treasury stock in the consolidated balance sheets and statement of stockholders' equity.

As of July 31, 2004 there were 61,184,857 shares of common stock issued and outstanding. The Company 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, 2004.

As of July 31, 2004, the Company had reserved shares of its common stock for future issuance as follows:

1998 Stock Option Plan and Assumed Plans	21,688,415
1999 Director Option Plan	1,352,084
1999 Employee Stock Purchase Plan	2,635,875
	25,676,374

Warrants

On November 6, 2003, the Company issued two warrants to purchase up to 705,883 and 25,000 shares of common stock to The Riverview Group LLC and Wharton Capital Partners Ltd., respectively in connection with a private placement of the Company's common stock. These warrants are exercisable at exercise prices of $6.00 and $6.14 per share. The terms of these warrants expire in November 2006. At July 31, 2004 both of these warrants remained outstanding.

Stock Option Plan

In fiscal year 1999, the Company adopted and the board of directors approved the 1998 Plan. Since inception, a total of 37,824,386 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, 2004, 44,490,787 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. Since inception, a total of 1,500,000 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, or 0.5% of the then outstanding common stock or an amount determined by the board of directors. Through July 31, 2004, 690,000 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 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. 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 has an exercise price per share equal to the fair market value of the common stock at the date of grant, vest 25% immediately upon the grant date, one thirty-sixth per month thereafter and become fully vested three years after the date of grant. Each automatic grant has 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 options 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, 2004, July 31, 2003 and July 27, 2002.

		Options Outstanding	
	Options Available for Grant	Number of Shares	Weighted Average Exercise Price
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
Authorized	2,968,033	—	—
Granted	(6,226,221)	6,226,221	2.87
Exercised	—	(2,199,992)	1.47
Cancelled	1,310,209	(1,326,869)	3.95
Repurchases	—	—	—
Balance at July 31, 2004	10,908,627	12,131,872	$3.58

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	692,804	4.70	$ 0.15	625,072	$ 0.06
$0.99 – $ 0.99	1,547,280	7.20	$ 0.99	689,143	$ 0.99
$1.00 – $ 2.21	1,265,321	8.22	$ 1.42	455,307	$ 1.39
$2.26 – $ 2.33	888,326	9.22	$ 2.28	84,875	$ 2.32
$2.45 – $ 2.45	2,444,345	9.92	$ 2.45	—	$ 0.00
$2.49 – $ 2.96	522,484	9.17	$ 2.90	91,746	$ 2.68
$2.98 – $ 2.98	1,412,884	9.36	$ 2.98	230,348	$ 2.98
$3.00 – $ 4.02	1,268,765	7.41	$ 3.21	896,626	$ 3.11
$4.10 – $ 8.13	1,236,700	7.79	$ 5.87	637,075	$ 7.10
$8.50 – $64.12	852,963	6.18	$17.51	826,539	$17.75
$0.02 – $64.12	12,131,872	8.21	$ 3.58	4,536,731	$ 5.39

During fiscal years 2004, 2003 and 2002, there were no options or stock purchase rights granted outside of the 1998 Plan outstanding. Total options exercisable at July 31, 2004 and July 31, 2003 were 4,536,731 and 4,408,676, 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) 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 364,125 shares of common stock were issued under the ESPP through July 31, 2004. At July 31, 2004, 2,635,875 shares were available for issuance.

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 FIN 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 $20,000, $0.1 million and $1.2 million for fiscal years 2004, 2003 and 2002, respectively. These stock options were fully amortized as of July 31, 2004. In addition, in connection with acquisitions, the Company recorded $0.5 million of deferred stock compensation during fiscal year 2002. No amortization of deferred stock compensation related to acquisitions was recorded during fiscal years 2004 and 2003. Further, 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. These adjustments have been included in restructuring costs and other special charges in the consolidated statements of operations.

9. 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 2004, 2003 and 2002, there was no provision for income taxes for those years. 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, 2004	July 31, 2003	July 27, 2002
Net operating loss carryforwards	$ 86,796	$ 83,577	$ 80,446
Other reserves and accruals	12,722	13,081	11,494
	99,518	96,658	91,940
Valuation allowance	(99,518)	(96,658)	(91,940)
Net deferred income tax asset	$ —	$ —	$ —

As of July 31, 2004, the Company has net operating loss carryforwards of approximately $243.8 million to offset future federal taxable income, which expires at various dates through fiscal year 2024. This amount includes approximately $12.5 million of net operating loss carryforwards from the acquisition of OSTG. The deferred tax assets related to the acquisition of OSTG 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 $66.8 million to offset future California taxable income, which expire at various dates through fiscal year 2014. The net operating loss carryforwards also include approximately $28.9 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.

10. Segment and Geographic Information

The Company's operating segments are significant strategic business units that offer different products and services. The Company has four operating segments: SourceForge, Online Media, E-commerce and Online Images.

The Company's SourceForge segment focuses on its SourceForge software products. The Company's Online Media segment represents a network of Internet Web sites serving the IT professional and software development communities. The Company's E-commerce segment provides online sales of a variety of retail products of interest to the software development and IT communities. The Company's Online Images segment provides online sales of three-dimensional art, animations and presentations. Other includes revenues and costs associated with the Company's former hardware business as well as all corporate expenses, such as restructuring charges, legal judgments and settlements, amortization of goodwill and intangibles, amortization of deferred stock, impairment of long-lived assets and interest income, that are not allocated to the individual operating segments and are not considered by the Company's chief decision-making group in evaluating the performance of the operating segments.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies. All intersegment sales have been stated separately in the table below. The Company's chief decision-making group, as defined under SFAS No. 131, consists of the Chief Executive Officer and the executive team. The Company's chief decision-making group excludes all intersegment sales when evaluating the performance of the segments. The Company's assets and liabilities are not discretely allocated or reviewed by operating segment. The depreciation of the Company's property, equipment and leasehold improvements are allocated based on headcount, unless specifically identified by operating segment.

(in thousands)	SourceForge	Online Media	E-commerce	Online Images	Other	Eliminations	Total Company
Year Ended July 31, 2004							
Revenue from external customers	$ 4,995	$ 9,728	$12,567	$1,922	$ 49	$ —	$ 29,261
Revenue from intersegments	$ —	$ 238	$ —	$ —	$ —	$(238)	$ —
Cost of revenues	$ 1,860	$ 2,969	$10,225	$ 495	$ (12)	$ —	$ 15,537
Gross margin	$ 3,135	$ 6,759	$ 2,342	$1,427	$ 61	$ —	$ 13,724
Operating income (loss)	$ (8,900)	$ (431)	$ 79	$ 622	$ (2,377)	$ —	$(11,007)
Depreciation expense	$ 1,123	$ 260	$ 30	$ 43	$ —	$ —	$ 1,456
Year Ended July 31, 2003							
Revenue from external customers	$ 2,918	$10,405	$ 8,565	$1,580	$ 760	$ —	$ 24,228
Revenue from intersegments	$ —	$ 163	$ —	$ —	$ —	$(163)	$ —
Cost of revenues	$ 1,997	$ 3,852	$ 7,025	$ 338	$ (432)	$ —	$ 12,780
Gross margin	$ 921	$ 6,553	$ 1,540	$1,242	$ 1,192	$ —	$ 11,448
Operating income (loss)	$(13,575)	$ (376)	$ (162)	$ 353	$ (1,122)	$ —	$(14,882)
Depreciation expense	$ 2,129	$ 1,049	$ 12	$ 12	$ —	$ —	$ 3,202
Year Ended July 27, 2002							
Revenue from external customers	$ 1,086	$ 9,007	$ 5,722	$1,238	$ 3,332	$ —	$ 20,385
Revenue from intersegments	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Cost of revenues	$ 2,387	$ 5,088	$ 4,708	$ 222	$ (2,744)	$ —	$ 9,661
Gross margin	$ (1,301)	$ 3,919	$ 1,014	$1,016	$ 6,076	$ —	$ 10,724
Operating income (loss)	$(19,391)	$ (5,560)	$ (30)	$ 326	$(68,593)	$ —	$(93,248)
Depreciation expense	$ 2,742	$ 1,511	$ 29	$ 29	$ 112	$ —	$ 4,423

During the time period covered by the table above, the Company marketed its products in the United States through its direct sales force and its online Web sites. Revenues for each of the fiscal years ended July 31, 2004, July 31, 2003 and July 27, 2002 were primarily generated from sales to end users in the United States of America.

Quarterly Financial Data

	Fiscal Year 2004 For the three months ended			
	October 31	**January 31**	**April 30**	**July 31**
Net revenues	$ 5,797	$ 8,856	$ 7,291	$ 7,317
Loss from operations	(2,402)	(2,309)	(5,265)	(1,031)
Net loss attributable to common stockholders	$ (1,223)	$ (1,431)	$ (4,125)	$ (861)
Per share amounts:				
Basic and diluted net loss per share	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.01)
Shares used in computing basic and diluted net loss per share	56,255	60,355	60,882	61,141

	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)	(2,652)
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

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

On June 3, 2004, the Company's Audit Committee of its Board of Directors dismissed PricewaterhouseCoopers LLP ("PWC") as the Company's independent registered public accounting firm and engaged BDO Seidman, LLP ("BDO") as the Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ended July 31, 2004. The Company filed a current report on Form 8-K on June 10, 2004, reporting these events.

PWC's reports on VA Software's consolidated financial statements for each of the fiscal years ended July 27, 2002 and July 31, 2003 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal years ended July 27, 2002 and July 31, 2003 and through June 3, 2004, there were no disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to PWC's satisfaction, would have caused PWC to make reference to the subject matter in connection with its report on VA Software's consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The Company has had no disagreements with its independent registered public accountant firm on any accounting or financial disclosures.

Item 9A. *Controls and Procedures*

(a) **Evaluation of disclosure controls and procedures.** The Company's management evaluated, with the participation of its Chief Executive Officer and its Chief Financial Officer, the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and its Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information the Company is required to disclose in reports that it files or submits 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 the Company's 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, 2004 that has materially affected, or is reasonably likely to materially affect, its 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 Company's 2004 Proxy Statement, which will be delivered to stockholders in connection with the Company's annual stockholders' meeting to be held on December 8, 2004.

Code of Ethics

In addition to the Company's Code of Business Conduct and Ethics that is applicable to all employees and directors, the Company has adopted a Code of Ethics for Principal Executive and Senior Financial Officers. The Company has posted the text of its Code of Ethics for Principal Executive and Senior Financial Officers on its Internet Web site at:

http://www.vasoftware.com/company/docs/Code_of_Ethics_for_Senior_Financial_Officers.pdf.

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 Company's 2004 Proxy Statement, which will be delivered to stockholders in connection with the Company's annual stockholders' meeting to be held on December 8, 2004.

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 Company's 2004 Proxy Statement, which will be delivered to stockholders in connection with the Company's annual stockholders' meeting to be held on December 8, 2004.

Item 13. *Certain Relationships and Related Transactions*

The information called for by this item is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's 2004 Proxy Statement, which will be delivered to stockholders in connection with the Company's annual stockholders' meeting to be held on December 8, 2004.

Item 14. *Principal Accountant Fees and Services.*

The information called for by this item is incorporated by reference to the section entitled "Principal Accountant Fees and Services" in the Company's 2004 Proxy Statement, which will be delivered to stockholders in connection with the Company's annual stockholders' meeting to be held on December 8, 2004.

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 June 10, 2004, the Company furnished a Current Report on Form 8-K under Items 4 (Changes in Certifying Accountants) and 7 (Financial Statements and Exhibits) disclosing the decision to dismiss PricewaterhouseCoopers LLP ("PWC") as the Company's independent registered public accounting firm and engage BDO Seidman, LLP ("BDO") as the Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ended July 31, 2004.

On August 26, 2004, the Company furnished a Current Report on Form 8-K under Items 2.02 (Results of Operations and Financial Condition) and 9.01 (Financial Statements and Exhibits) disclosing the issuance of a press release announcing its financial results for the fourth quarter and fiscal year ended July 31, 2004. In addition, the Company filed Exhibit 99.2 (Financial Statements) to this August 26, 2004 Current Report on Form 8-K with the Securities and Exchange Commission.

On September 14, 2004, the Company furnished a Current Report on Form 8-K under Items 1.01 (Entry into a Material Definitive Agreement) and 9.01 (Financial Statements and Exhibits) disclosing the approval of the Company's Fiscal 2005 Named Executive Officer Bonus Policy and Plan by the Company's Compensation Committee.

On October 1, 2004, the Company filed a Current Report on Form 8-K under Item 5.02 (Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers) disclosing that, effective September 20, 2004, the Company's Board of Directors appointed Andrew Anker as a member of the Company's Board of Directors.

On October 5, 2004, the Company filed a Current Report on Form 8-K under Item 1.01 (Entry into a Material Definitive Agreement) disclosing that, following Andrew Anker's appointment as a member of the Company's Board of Directors, the Company entered into an indemnification agreement with Mr. Anker on October 4, 2004.

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 and President

Date: October 14, 2004

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 (principle executive officer) and Director	October 14, 2004
/s/ KATHLEEN R. MCELWEE Kathleen R. McElwee	Senior Vice President and Chief Financial Officer (principle accounting officer)	October 14, 2004
/s/ ANDREW ANKER Andrew Anker	Director	October 14, 2004
/s/ LARRY M. AUGUSTIN Larry M. Augustin	Chairman of the Board of Directors	October 14, 2004
/s/ ANDRE M. BOISVERT Andre M. Boisvert	Director	October 14, 2004
/s/ RAM GUPTA Ram Gupta	Director	October 14, 2004
/s/ DOUGLAS LEONE Douglas Leone	Director	October 14, 2004
/s/ ROBERT M. NEUMEISTER, JR. Robert M. Neumeister, Jr.	Director	October 14, 2004
/s/ CARL REDFIELD Carl Redfield	Director	October 14, 2004
/s/ DAVID B. WRIGHT David B. Wright	Director	October 14, 2004

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 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
Year Ended July 31, 2004				
Allowance for doubtful accounts	$ 144	$ 56	$ 73	$ 127
Allowance for excess and obsolete inventory	$ 24	$ 9	$ —	$ 33

EXHIBIT INDEX

Exhibit Number		
3.1(1)	—	Amended and Restated Certificate of Incorporation of the Registrant
3.2(1)	—	Bylaws of the Registrant
4.1(1)	—	Specimen Common Stock Certificate
4.2(2)	—	Warrant to Purchase Shares of Common Stock issued to The Riverview Group LLC
10.1(1) ‡	—	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2(1) ‡	—	1998 Stock Plan and forms of agreement thereunder
10.3(1) ‡	—	1999 Employee Stock Purchase Plan
10.4(1) ‡	—	1999 Director Option Plan
10.5(3)	—	Loan and Security Agreement between Registrant and Comerica Bank — California
10.6†(4)	—	Master Lease Agreement between Boca Global, Inc. and Bordeaux Partners LLC
10.7†(5)	—	Master Lease Agreement between Registrant and Renco Investment Company
10.8(6)	—	Consent of Linus Torvalds
10.9	—	Sublease between registrant and @Road, Inc., dated June 9, 2004.
10.10	—	Consent to Sublease Agreement between registrant, @Road, Inc. and Renco Investment Company, dated June 9, 2004.
10.11(7)	—	Registration Rights Agreement between Registrant and certain holders of Common Stock, dated November 6, 2003
10.12	—	First Amendment to Registration Rights Agreement between Registrant and certain holders of Common Stock, dated October 13, 2004
23.1	—	Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm
23.2	—	Consent of PricewaterhouseCoopers, LLP, Independent Registered Public Accounting Firm
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.

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

(2) Incorporated by reference from Exhibit 4.1 of Registrant's Current Report on Form 8-K filed on November 7, 2003.
(3) Incorporated by reference from Exhibit 10.9 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).
(4) Incorporated by reference from Exhibit 10.16 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).
(5) 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).
(6) 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).
(7) Incorporated by reference from Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on November 7, 2003.

‡ Denotes a management contract or compensatory plan or arrangement.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

VA Software Corporation
Fremont, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-92409; 333-92391; 333-38768; 333-38766; 333-38874; 333-59096; 333-71944; 333-101965; and 333-116778) of our report dated August 20, 2004, except for the second paragraph of Note 5, as to which the date is September 24, 2004, relating to the consolidated financial statements and schedule of VA Software Corporation appearing in this Annual Report on Form 10-K for the year ended July 31, 2004.

/s/ BDO Seidman, LLP

San Jose, California
October 14, 2004

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (Nos. 333-92409; 333-92391; 333-38768; 333-38766; 333-38874; 333-59096; 333-71944; 333-101965; and 333-116778) of VA Software Corporation of our report dated August 20, 2003 relating to the consolidated financial statements and schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
October 5, 2004

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 periods 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, 2004

/s/ ALI JENAB

Ali Jenab
Chief Executive Officer and President

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 periods 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, 2004

/s/ KATHLEEN R. MCELWEE

Kathleen R. McElwee
Chief Financial Officer and Senior Vice President

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, 2004 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 and President

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, 2004 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 and Senior Vice President