Letter to Stockholders

Notice of 2005 Annual Meeting and Proxy Statement

2005 Annual Report to Stockholders

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VA SOFTWARE

Proxy Statement and 2005 Annual Report to Stockholders

November 2, 2005

To our Stockholders:

In my 2004 letter to you, I stated that VA Software Corporation ("VA Software") was optimistic about the opportunities ahead. Over the past year, we've seen increased evidence of these opportunities. Open source software development methodologies and open source software are being adopted by enterprise companies at an increasing rate. Our SourceForge® Enterprise Edition provides a complete tool set to enterprise customers developing software collaboratively using open source methodologies. SourceForge.net®, the world's largest open source development site, has been embraced by companies seeking open source software to deploy in their enterprises. The IT professionals using SourceForge.net are the same audience that IT marketers are trying to reach. With a recent shift to Internet marketing from print and broadcast, our media sites, led by SourceForge.net and Slashdot provide very targeted marketing opportunities for IT companies.

To better capitalize on the adoption of open source by enterprise companies, we released SourceForge Enterprise Edition version 4.2 to our customers in April 2005. Version 4.2 adds SourceForge Explorer, which allows SourceForge-held data to be accessed from a familiar Windows® desktop environment; integration with Subversion, the open source change management system; and bi-directional synchronization with Microsoft Project. In addition, SourceForge Tapestry™, our secure portal, enables customers and partners to view, learn about, and benefit from the innovations and integrations other users have made with SourceForge.

Gartner included VA Software in its "Cool Vendors in Application Development, 2005" report and the Software Development Times selected SourceForge a winner in the "Collaboration & SCM" category of the annual SD Times 100. Gartner defines a cool vendor as a company that offers technologies or solutions that are innovative, impactful or intriguing. The SD Times 100 recognizes firms for leadership and innovation in the software development industry.

During fiscal year 2005, 33 new accounts selected SourceForge. As of July 31, 2005, we had sold our solution to 130 customers, including: Acxiom, Agilent Technologies, Applied Biosystems, Bell South, Booz Allen Hamilton, British Telecom Eli Lilly, ETAS, E*TRADE, General Atomics, Hewlett-Packard Company, IBM, JP Morgan, Lockheed Martin, Los Alamos National Laboratory, Matsushita, Nortel, Northrop Grumman, Pfizer, Pixelworks, Raytheon, Sandia National Laboratories, Sapient, Sony Computer Entertainment Japan, 3Soft, Tyco, Verisign and Wind River, among others. With sales to new accounts and follow-on sales to existing accounts, revenue from our software business grew 51% year-over-year to $7.6 million during fiscal year 2005.

Our subsidiary, the Open Source Technology Group ("OSTG"), continues to experience traffic growth. Based on internal traffic audits, the OSTG network as a whole serves more than 290 million page views and nearly 19 million unique visitors monthly. SourceForge.net reached its millionth registered user in February 2005 and hosts projects posted by IBM, Google, Microsoft, NASA, Tivo, Wind River and others among the more than 100,000 projects on the site. OSTG ranks among the top technology networks both in size and visitor purchasing power. Advertisers and sponsors of the network include Microsoft, AMD, Rackspace, IBM, Hewlett-Packard Company, and Sun Microsystems.

During fiscal year 2005, we invested in OSTG's sales and marketing resources, while maintaining our commitment to our community-based technology audience. To better serve the IT and open source communities, and make OSTG even more compelling for our advertisers, OSTG commenced a re-architecture of SourceForge.net. OSTG also launched Eclipse.TechForge.com, a site focused on the Eclipse Open Source platform, plug-ins and software hosted on SourceForge.net. OSTG also introduced custom publishing solutions to technology vendors including Slashdot DayPass, Sponsor Solutions and PowerBar, all designed to better integrate the marketer's message within the OSTG site.

Finally, our financial results showed substantial improvement. Fiscal year 2005 revenue totaled $32.9 million, compared to $29.3 million for fiscal year 2004. On a GAAP basis, our net loss declined to $4.7 million, or $0.08 per share, during fiscal year 2005 compared to $7.6 million, or $0.13 per share, during fiscal year 2004. We closed fiscal year 2005 with a fourth quarter loss of $1.0 million, or $0.02 per share. We completed fiscal year 2005 with $39.4 million in cash and marketable securities.

As we enter fiscal year 2006, we are optimistic about the growth opportunities ahead for both our SourceForge and OSTG businesses. Customers clearly see the value that SourceForge provides in improved visibility and control to manage the costs and risks of decentralized software development. We continue to believe that the positioning of OSTG as a major network addressing the needs of the IT community in the move toward commercial 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, our overall financial health remains strong.

Sincerely,

Ali Jenab

President and Chief Executive Officer

VA SOFTWARE

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on December 7, 2005

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 7, 2005 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 III 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 Stonefield Josephson, Inc. as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2006 (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 10, 2005 are entitled to notice of and to vote at the meeting.

Fremont, California
November 2, 2005

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 2005 Annual Meeting of Stockholders. The Proxy Statement and the related proxy form are being distributed on or about November 2, 2005. 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 2005 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 6, 2005. 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 7, 2005, 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, 2005, 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 November 2, 2005 to all stockholders entitled to vote at the Meeting.

STOCKHOLDERS MAY RECEIVE A COPY OF THE COMPANY'S 2005 FORM 10-K NOT INCLUDING EXHIBITS AT NO CHARGE. IF YOU PREFER A COPY OF THE 2005 FORM 10-K INCLUDING EXHIBITS, YOU WILL BE CHARGED A REASONABLE FEE (WHICH SHALL BE LIMITED TO OUR REASONABLE EXPENSES IN FURNISHING SUCH EXHIBITS). REQUESTS FOR COPIES MUST BE MADE 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 10, 2005 (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 61,700,455 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 6, 2005 (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 6, 2005 (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. With respect to the election of directors pursuant to "Proposal One — To Elect Three (3) Class III Directors To Serve For A Three Year Term And Until Their Successors Are Duly Elected And Qualified — 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. With respect to "Proposal Two — To ratify the appointment of Stonefield Jospehson, Inc. as the Company's Independent Registered Public Accountants For the Fiscal Year Ending July 31, 2006", if a quorum is present and voting, the affirmative vote of the votes cast is needed to ratify the appointment of Stonefield Jospehson, Inc. as the Company's independent registered public accounting firm, to audit the consolidated financial statements of the Company for our Fiscal Year 2006.

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 treat such shares 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 Stonefield Jospehson, Inc.

as our independent registered public accounting firm for the fiscal year ending July 31, 2006; 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 Votes Cast 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 2006 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 June 30, 2006 and must satisfy the conditions established by the SEC and our bylaws 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

As of 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 Statement. 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 29, 2005, 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 10, 2005, 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 61,700,455 shares of Common Stock outstanding as of October 10, 2005. 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]	4,377,187	7.0%
Ali Jenab[3]	2,676,250	4.2%
Darryll E. Dewan[4]	904,500	1.4%
Kathleen R. McElwee[5]	664,584	1.1%
Colin Bodell[6]	611,084	1.0%
Carl Redfield[7]	436,669	*
Andrew Anker[8]	96,333	*
David B. Wright[9]	95,000	*
Robert M. Neumeister, Jr.[10]	85,000	*
Andre Boisvert[11]	75,000	*
Ram Gupta[12]	64,584	*
Sheila Baker [13]	0	*
All current directors and officers as a group (11 persons)[14]	10,086,191	14.8%

* 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 879,999 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(3) Represents 2,676,250 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(4) Includes 900,000 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(5) Represents 664,584 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(6) Includes 609,584 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(7) Includes 155,000 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(8) Includes 43,333 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(9) Represents 95,000 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(10) Represents 85,000 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(11) Represents 75,000 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(12) Represents 64,584 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

(13) Ms. Baker is a former executive officer of the Company. She resigned her position and terminated her employment with the Company in August 2005.

(14) Includes the shares beneficially owned by our current directors and officers set forth on the above table as well as 6,248,334 shares subject to options that are exercisable within sixty (60) days of October 10, 2005.

PROPOSAL ONE

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

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

— Class I consists of Larry M. Augustin and Andre Boisvert, 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 2007; 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 III directors will expire on the date of the Meeting. On December 8, 2004, the Board of Directors established a Nominating Committee comprised of Messrs. Anker, Gupta and Redfield. The Nominating Committee unanimously resolved to nominate the three Class III directors for election to the Board. The nominees for election by the stockholders to these three positions are:

— Ali Jenab;

— Robert M. Neumeister, Jr.; and

— David B. Wright.

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 III director at the Meeting will continue until our annual meeting of stockholders held in 2008 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	42	President, Chief Executive Officer and Class III Director
Colin Bodell	43	Senior Vice President and Chief Technology Officer
Darryll E. Dewan	54	Group President, SourceForge Enterprise Software
Kathleen R. McElwee	50	Senior Vice President and Chief Financial Officer
Directors		
Larry M. Augustin	43	Chairman and Class I Director
Andrew Anker(1) (3)	40	Class II Director
Andre Boisvert(1)	52	Class I Director
Ram Gupta(2) (3)	43	Class II Director
Robert M. Neumeister, Jr.(2)	55	Class III Director
Carl Redfield(2) (3)	58	Class II Director
David B. Wright(1)	54	Class III Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Nominating 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, Mr. Jenab 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.

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 Group President, SourceForge Enterprise Software, since August 2005. Mr. Dewan served as our Executive Vice President of Worldwide Field Operations from January 2004 until August

2005, 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.

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 January 2005 through October 2005, Mr. Augustin served as chief executive officer of Medsphere Systems Corporation. 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, and the Linux Mark Institute, an organization established to protect against unauthorized use of the Linux trademark. From January 2003 until January 2005, Mr. Augustin was a venture partner at Azure Capital Partners, a venture capital firm, where he specialized in software, systems, and related IT infrastructure technologies. Mr. Augustin serves on the board of directors of JBoss, Inc., Pentaho Corporation, Medsphere Systems Corporation, SugarCRM, Inc. and Fonality.

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. Mr. Boisvert serves on the board of directors of Avaki Corporation, Dynamics Direct, Inc., Palamida, Inc., Pentaho Corporation and SlickEdit, Inc.

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. 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. Mr. Gupta is a member of the board of directors of S1 Corporation.

Robert M. Neumeister, Jr., has served on our Board of Directors since June 2001. From January 2003 through October 2005, Neumeister 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. From August 2002 through July 2005, we compensated our directors who are not our officers or employees $2,500 for each Board meeting such director attended in person for the entire meeting, and $1,250 for each Board meeting such director attended telephonically for the entire meeting. From August 2002 through July 2005, we compensated our Audit Committee members $1,500 for each regularly scheduled Audit Committee meeting such member attended in person or telephonically for the entire meeting.

On June 8, 2005, our Board of Directors approved an updated policy for independent, non-employee Board member compensation based on recommendations from the Company's compensation committee of the Board (the "Compensation Committee"). The new policy offers a total compensation package that the Board believes is commensurate with other similarly-situated public companies and aligns director and shareholder interests. Effective August 1, 2005, each non-employee director will receive an annual retainer of $12,000, $2,500 for in-person attendance throughout regularly-scheduled Board meetings and $1,250 for telephonic participation throughout regularly-scheduled Board meetings. The chairperson of the Company's audit committee of the Board (the "Audit Committee") will receive an annual retainer of $7,500, Audit Committee members will receive an annual retainer of $3,000 and Audit Committee members will receive $1,500 for in-person attendance or telephonic participation throughout regularly-scheduled Audit Committee meetings. The chairperson of the Company's Compensation Committee will receive an annual retainer of $5,000 and Compensation Committee members will receive an annual retainer of $1,000. The chairperson of VA's nominating committee of the Board (the "Nominating Committee") will receive an annual retainer of $2,500 and Nominating Committee members will receive an annual retainer of $500.

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 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 seven (7) meetings during the fiscal year ended July 31, 2005 ("Fiscal Year 2005"). No director serving throughout Fiscal Year 2005 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.

The Board of Directors has three standing committees: the Audit Committee, the Compensation Committee and the Nominating Committee.

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 registered public accountants. In particular, the Audit Committee is responsible for overseeing the engagement, independence, and services of our independent auditors. The Audit Committee also serves to: (i) act as an independent and objective party to monitor our financial reporting process and internal control system, (ii) review and appraise the audit efforts of our independent auditors, (iii) evaluate our quarterly financial performance as well as our compliance with laws and regulations, (iv) oversee management's establishment and enforcement of financial policies and business practices, and (v) provide an open avenue of communication among the independent auditors, financial and senior management, counsel and the Board of Directors. The Audit Committee held six (6) meetings during Fiscal Year 2005.

The Compensation Committee consists of Messrs. Anker, 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 six (6) meetings during Fiscal Year 2005.

The Nominating Committee consists of Messrs. Anker, Gupta and Redfield, each of whom is "independent," as such term is defined by the listing standards of The Nasdaq Stock Market. The Nominating Committee identifies and evaluates qualified individuals who may become directors, determines the composition of the Board of Directors and its committees and monitors the process to assess Board of Director effectiveness. The consideration of any candidate for director will be based on the Nominating Committee's 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 Nominating Committee 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 Nominating Committee held one (1) meeting during Fiscal Year 2005.

The Nominating Committee considers nominees proposed by a number of sources, including management and stockholders. To recommend a prospective nominee for the Nominating Committee's 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 President and Chief Executive Officer. The non-employee members of our Board hold regular executive sessions.

Committees. Our Compensation, Nominating 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. After re-examining and revising its charter early in Fiscal Year 2003, the Audit Committee re-examined its charter once again in Fiscal Year 2005 but determined that no changes were necessary. Charters for each of the Committees of our Board of Directors are available on our Web site at http://www.vasoftware.com/company/index.php.

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, 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 2004 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 III NOMINEES LISTED ABOVE.**

PROPOSAL TWO

TO RATIFY THE APPOINTMENT OF STONEFIELD JOSEPHSON, INC. AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JULY 31, 2006

Our Audit Committee has selected Stonefield Josephson, Inc. ("Stonefield Josephson"), an independent registered public accounting firm, to audit our financial statements for our fiscal year ending July 31, 2006 ("Fiscal Year 2006"), 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 registered public 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.

On September 23, 2005, the Company's previous independent registered public accounting firm BDO Seidman, LLP ("BDO") notified the Audit Committee of the Board of Directors of VA Software Corporation (the "Company") that it would decline to stand for re-election as the Company's independent registered public accounting firm. BDO agreed to continue to serve as the Company's independent registered public accounting firm relative to the Company's financial statements for the fiscal year ended July 31, 2005 in order to facilitate a transition to a successor firm of independent accountants. The Audit Committee did not recommend or approve BDO's decision to decline to stand for re-election. The effective date of BDO's resignation was October 31, 2005, after completion of BDO's audit of the Company's financial statements for the year ended July 31, 2005.

During its review of the Company's interim financial statements for the fiscal third quarter ended April 30, 2005, a disagreement arose between the Company and BDO regarding the application of accounting principles, which disagreement ultimately was resolved to BDO's satisfaction. The disagreement concerned the accounting for one of the Company's volume-based sales incentive programs, specifically, whether the Company had developed sufficient historical experience to begin calculating the amount of the accrued liability pertaining to such programs based on estimated future expiration rates versus continuing to calculate the liability based on actual expirations. The Audit Committee discussed this disagreement with BDO. The Company has authorized BDO to respond fully to the inquiries from Stonefield Josephson concerning the subject matter of this disagreement.

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 registered public 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 Stonefield Josephson 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.

Accounting Fees

The following table shows the fees paid or accrued by the Company for the audit and other services provided by BDO Seidman, LLP for Fiscal Year 2005 and Fiscal Year 2004.

BDO Fees	Fiscal Year 2005	Fiscal Year 2004
Audit Fees[(1)]	$607,782	$120,000
Audit-related Fees[(2)]	$ 10,500	$ 0
Tax Fees[(3)]	$ 51,900	$ 0
All Other Fees[(4)]	$ 0	$ 0
Total BDO Fees	**$670,182**	**$120,000**

(1) "**Audit fees**" includes fees to date for audit services principally related to the year-end examination and the quarterly reviews of the Company's consolidated financial statements, the annual audit of the Company's internal control over financial reporting (beginning in Fiscal Year 2005), consultation on matters that arise during a review or audit, reviews of SEC filings and statutory audit fees. Additional fees will be billed for Fiscal Year 2005.

(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.

The following table shows the fees paid or accrued by the Company for the audit and other services provided by PricewaterhouseCoopers LLP for Fiscal Year 2004.

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

(1) "**Audit fees**" includes fees for audit services principally related to the year-end examination and the quarterly reviews of the Company'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 Stonefield Josephson, our independent registered public accounting firm. 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 Stonefield Josephson as set forth herein are compatible with maintaining Stonefield Josephson'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 Stonefield Josephson as the Company's independent registered public accounting firm, to audit the consolidated financial statements of the Company for our Fiscal Year 2006.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF STONEFIELD JOSEPHSON, INC. AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2006.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all compensation paid or accrued during Fiscal Years 2005, 2004 and 2003 to: (i) our Chief Executive Officer during Fiscal Year 2005, (ii) each of our three other most highly compensated executive officers whose annual compensation exceeded $100,000 for Fiscal Year 2005, and (iii) one additional individual for whom disclosure is necessary under item (ii) above, but who is no longer serving as an executive officer of the Company.

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Positions	Fiscal Year	Salary	Bonus	Securities Underlying Options	All Other Compensation
Ali Jenab	2005	$420,000	$ 27,769	—	—
Chief Executive Officer, President	2004	$433,847	$135,487(1)	812,500	—
and Director	2003	$400,000	$158,823	200,000	—
Colin Bodell	2005	$260,000	$ 11,460	—	—
Senior Vice President and	2004	$268,847	$ 73,880(2)	375,000	—
Chief Technology Officer	2003	$250,000	$ 25,000	100,000	—
Darryll E. Dewan	2005	$250,000	$ 12,500	—	$119,641(3)
Group President, SourceForge	2004	$192,308	—	900,000	60,280(3)
Enterprise Software	2003	—	—	—	—
Kathleen R. McElwee	2005	$225,000	$ 14,876	—	—
Senior Vice President and	2004	$230,769	$ 70,139(4)	375,000	—
Chief Financial Officer	2003	$200,000	$ 25,000	100,000	—
Sheila Baker	2005	$196,923	$ 7,052	—	—
Former Senior Vice President	2004	$ 30,769	—	460,000	—
of Marketing(5)	2003	—	—	—	—

(1) In September 2003, 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.

(2) In September 2003, 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) Pursuant to a Fiscal Year 2005 compensation agreement we entered into with Mr. Dewan in September 2004, we paid Mr. Dewan $119,641 in commission payments. 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.

(4) In September 2003, 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.

(5) In August 2005, Ms. Baker resigned her position as an executive officer of the Company, and terminated her employment with the Company. Ms. Baker joined the Company in June, 2004 and thus only served as an employee of the Company for two months during fiscal 2004.

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 2005. All options granted to these executive officers in the last fiscal year were granted under our 1998 Stock Plan. The grants of stock options set forth below are subject to change of control and separation provisions described hereinafter in the section entitled "Change of Control and Severance Agreements." The percent of the total options set forth below is based on an aggregate of 1,352,900 options granted to employees during Fiscal Year 2005. 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	—	0%	—	—	—	—
Colin Bodell	—	0%	—	—	—	—
Darryll E. Dewan	—	0%	—	—	—	—
Kathleen R. McElwee	—	0%	—	—	—	—
Sheila Baker	—	0%	—	—	—	—

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 2005 and exercisable and unexercisable stock options held by our executive officers named in the summary compensation table at July 31, 2005. The value of unexercised in-the-money options is based on a value of $1.72 per share, the fair market value of our Common Stock as of Friday, July 29, 2005, the last trading day of Fiscal Year 2005, 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

			Number of Securities Underlying Unexercised Options at July 31, 2005		Value of Unexercised In-the-Money Options at July 31, 2005[1]	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Ali Jenab	—	—	2,530,416	195,834	$638,474.70	$123,125.30
Colin Bodell	—	—	574,167	60,417	$100,757.11	$ 28,937.65
Darryll E. Dewan	—	—	900,000	—	$ —	$ —
Kathleen R. McElwee	—	—	654,167	35,417	$ 20,624.85	$ 15,937.65
Sheila Baker	—	—	460,000	—	$ —	$ —

(1) Total value of vested options based on fair market value of Company's Common Stock of $1.72 per share as of Friday, July 29, 2005.

[2] The Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R") became effective for the Company on August 1, 2005. SFAS 123R requires that compensation cost related to share-based payment transactions, including stock options, be recognized in the financial statements. On June 8, 2005, in response to SFAS 123R, the Board approved the acceleration of the vesting of all of the out-of-the-money, unvested stock options, except for options held by the Company's non-employee directors. An option was considered out-of-the-money if the stated option exercise price was greater than $1.67, the NASDAQ Official Closing Price of the Company's common stock on June 7, 2005, the last trading day before the Board approved the acceleration in accordance with the Compensation Committee's recommendation. As a result of the Board's decision to accelerate the vesting of all of the out-of-the-money, unvested stock options, except for options held by the Company's non-employee directors, options held by VA's executive officers to purchase approximately 2,145,473 shares of VA common stock became immediately exercisable as of June 8, 2005.

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 letter of the Company's General Counsel to insert change of control and termination of employment provisions.

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

If we elect to terminate Ms. McElwee's, Mr. Bodell's, Mr. Dewan's or the General Counsel'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 General Counsel, 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 General Counsel, 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 Ms. McElwee, Mr. Bodell, Mr. Dewan and the General Counsel 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, 2005. Some compensation amounts earned by our executive officers during the fiscal year ended July 31, 2005 were paid during Fiscal Year 2006. Actual compensation paid during Fiscal Year 2005 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 2006, in addition to utilizing Culpepper data, the Compensation Committee engaged J. Richard & Co., a consulting company specializing in executive officer and director compensation. For Fiscal Year 2006, the Compensation Committee has determined to increase Mr. Dewan's base salary from two hundred fifty thousand dollars ($250,000) per year to three hundred twenty thousand dollars ($320,000) per year and leave base salaries for other executive officers unchanged from Fiscal Year 2005.

Bonuses. For Fiscal Year 2005, the Compensation Committee established a named executive officer bonus plan, whereby the Compensation Committee evaluated each executive officer individually to determine bonuses, if any, based on performance criteria given to each executive officer at the commencement of each fiscal half year. These criteria included milestones aligned with our financial performance. In March 2005, based upon attainment of Compensation Committee-established first half of Fiscal Year 2005 performance criteria, the Compensation Committee awarded first half of Fiscal Year 2005 bonuses of $7,052, $14,876 and $11,460 to Ms. Baker, Ms. McElwee and Mr. Bodell, respectively. In September 2005, based upon attainment of Compensation Committee-established second half of Fiscal Year 2005 performance criteria, the Compensation Committee awarded second half of Fiscal Year 2005 bonuses of $17,706 and $19,305 to Ms. McElwee and Mr. Bodell, respectively. For Fiscal Year 2006, the Compensation Committee has adopted a named executive officer bonus plan designed to evaluate each executive officer individually to determine quarterly bonuses, if any, based on performance criteria given to each executive officer at the commencement of each quarter.

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. We do not make matching contributions to the 401(k). Under the Company's 1999 Employee Stock Purchase Plan (the "ESPP"), eligible employees, including our officers, had the opportunity to purchase the Company's common stock at a discount from the current market price through accumulated payroll deductions. The most recent Offering Period (as defined in the ESPP) was scheduled to terminate on August 31, 2005. On June 8, 2005, in response to the potential unfavorable financial accounting consequences that may result from the implementation of SFAS 123R, the Board, pursuant to its authority under the ESPP, determined that it was in the best interests of the Company and its stockholders to terminate the ESPP in its entirety as of July 29, 2005 and to amend the final offering period under the ESPP such that it terminated contemporaneously with the ESPP on July 29, 2005.

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 March 2005, the Compensation Committee granted Mr. Jenab a bonus of $27,769 in accordance with Compensation Committee-established first half of Fiscal Year 2005 performance criteria. In September 2005, the Compensation Committee granted Mr. Jenab a bonus of $31,185 in accordance with Compensation Committee-established second half of Fiscal Year 2005 performance criteria The Compensation Committee believes that Mr. Jenab performed well throughout Fiscal Year 2005, providing valuable assistance and leadership as we grew our business.

In determining Mr. Jenab's Fiscal Year 2005 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 2006, based on the same methodology, the Compensation Committee has determined to leave Mr. Jenab's base salary unchanged from Fiscal Year 2005.

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

Andre Boisvert, Chairman
Andrew Anker
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 2005

The Audit Committee discussed with BDO Seidman, LLP ("BDO"), our independent registered public accounting firm, 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 registered public 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 (6) meetings during Fiscal Year 2005.

On September 23, 2005, BDO notified the Audit Committee that it would decline to stand for re-election as the Company's independent registered public accounting firm. BDO served as the Company's independent registered public accounting firm relative to the Company's financial statements for the fiscal year ended July 31, 2005 in order to facilitate a transition to a successor firm of independent accountants. The Audit Committee did not recommend or approve BDO's decision to decline to stand for re-election. The effective date of BDO's resignation occurred on October 31, 2005, after completion of BDO's audit of the Company's financial statements for the Company's fiscal year ended July 31, 2005.

On October 10, 2005, the Audit Committee appointed Stonefield Josephson as the Company's independent registered public accounting firm, subject to the completion of Stonefield Josephson's normal client acceptance procedures. On October 21, 2005, Stonefield Josephson notified the Audit Committee that it had completed its normal client acceptance procedures successfully.

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 2005 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 Stonefield Josephson as our independent registered public accounting firm for Fiscal Year 2006.

Respectfully Submitted By:

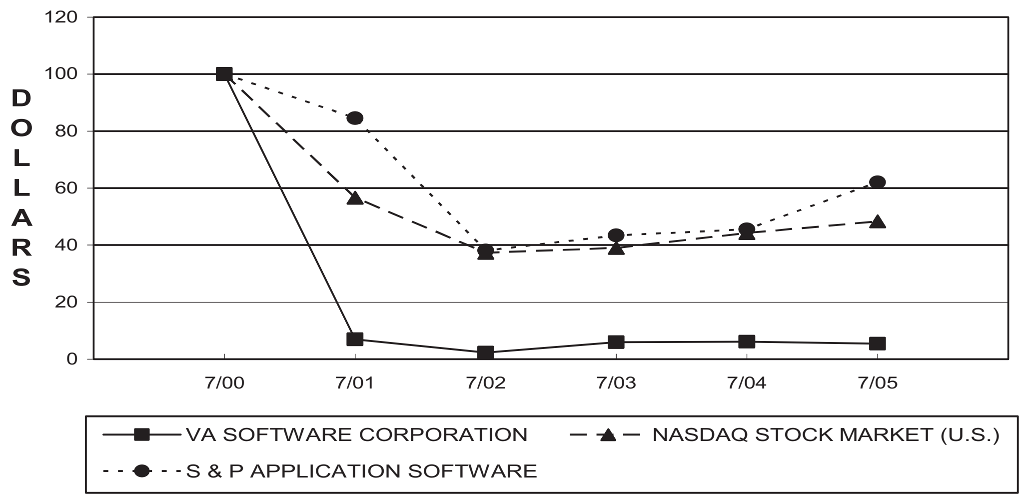
MEMBERS OF THE AUDIT COMMITTEE

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 July 31, 2000 and ending on July 31, 2005. Returns for the indices are weighted based on market capitalization at the beginning of each measurement point.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
AMONG VA SOFTWARE CORPORATION,
THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE S&P APPLICATION SOFTWARE INDEX



* The graph assumes that $100 was invested on July 31, 2000, in our Common Stock, at the closing price of $31.75 per share, and $100 was invested on July 31, 2000, 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

	7/31/00	7/31/01	7/31/02	7/31/03	7/31/04	7/31/05
VA Software Corporation	100.00	6.96	2.27	5.92	6.11	5.42
NASDAQ Stock Market (U.S.) Index	100.00	56.60	37.29	39.05	44.24	48.31
S&P Application Software Index	100.00	84.51	38.10	43.44	45.52	62.03

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 2005 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: November 2, 2005

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, 2005

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 [ ]

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

As of September 30, 2005, there were 61,690,872 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, 2005 (based on the closing price for the Common Stock on the NASDAQ National Market for such date) was approximately $112,860,976. 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 2005 Annual Meeting of Stockholders ("Proxy Statement") to be held on December 10, 2005, and to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year ended July 31, 2005, 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 (the "Company") 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 100 F Street, NE, 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 content of this web site is 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 our annual reports on Form 10-K 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 23%, 17% and 12% of net revenues during fiscal 2005, 2004 and 2003, 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 August 30, 2005, OSTG reaches more than 19 million unique visitors and serves more than 290 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 August 30, 2005, SourceForge.net was the development home for more than 100,000 software development projects and had more than 1,000,000 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 25%, 33% and 43% of net revenues during fiscal 2005, 2004 and 2003, 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 brick-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.

The E-commerce segment represented 45%, 43% and 35% of net revenues during fiscal 2005, 2004 and 2003, 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 that 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.

The Online Images segment represented 7% of net revenues during each fiscal period 2005, 2004 and 2003, 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 on-line 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.

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's site, Animation.com, which offers similar 3-D animation subscriptions.

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 2006 will begin on November 1, 2005, and end on January 31, 2006. 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, 2005, our employee base totaled 127, including 35 in operations, 35 in sales and marketing, 37 in research and development and 20 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	3,160	2006

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 on the NASDAQ National Market System under the symbol LNUX. As of October 10, 2005, there were 865 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, 2005:		
Fourth Quarter	$2.00	$1.34
Third Quarter	$2.08	$1.32
Second Quarter	$2.99	$1.84
First Quarter	$2.13	$1.58
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

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, 2005, 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	11,134,549(2)	$2.89	13,970,399 (3)–(6)

(1) The table does not include information for equity compensation plans assumed by the Company in acquisitions. As of July 31, 2005, a total of 91,497 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, 2005 is $39.12. The Company does not grant additional awards under these assumed plans.

(2) Includes 10,552,465 options outstanding under the Company's 1998 Stock Plan and 582,084 options outstanding under the Company's 1999 Director's Plan.

(3) Includes 2,461,987 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, 2005, July 31, 2004 and July 31, 2003 and the balance sheet data as of July 31, 2005 and July 31, 2004 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 27, 2002 and July 28, 2001 and the balance sheet data as of July 31, 2003, July 27, 2002 and July 28, 2001 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, 2005	July 31, 2004	July 31, 2003	July 27, 2002	July 28, 2001
Selected Consolidated Statements of Operations Data:					
Net revenues	$32,887	$ 29,261	$ 24,228	$ 20,385	$ 134,890
Cost of revenues	16,434	15,537	12,780	9,661	154,103
Gross margin	16,453	13,724	11,448	10,724	(19,213)
Loss from operations	(5,652)	(11,007)	(14,882)	(93,248)	(531,798)
Net loss	(4,694)	(7,640)	(13,798)	(91,038)	(525,268)
Net loss attributable to common stockholders	$ (4,694)	$ (7,640)	$(13,798)	$(91,038)	$(525,268)
Basic and diluted net loss per share	$ (0.08)	$ (0.13)	$ (0.25)	$ (1.72)	$ (10.78)
Shares used in computing basic and diluted net loss per share	61,454	59,684	54,110	53,064	48,741
Selected Balance Sheet data at year-end:					
Cash, cash equivalents and investments	$38,420	$ 44,042	$ 38,847	$ 53,046	$ 80,083
Working capital	$34,369	$ 25,866	$ 28,825	$ 33,486	$ 62,444
Total assets	$47,381	$ 53,679	$ 48,495	$ 66,968	$ 173,033
Liabilities, net of current portion	$ 7,378	$ 9,192	$ 11,953	$ 15,575	$ 13,178
Total stockholders' equity (deficit)	$31,665	$ 35,770	$ 27,202	$ 39,388	$ 126,362

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 2005 were to continue to add new SourceForge customers 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 continued to increase the number of customers to whom we have sold our SourceForge products, totaling 130 at July 31, 2005.

Within the Online Media segment, we reached record levels of page views, unique visitors and advertisers. As of July 31, 2005, OSTG reached nearly 19 million unique visitors and served more than 290 million page views per month.

Within the E-commerce segment, we continued to increase our customer base, increasing the number of orders by 17% from the prior year.

Within the Online Images segment, we grew our revenue by 19% from the prior year.

Net revenues during fiscal 2005 increased as compared to fiscal 2004 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 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.

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

For total operations, our net loss was $4.7 million, $7.6 million and $13.8 million during fiscal year 2005, 2004 and 2003, respectively, or $0.08, $0.13 and $0.25, 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 because 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. Prior to the fiscal year ended July 31, 2004, we recorded 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. In the second quarter of fiscal 2005, a minor credit adjustment of $0.1 million was recorded to accurately reflect the current common area maintenance fees associated with the Fremont facilities. 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 and 2005 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 valuation allowance 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.

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, 2005	July 31, 2004	July 31, 2003
Consolidated Statements of Operations Data:			
Net revenues	100.0	100.0	100.0
Cost of revenues	50.0	53.1	52.7
Gross margin	50.0	46.9	47.3
Operating expenses:			
Sales and marketing	30.6	34.5	40.4
Research and development	18.6	23.0	32.3
General and administrative	18.0	15.9	26.6
Restructuring costs and other special charges	(0.3)	11.0	(1.1)
Amortization of deferred stock compensation	0.0	0.1	0.6
Amortization of goodwill and intangible assets	0.0	0.0	8.9
Impairment of long-lived assets	0.3	0.0	1.0
Total operating expenses	67.2	84.5	107.7
Loss from operations	(17.2)	(37.6)	(60.4)
Remeasurement of warrant liability	0.0	5.4	0.0
Interest and other income, net	2.9	6.2	4.5
Net loss	(14.3)%	(26.0)%	(56.9)%

Net Revenues

($ in thousands)	Year Ended July 31, 2005	Year Ended July 31, 2004	Year Ended July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
SourceForge revenues	$ 7,555	$ 4,995	$ 2,918	51%	71%
Online Media revenues	8,130	9,728	10,405	(16%)	(7%)
E-commerce revenues	14,918	12,567	8,565	19%	47%
Online Images revenues	2,284	1,922	1,580	19%	22%
Other revenues	—	49	760	(100%)	(94%)
Net revenues	$32,887	$29,261	$24,228	12%	21%

Net revenues increased during fiscal 2005 as compared to fiscal 2004 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 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.

Sales for the fiscal years ended 2005, 2004, and 2003 were primarily to customers located in the United States of America.

For the fiscal years ended July 31, 2005 and 2004, respectively no one customer represented 10% or greater 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, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
SourceForge revenues	$7,555	$4,995	$2,918	51%	71%
Percentage of total net revenues	23%	17%	12%		
Aggregate # of customers sold to	130	97	55	34%	76%
Avg contract value	$ 106	$ 75	$ 60	41%	25%

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

The growth during fiscal 2005 was primarily related to the SourceForge licensing and maintenance components of SourceForge revenue. We have increased the number of customers to whom we have licensed SourceForge to 130 and increased our average value of contracts sold during fiscal 2005 to $106,000. This is compared to 97 customers to whom we had licensed SourceForge with an average value of contracts sold during fiscal 2004 of $75,000.

The growth during fiscal 2004 was primarily related to the SourceForge licensing and maintenance components of SourceForge revenue. We increased the number of customers to whom we licensed SourceForge to 97 and increased our average value of contracts sold during fiscal 2004 to $75,000. This is compared to 55 customers to whom we had licensed SourceForge with an average value of contracts sold during fiscal 2003 of $60,000.

We expect SourceForge revenues to continue to increase as our new and returning customer base grows and our average contract value increases.

Online Media Revenues

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Online Media revenues	$8,130	$9,728	$10,405	(16%)	(7%)
Percentage of total net revenues	25%	33%	43%		

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. During fiscal 2004 and 2003, Online Media revenues also included $1.4 million and $2.0 million of barter revenue, respectively.

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Cash advertising	$5,805	$6,744	$ 3,944	(14%)	71%
Barter advertising	—	1,427	1,957	(100%)	(27%)
Sponsorships	390	715	4,350	(45%)	(84%)
Donations	32	412	—	(92%)	100%
Other revenue	1,903	430	154	343%	179%
Online Media revenues	$8,130	$9,728	$10,405	(16%)	(7%)

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. Prior to our fiscal year ended July 31, 2004, we recorded 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 or in conjunction with the delivery requirements set forth in the contract. Sponsorship revenue in fiscal 2005 and 2004 relates to certain contracts with one customer, IBM. The decrease in sponsorship revenue in fiscal 2005 as compared to fiscal 2004 was due to the expiration of one of those IBM contracts in the fourth quarter of fiscal 2004. Sponsorship revenue in fiscal 2003 was primarily derived from one customer, Intel. The decrease in sponsorship revenue in fiscal 2003 as compared to fiscal 2004 was the result of Intel not renewing its contract for fiscal 2004 and 2005.

Other revenue includes paid search, contextually-relevant advertising and referral fees.

	Year Ended			% Change	% Change
($ in thousands)	**July 31, 2005**	**July 31, 2004**	**July 31, 2003**	**Fiscal 2004 to 2005**	**Fiscal 2003 to 2004**
Cash advertising	$ 5,805	$ 6,744	$ 3,944	(14%)	71%
Impressions delivered	538,151	1,162,028	563,795	(54%)	106%
Average CPM rate	$ 10.79	$ 5.80	$ 7.00	86%	(17%)

The decrease in cash advertising revenue during fiscal 2005 as compared to fiscal 2004 was due to a significant decrease in the number of impressions delivered, offset by a substantial increase in the average contract CPM rate. The decrease in the number of impressions delivered was primarily due to the decline in online advertising associated with an individually significant customer who had received a volume discount. The increase in average CPM rates was the result of the decline in advertising associated with this individually significant customer, which drove the average CPM rate for fiscal 2004 down. In fiscal 2005, this customer represented only 4% of total cash advertising revenues. However, in fiscal 2004, this same customer represented 29% of cash advertising revenues.

The increase in cash advertising revenue during fiscal 2004 as compared to fiscal 2003 was due to a significant increase in the number of impressions delivered, offset by a decrease in the average contract CPM rate. The increase in the number of impressions delivered was primarily due to increased online advertising associated with an individually significant customer who had received a volume discount. The decrease in average CPM rates was the result of the increased advertising associated with this individually significant customer, which drove the average CPM rate for fiscal 2004 down. In fiscal 2004, this customer represented 29% of total cash advertising revenues. However, in fiscal 2003, this same customer represented 17% of cash advertising revenues.

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	% Change
($ in thousands)	**July 31, 2005**	**July 31, 2004**	**July 31, 2003**	**Fiscal 2004 to 2005**	**Fiscal 2003 to 2004**
E-commerce revenues	$ 14,918	$ 12,567	$ 8,565	19%	47%
Percentage of total net revenues	45%	43%	35%		
# of Orders (per year)	235,375	201,542	138,495	17%	46%
Avg order size (in whole dollars)	$ 63.38	$ 62.35	$ 61.84	2%	1%

E-commerce revenues are derived from the online sale of consumer goods, including shipping, net of any returns and allowances.

The growth in fiscal 2005 and 2004 was 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 17% and 46% increase in the number of orders placed during fiscal 2005 and 2004, respectively.

We expect E-commerce revenues to continue to grow as our E-commerce customer base grows.

Online Images Revenues

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Online Images revenues	$2,284	$1,922	$1,580	19%	22%
Percentage of total net revenues	7%	7%	7%		

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

The growth in fiscal 2005 and 2004 was 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

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Other revenues	$ —	$ 49	$760	(100%)	(94%)
Percentage of total net revenues	0.0%	0.2%	3.1%		

Other revenues were derived from our former hardware, and related customer support, and professional services businesses. The decrease in other revenues in fiscal 2005 and 2004 is the direct result of exiting these former businesses. We expect other revenues to remain at zero going forward.

Our revenue recognition policy related to our former hardware systems business followed SAB 104, "Revenue Recognition." Under SAB 104, 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

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Cost of revenues	$16,434	$15,537	$12,780	6%	22%
Gross margin	$16,453	$13,724	$11,448	20%	20%
Gross margin %	50%	47%	47%		

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 and Online Images businesses. 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:

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Cost of revenues	$16,434	$15,537	$12,780	6%	22%
Add back restructuring recoveries	—	12	432	(100%)	(97%)
Cost of revenues (excl restructuring)	$16,434	$15,549	$13,212	6%	18%
Gross margin (excl restructuring)	$16,453	$13,712	$11,016	20%	24%
Gross margin % (excl restructuring)	50%	47%	45%		

The restructuring credits in fiscal 2004 and 2003 were related to adjustments of prior period restructuring charges associated with inventory and warranty reserves in connection with our former hardware business.

The increase in gross margins excluding the prior period restructuring reserves adjustments was primarily the result of improvements in the SourceForge, E-commerce and Online Images businesses, offset by a decline in the Online Media margins.

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

SourceForge Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
SourceForge cost of revenues	$1,028	$1,860	$1,997	(45%)	(7%)
SourceForge gross margin	$6,527	$3,135	$ 921	108%	240%
SourceForge gross margin %	86%	63%	32%		

SourceForge cost of revenues consist of personnel and outside contractor costs associated with providing software customer and professional services.

The increase in our SourceForge gross margin percentages for fiscal 2005 as compared to fiscal 2004 was primarily the result of lower outside contractor costs, decreased personnel costs due to a decrease in headcount and leveraging our fixed personnel costs while increasing revenue levels. The increased margin associated with lower outside contractor costs accounted for $0.3 million. The increased margin associated with decreased personnel accounted for $0.2 million, and the increased margin associated with leveraging our fixed personnel costs accounted for $0.3 million.

The increase in our SourceForge gross margin percentages for fiscal 2004 as compared to fiscal 2003 was primarily the result of decreased personnel costs due to a decrease in headcount. The increased margin associated with decreased personnel accounted for $0.2 million.

Online Media Cost of Revenues/Gross Margin

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Online Media cost of revenues	$3,320	$2,969	$3,852	12%	(23%)
Online Media gross margin	$4,810	$6,759	$6,553	(29%)	3%
Online Media gross margin %	59%	69%	63%		

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 decrease in Online Media gross margin percentages for fiscal 2005 as compared to fiscal 2004 was primarily driven by the increase in Online Media cost of revenues on lower overall revenue volumes, primarily due to our elimination of our revenue generating barter programs. The increase in cost of revenues was primarily due to an increase in personnel costs related to editorial content contractors of $0.2 million and an increase in corporate overhead facilities costs of $0.2 million as a result of consolidating operations, offset by a decrease in depreciation expense and bandwidth costs associated with delivering advertising of $0.1 million.

The increase in Online Media gross margin percentages for fiscal 2004 as compared to fiscal 2003 was driven by the decrease in depreciation expense associated with servers that deliver editorial content and advertising of $0.8 million.

E-commerce Cost of Revenues/Gross Margin

	Year Ended			% Change	% Change
($ in thousands)	**July 31, 2005**	**July 31, 2004**	**July 31, 2003**	**Fiscal 2004 to 2005**	**Fiscal 2003 to 2004**
E-commerce cost of revenues	$11,591	$10,225	$7,025	13%	46%
E-commerce gross margin	$ 3,327	$ 2,342	$1,540	42%	52%
E-commerce gross margin %	22%	19%	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 gross margin percentages increased for fiscal 2005 as compared to fiscal 2004 as a result of higher product margins due to product mix, offset by a slight deterioration in shipping and fulfillment margins. The increase in E-commerce cost of revenues in absolute dollars in fiscal 2005 as compared to fiscal 2004 was primarily due to increased product costs of $0.6 million, shipping costs of $0.6 million and fulfillment costs of $0.2 million. The increase in product costs was the result of increased E-commerce revenue levels. The increase in shipping costs was partially related to increased revenue levels and partially due to rate increases and fuel surcharges by both UPS and DHL. The increase in fulfillment costs was partially related to increased revenue levels and partially due to the transition associated with changing our third party fulfillment partner in the later part of the fourth quarter of fiscal year 2004.

E-commerce gross margin percentages remained relatively flat for fiscal 2004 as compared to fiscal 2003. The increase in E-commerce cost of revenues in absolute dollars in fiscal 2004 as compared to fiscal 2003 increased consistent with increased E-commerce revenue levels.

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 continue to improve slightly as volume grows.

Online Images Cost of Revenues/Gross Margin

	Year Ended			% Change	% Change
($ in thousands)	**July 31, 2005**	**July 31, 2004**	**July 31, 2003**	**Fiscal 2004 to 2005**	**Fiscal 2003 to 2004**
Online Images cost of revenues	$ 495	$ 495	$ 339	0%	46%
Online Images gross margin	$1,789	$1,427	$1,241	25%	15%
Online Images gross margin %	78%	74%	79%		

Online Images cost of revenues consist of direct material costs for animation CDs and personnel costs associated with the operations.

The increase in our Online Images gross margin percentages for fiscal 2005 as compared to fiscal 2004 was primarily due to increased revenues as material costs remained consistent year over year.

The decrease in our Online Images gross margin percentages for fiscal 2004 as compared to fiscal 2003 was primarily due to increased server capacity and bandwidth usage as the business had 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.

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Sales & Marketing	$10,060	$10,093	$9,791	—%	3%
Percentage of total net revenues	31%	34%	40%		
Headcount	35	30	27		

The slight decrease in absolute dollars in fiscal 2005 as compared to fiscal 2004 was primarily related to a decrease in our Online Media marketing expense related to barter of $1.4 million, offset by increases in employee expenses of $0.8 million, commission expenses of $0.3 million, credit card fees of $0.1 million and marketing expense of $0.2 million. The decline in our barter marketing expense was due to the elimination of our revenue generating barter related programs in the first quarter of fiscal 2005. The $0.8 million increase in employee expense was primarily related to an increase in headcount. The $0.3 million in commission expense was a direct result of increased revenue related to our SourceForge segment. The increase in credit card fees was related to our ThinkGeek segment and was the result of increased sales volumes. The increase in marketing expense was related to public relations for our Online Media segment. The decrease as a percentage of net revenues was due to increased revenue levels.

The increase in absolute dollars in fiscal 2004 as 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 associated with barter programs of $0.6 million. The decrease as a percentage of net revenues was due to increased revenue levels.

Going forward, we do not anticipate any expense related to barter programs. 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.

Research and Development Expenses

Research and development ("R&D") expenses consist primarily of salaries and related expenses for software engineers. We expense all of our research and development costs as they are incurred.

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
SourceForge R&D	$3,726	$4,635	$6,186	(20%)	(25%)
Online Media R&D	1,799	1,541	1,161	17%	33%
E-commerce R&D	235	178	122	32%	46%
Online Images R&D	362	378	346	(4%)	9%
Total Research & Development	$6,122	$6,732	$7,815	(9%)	(14%)
Percentage of total net revenues	19%	23%	32%		
Headcount	37	36	34		

The decrease in absolute dollars in fiscal 2005 as compared to fiscal 2004 was primarily due to a decrease in allocated facility expenses of $0.6 million. The decrease in allocated facility expenses was primarily related to rent and depreciation. Rent expense has decreased in fiscal 2005 as compared to fiscal 2004 as a result of our moving into a smaller facility late in the third quarter of fiscal 2004. Depreciation expense has decreased as well due to moving into the smaller facility and writing off the remaining assets associated with the larger facility occupied in fiscal 2004. 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.

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.

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, 2005	Year Ended July 31, 2004	Year Ended July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
General & Administrative	$5,925	$4,665	$6,455	27%	(28%)
Percentage of total net revenues	18%	16%	27%		
Headcount	20	19	17		

The increase in absolute dollars in fiscal 2005 as compared to fiscal 2004 was primarily related to the reversal of legal expenses in the first quarter of fiscal 2004 of $1.2 million, $0.9 million of which was associated with the IPO Securities Litigation that was ultimately paid by one of our insurers and $0.3 million of which related to a lawsuit that was favorably resolved. Excluding these reversals, general and administrative expenses increased slightly in fiscal 2005 as compared to fiscal 2004. The increase, excluding reversals of legal expenses, was primarily related to increased accounting fees, offset by decreased employee expenses, recruiting expenses and allocated facility expenses. The increase in accounting fees of $0.9 million was due to additional costs associated with complying with the Sarbanes-Oxley Act of 2002. The decrease in employee expenses of $0.3 million was associated with lower bonuses earned in fiscal 2005 as compared with those earned in fiscal 2004. The decrease in recruiting expenses of $0.2 million was associated with the placement fee for one of the company's executives in the second and third quarters of 2004. The decrease in allocated facility expenses of $0.5 million was primarily related to rent and depreciation. Rent expense has decreased for fiscal 2005 as compared to fiscal 2004 as a result of moving into a smaller facility late in the third quarter of fiscal 2004. Depreciation expense has decreased as well due to moving into the smaller facility and writing off the remaining assets associated with the larger facility occupied in fiscal 2004. The increase as a percentage of net revenues was primarily due to our increased expense levels as described above.

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 decrease from 2005 levels in absolute dollars and decrease as a percentage of revenue in the future.

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 to 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 principle 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 principle, 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 was recorded in the consolidated statement of operations for that period. In the second quarter of fiscal 2005, a minor credit adjustment of $0.1 million was recorded to accurately reflect the current common area maintenance fees associated with the Fremont facilities. The remaining accrual from non-cancelable lease payments, which continue through 2010, 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, 2005, we had an accrual of approximately $7.9 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

In addition to the above, 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 for 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 2001–2003	Total Charged To Operations Fiscal 2004	Total Charged/ (Credited) To Operations Fiscal 2005	Total Cash Receipts/ (Payments)	Restructuring Liabilities at July 31, 2005
Cash Provisions:					
Other special charges relating to restructuring activities	$ 1,349	$ —	$ —	$ (1,349)	$ —
Facilities charges	16,176	713	(101)	(8,933)	7,855
Employee severance and other related charges	5,532	—	—	(5,532)	—
Total cash provisions	23,057	713	(101)	$(15,814)	$7,855
Non-cash:					
Write-off of goodwill and intangibles	90,355	—	—		
Write-off of other special charges relating to restructuring activities	9,323	2,496	—		
Write-off of accelerated options from terminated employees	1,352	—	—		
Acceleration of deferred stock compensation	36,064	—	—		
Total non-cash provisions	137,094	2,496	—		
Total provisions	$160,151	$3,209	$(101)		

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 31, 2003	$17,994	$ 306	$(3,411)	$14,889
For the year ended July 31, 2004	$14,889	$ 713	$(4,319)	$11,283
For the year ended July 31, 2005	$11,283	$ (101)	$(3,327)	$ 7,855

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
As of July 31, 2003	$ 4,117	$10,772	$14,889
As of July 31, 2004	$ 3,440	$ 7,843	$11,283
As of July 31, 2005	$ 1,748	$ 6,107	$ 7,855

Amortization of Deferred Stock Compensation

In connection with the grant of stock options to employees during fiscal 1999 and prior to our initial public offering in fiscal 2000, we recorded deferred stock compensation within stockholders' equity that was amortized on an accelerated basis in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 28 over the vesting period for the individual award. The amortization expense relates to options awarded to employees in all operating expense categories, however, the amortization of deferred stock compensation has not been separately allocated to these categories. We expensed deferred stock compensation of $20,000 and $0.1 million for fiscal years 2004 and 2003, respectively. Deferred stock compensation was fully amortized as of July 31, 2004. As such, there was no deferred stock compensation expense during fiscal 2005.

In December 2004, the FASB issued SFAS 123 — revised 2004 ("SFAS 123R"), "Share-Based Payment" which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. Beginning in the first fiscal quarter of 2006, we will adopt SFAS 123R. We expect the adoption of SFAS 132R to have a significant adverse impact on our consolidated statements of income and net income per share.

On June 8, 2005, our Compensation Committee of the Board of Directors approved the vesting acceleration of certain unvested, out-of-the-money stock options outstanding under our employee stock option plans, effective June 7, 2005. Vesting was accelerated for stock options that had exercise prices greater than $1.67 per share, which was the closing price of our common stock on June 7, 2005. This action was taken to reduce the impact of future compensation expense that we would otherwise be required to recognize in future consolidated statements of operations pursuant to SFAS 123R, which is applicable to us beginning in the first fiscal quarter of 2006. As a result of the acceleration, we expect to reduce future compensation expense by approximately $8.1 million over fiscal years 2006, 2007 and 2008.

Intangible Assets

Intangible assets are amortized on a straight-line basis over three to five years. Intangible asset amortization of $12,000, $12,000 and $2.1 million was recorded in fiscal 2005, 2004 and 2003, respectively. The intangible asset carrying value at July 31, 2005 is $7,000 and relates to domain and trade names associated with our current SourceForge and OSTG businesses. This balance has been included in "Other Assets" in the Consolidated Balance Sheets. We continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of these intangible assets may not be recoverable. No events or circumstances occurred during fiscal year 2005 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2005.

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 were 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. This credit adjustment was offset by a $0.3 million non-cash expense which 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. As a result of the S-3 becoming effective on April 30, 2004, the remaining liability for the Warrants of $0.6 million was reclassified to equity as of that date. The Company is required to maintain the effectiveness of the Registration Statement on a commercially-reasonable basis.

Related Party Transactions

As of July 31, 2005, we hold an investment of approximately 14% in VA Linux Systems Japan, K.K. ("VA Linux Japan"). We continually evaluate whether events or circumstances have occurred that indicate the remaining value of the investment may be impaired. Based on the valuation performed at July 31, 2005, a small impairment was recorded for $0.1 million during the fourth quarter of fiscal 2005. There is no quoted market price for this investment; accordingly, fair value was estimated by management based on the estimated fair value of the underlying net assets. This investment is reported under our SourceForge segment. The impairment has been included in "Impairment of long-lived assets" in the Consolidated Statements of Operations and Other Comprehensive Income/(Loss)". As of July 31, 2005, we had an investment balance of $0.4 million. This balance has been included in "Other Assets" in the Consolidated Balance Sheets. VA Linux Japan acts as a reseller of the our SourceForge application to customers in Japan and, pursuant to a license agreement with us, resyndicates certain OSTG Web sites for the Japanese market. There are $59,000 of related-party receivables and $47,000 of related-party deferred revenue associated with VA Linux Japan as of July 31, 2005 that are included in trade receivables and deferred revenue in the accompanying Condensed Consolidated Balance Sheets. There are no related-party receivables and deferred revenue associated with VA Linux Japan as of July 31, 2004 that are included in trade receivables and deferred revenue in the accompanying Condensed Consolidated Balance Sheets. There were $0.5 million, $0.2 million and $0.1 million related-party revenues associated with VA Linux Japan for the years ended July 31, 2005, July 31, 2004 and July 31, 2003, respectively.

Interest and Other Income, Net

($ in thousands)	Year Ended July 31, 2005	July 31, 2004	July 31, 2003	% Change Fiscal 2004 to 2005	% Change Fiscal 2003 to 2004
Interest Income	$914	$911	$1,132	—%	(20%)
Interest Expense	($ 39)	($ 5)	($ 8)	*	(38%)
Other Income (Expense)	$ 83	$895	($ 40)	*	*

* Percentage not meaningful

Interest income remained consistent for fiscal 2005 as compared to fiscal 2004 on lower cash levels due to increased returns on our cash.

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. For additional information, please refer to Item 7A "Quantitative and Qualitative Disclosures About Market Risk".

The increase in interest expense in fiscal 2005 as compared to fiscal 2004 was due to the equipment capital lease that we entered into in the second quarter of fiscal 2005. The capital lease expires in October 2005.

Other income and expenses decreased in fiscal 2005 as compared to fiscal 2004 primarily due to proceeds received from a legal settlement in the first quarter of fiscal 2004 of $1.0 million.

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.

Income Taxes

As of July 31, 2005, we had $346.2 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 2025 and fiscal year 2015, 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, 2005	July 31, 2004	July 31, 2003
Net cash provided by (used in):			
Operating activities	$(6,135)	$(10,912)	$(15,809)
Investing activities	(2,814)	(2,322)	(14,448)
Financing activities	552	17,840	1,400
Effect of exchange rate changes on cash and cash equivalents	(69)	55	12
Net change in cash and cash equivalents	$(8,466)	$ 4,661	$(28,845)

Our principal sources of cash as of July 31, 2005 are our existing cash, cash equivalents, short-term and long-term investments of $38.4 million, which excludes restricted cash of $1.0 million (refer to financing activities below for discussion on restricted cash). Cash and cash equivalents decreased by $8.5 million, and short-term and long-term investments increased by $2.8 million at July 31, 2005 when compared to July 31, 2004. This overall decrease is primarily due to cash used in operations and payments related to idle facilities and capital expenditures.

Our net change in cash and cash equivalents was positive during the year ended July 31, 2004 as the result of raising $14.5 million in net proceeds as a result of a private placement issuance of shares of our common stock. Excluding that financing activity, net cash would have declined by $9.8 million.

The cash flow discussion below describes the cash used or provided in one period as compared to the cash used or provided in the same period for the previous year. 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, net of non-cash expense, in fiscal 2005, as compared to fiscal 2004, was primarily the result of a decrease in net loss, net of non-cash expense, of $1.4 million, a decrease in accounts receivable of $1.6 million, a decrease in inventories of $0.9 million, a decrease in cash payments related to excess facilities of $1.0 million and an increase in accrued liabilities and other of $2.2 million. The increased cash inflow related to accounts receivable was primarily the result of increased collections in fiscal 2005 compared to fiscal 2004. The increased cash inflow related to inventories was primarily the result of decreased purchasing levels and increased sales levels compared to fiscal 2004. The increased cash inflow related to accrued restructuring was due to decreased cash payments related to excess facilities. Cash payments related to excess facilities in fiscal 2005 were $3.3 million compared to $4.3 million in fiscal 2004. The decreased change in restructuring liability for fiscal 2004 was due to a $0.7 million adjustment recorded based on the change in events related to excess facilities in the third quarter of fiscal 2004. The increased cash inflow related to accrued liabilities and other was primarily related to the reversal of legal expenses in the first quarter of fiscal 2004 of $1.2 million and increasing accounting accruals related to the Company's Sarbanes-Oxley efforts in fiscal 2005 of $0.8 million. The increase in cash inflow was offset by an increase in accounts payable of $0.9 million as a result of the timing of payments and deferred revenue of $0.6 million due to increased sales volume.

The decrease in cash usage related to operating activities, net of non-cash expense, in fiscal 2004, as compared to fiscal 2003, was primarily the result of a decrease in net loss, net of non-cash expense 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.

Investing Activities

Our investing activities primarily include purchases of property and equipment and purchases and sales of marketable securities.

The increase in cash usage related to investing activities in fiscal 2005, as compared to the fiscal 2004, was primarily the result of an increase in net purchases of marketable securities of $2.3 million, offset by a decrease in capital expenditures of $0.4 million and an increase in cash flow from restricted cash. During fiscal 2005, we purchased (net) $2.8 million in short and long-term marketable securities compared to a net purchase of $0.5 million in fiscal 2004. The decrease in cash usage related to capital expenditures was primarily related to a significant purchase of servers associated with our Online Media segment in the first quarter of 2004. The increased cash inflow from restricted cash was related to the release of restricted cash of $0.5 million in fiscal 2005 compared to an increase in restricted cash of $0.5 million in fiscal 2004.

The decrease in cash usage related to investing activities in fiscal 2004, as compared to fiscal 2003, was primarily the result of 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, in 2003 we experienced much higher cash outflows related to marketable security purchases than we did 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.

Financing Activities

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.

The decrease in cash provided by financing activities in fiscal 2005, as compared to fiscal 2004, was the result of a private placement issuance of shares of our common stock during the second quarter of fiscal 2004 and a decline in the cash generated from the issuance of common stock to our employees in fiscal 2005 as compared to fiscal 2004. We are uncertain of the level of cash that will be generated in the future from the issuance of common stock to our employees as the exercising of options is dependant upon several factors such as the price of our common stock and the number of employees participating in our stock option plans.

The increase in net cash provided by financing activities in fiscal 2004, as compared to fiscal 2003, was 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.

For the fiscal years ended July 31, 2005, July 31, 2004 and July 31, 2003, respectively exchange rate changes had an immaterial effect on cash and cash equivalents. 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, 2005 and July 31, 2004, we had outstanding letters of credit issued under a line of credit of approximately $1.0 million and $1.5 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. The balance declined 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 2006 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, 2005 (in thousands):

Contractual Obligations	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Gross Operating Lease Obligations	$17,821	$3,789	$7,127	$6,905	$—
Sublease Income	5,276	1,145	2,097	2,034	—
Net Operating Lease Obligations	12,545	2,644	5,030	4,871	—
Capital Lease Obligations	11	11	—	—	—
Purchase Obligations	1,194	1,194	—	—	—
Total Obligations	$13,750	$3,849	$5,030	$4,871	$—

Sublease income represents our expectations of payments to be received from our subtenants. As of July 31, 2005, all of our excess facilities are sublet through the remainder of each facilities lease term.

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 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning in our first quarter of fiscal 2006. We do not believe adoption of SFAS No. 151 will have a material effect on our consolidated financial position, results of operations or cash flows.

In December, 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 is effective for nonmonetary asset exchanges beginning in our first quarter of fiscal 2006. We do not believe adoption of SFAS No. 153 will have a material effect on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 123 — revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005.

We are required to adopt SFAS 123R in the first quarter of fiscal 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 2 in our Notes to Consolidated Financial Statements for the pro forma net income and net income per share amounts, for fiscal 2004 and fiscal 2005 presented, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on our consolidated statements of operations and net loss per share.

In May 2005, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 154, *Accounting Changes and Error Corrections,* which replaces Accounting Principles Board Opinion, or APB, No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28*. SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. We do not expect SFAS No. 154 to have a material impact on our consolidated financial position, results of operations, or cash flows.

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 to our SourceForge application, so if this software does not achieve market acceptance we are likely to experience continued operating losses.

Although in fiscal year 2005, which ended on July 31, 2005, approximately 23% of our revenue was derived from our SourceForge business, we devoted 61%, or $3.7 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.

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.

If our online business fails to deliver innovative marketing programs, we will be unable to attract and retain advertisers, which will adversely affect our financial results.

The successful development and production of marketing programs is subject to numerous uncertainties, including our ability to:

- enable advertisers to showcase products, services and/or brands to their intended audience;
- anticipate and successfully respond to emerging trends in online advertising; and
- attract and retain qualified marketing and technical personnel.

We cannot assure you that our online marketing programs will enable us to attract and retain advertisers and generate revenues consistent with our estimates or sufficient to sustain operations. In addition, we cannot assure you that any new marketing programs will be developed in a timely or cost-effective manner. If we are unable to deliver innovative marketing programs that allow us to expand our advertiser base, 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, 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, but it is not committed to providing any guaranteed amount of sales of referrals. If we are unable to expand this strategic relationship with IDG, our ability to increase our online international 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 customers' tastes and avoid overstocking or understocking 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 currently utilize the services of Dotcom Distribution, Inc. ("Dotcom Distribution"), located in Edison, New Jersey. 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

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

Our Online images offerings on our AnimationFactory.com web site are designed to appeal to small businesses, educational and religious groups and hobbyists and individuals. Misjudging either the market for our products or our customers' purchasing habits will cause our sales to decline.

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 2006.

Since becoming a public company, we have experienced negative cash flow from operations. Our average net monthly cash flow shortfall during fiscal 2005, which ended July 31, 2005 was approximately $0.5 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 2006. While we believe we will not require additional capital to fund continued operations through fiscal year 2006, 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 and online media customers' purchase and budget cycles;
- the size and timing of software and online media customer orders;
- long software and online media sales cycles;
- our ability to retain skilled engineering and sales personnel;
- economic conditions relating to online advertising and sponsorship, and E-commerce;
- our ability to demonstrate and maintain attractive online user demographics;
- 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 may 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 $1.0 million for our fourth fiscal quarter ended July 31, 2005, and we had an accumulated deficit of $752.1 million as of July 31, 2005. We may continue to incur net losses in the 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 2006.

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, 2005, we had 127 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 emerging collaborative software development market continues to be 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. 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. In addition, open source code can be obtained through commercial vendors or downloaded and used on an *ad hoc* basis to address some collaborative software development challenges. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure and/or the availability of open source code 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 and registered 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

Failure to remediate our material weaknesses in internal control over financial reporting in a timely manner, or at all, could harm our operating results or cause us to fail to meet our regulatory or reporting obligations.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), we evaluated the effectiveness of our internal control over financial reporting as of July 31, 2005 as well as our disclosure controls and procedures. Based on this evaluation, management concluded that as of July 31, 2005, neither our internal control over financial reporting nor our disclosure controls and procedures were effective because of certain material weaknesses detailed in Item 9A, Part II (Controls and Procedures) of this Annual Report on Form 10-K. In particular, the material weaknesses that we identified included lack of sufficient personnel and technical accounting and financial reporting expertise, inadequate controls over period-end financial reporting, inadequate controls in the areas of revenue and accounts receivable, inadequate controls in the area of purchases, inadequate controls in the area of information technology, and lack of internal control reports (under SAS 70) from critical external service providers. While we believe that these material weaknesses did not have a material effect on our reported results, they nevertheless constituted deficiencies in our internal controls over financial reporting. In addition, to remediate the material weaknesses summarized above, we may need to increase staffing levels, hire personnel with more specialized technical accounting expertise and/or upgrade our financial systems to a higher degree of automation. If, despite our remediation efforts, we fail to ameliorate our material weaknesses, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls over financial reporting. These remediation efforts will likely increase our general and administration expenses and could, therefore, have an adverse effect on our reported net income.

Even if we are to successfully remediate such material weaknesses, because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements or material omissions. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 implement in a timely manner appropriate internal systems, procedures, controls and necessary modifications and improvements to these systems, our businesses will suffer.

If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.

Our future success depends upon the continued service of our key management, technical, sales, and other critical personnel. Our officers and other key personnel are employees-at-will, and we cannot assure you that we will be able to retain them. Key personnel have left our company in the past and there likely will be additional departures of key personnel from time to time in the future. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, and the results of our operations. Competition for these individuals is intense, and we may not be able to attract, assimilate or retain highly qualified personnel. Competition for qualified personnel in our industry and the San Francisco Bay Area, as well as other geographic markets in which we recruit, is intense and characterized by increasing salaries, which may increase our operating expenses or hinder our ability to recruit qualified candidates. In addition, the integration of replacement personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful.

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 2005, the closing sale prices of our common stock on the Nasdaq ranged from $1.34 to $2.00 per share and the closing sale price on July 29, 2005 was $1.72 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 price. 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, 2005. 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, 2005			
Cash equivalents	$1,550		
Weighted-average interest rate	3.28%		
Short-term investments		$33,126	
Weighted-average interest rate		3.72%	
Long-term investments			$1,806
Weighted-average interest rate			3.66%

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 of VA Software Corporation:

We have audited the accompanying consolidated balance sheets of VA Software Corporation (the "Company") as of July 31, 2005 and 2004, and the related consolidated statements of operations and other comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended July 31, 2005. We have also audited the financial statement schedule listed in the Index at Item 15(a) as of July 31, 2005 and 2004, and for each of the two years in the period ended July 31, 2005. 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 audits.

We conducted our audits 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 audits provide 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, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended July 31, 2005, in conformity with accounting principles generally accepted in the United States.

Also, in our opinion, the financial statement schedule as of July 31, 2005 and 2004, and for each of the two years in the period then ended, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the VA Software Corporation's internal control over financial reporting as of July 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated October 31, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting due the existence of material weaknesses.

/s/ BDO Seidman, LLP

San Jose, California
October 31, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
VA Software Corporation

In our opinion, the consolidated statement of operations and comprehensive loss, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of VA Software Corporation and the results of their operations and their cash flows for the year ended July 31, 2003 in conformity with accounting principals generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a)(2) on page 66 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 audits. We conducted our audit of these statements 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 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 provide 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, 2005	July 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,498	$ 10,964
Short-term investments	34,116	17,145
Restricted cash, current	—	450
Accounts receivable, net of allowances of $166 and $127, respectively	4,306	3,909
Inventories	773	1,069
Prepaid expenses and other assets	1,014	1,046
Total current assets	42,707	34,583
Property and equipment, net	736	1,208
Long-term investments	1,806	15,933
Restricted cash, non current	1,000	1,000
Other assets	1,132	955
Total assets	$ 47,381	$ 53,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,574	1,674
Accrued restructuring liabilities, current portion	1,748	3,440
Accrued compensation	1,258	981
Deferred revenue	2,134	1,750
Accrued accounting	970	191
Accrued liabilities and other	654	681
Total current liabilities	8,338	8,717
Accrued restructuring liabilities, net of current portion	6,107	7,843
Other long-term liabilities	1,271	1,349
Total liabilities	15,716	17,909
Commitments and contingencies (Notes 4, 5, 6 and 7)		
Stockholders' equity:		
Common stock, $0.001 par value; authorized — 250,000,000; issued and outstanding — 61,659,119 shares in 2005 and 61,184,857 shares in 2004	62	62
Treasury stock	(4)	(4)
Additional paid-in capital	783,895	783,246
Accumulated other comprehensive gain (loss)	(231)	(171)
Accumulated deficit	(752,057)	(747,363)
Total stockholders' equity	31,665	35,770
Total liabilities and stockholders' equity	$ 47,381	$ 53,679

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, 2005	July 31, 2004	July 31, 2003
Net revenues			
SourceForge revenues	$ 7,555	$ 4,995	$ 2,918
Online Media revenues	8,130	9,728	10,405
E-commerce revenues	14,918	12,567	8,565
Online Images revenues	2,284	1,922	1,580
Other revenues	—	49	760
Net revenues	32,887	29,261	24,228
Cost of revenues			
SourceForge cost of revenues	1,028	1,860	1,997
Online Media cost of revenues	3,320	2,969	3,802
E-commerce cost of revenues	11,591	10,225	7,025
Online Images cost of revenues	495	495	339
Other cost of revenues	—	(12)	(383)
Cost of revenues	16,434	15,537	12,780
Gross margin	16,453	13,724	11,448
Operating expenses:			
Sales and marketing	10,060	10,093	9,791
Research and development	6,122	6,732	7,815
General and administrative	5,925	4,665	6,455
Restructuring costs and other special charges	(101)	3,209	(263)
Amortization of deferred stock compensation	—	20	144
Amortization of intangible assets	12	12	2,149
Impairment of long-lived assets	87	—	239
Total operating expenses	22,105	24,731	26,330
Loss from operations	(5,652)	(11,007)	(14,882)
Remeasurement of warrant liability	—	1,566	—
Interest income	914	911	1,132
Interest expense	(39)	(5)	(8)
Other income (expense), net	83	895	(40)
Net loss	$ (4,694)	$ (7,640)	$(13,798)
Other comprehensive income (loss):			
Unrealized (loss) gain on marketable securities and investments	9	(354)	30
Foreign currency translation gain (loss)	(69)	55	12
Comprehensive loss	$ (4,754)	$ (7,939)	$(13,756)
Net loss	$ (4,694)	$ (7,640)	$(13,798)
Basic and diluted net loss per share	$ (0.08)	$ (0.13)	$ (0.25)
Shares used in computing basic and diluted net loss per share	61,454	59,684	54,110

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 Stock	Additional Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount						
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
Issuance of common stock for cash related to options	474	—	—	595	—	—	—	595
Issuance costs associated with Private Placement	—	—	—	(14)	—	—	—	(14)
Amortization of deferred stock compensation	—	—	—	—	—	—	—	—
Acceleration of stock options related to terminations	—	—	—	68	—	—	—	68
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	—	—	—	—	—	(60)	—	(60)
Net loss	—	—	—	—	—	—	(4,694)	(4,694)
BALANCE AT JULY 31, 2005	61,659	$62	$(4)	$783,895	$ —	$(231)	$(752,057)	$ 31,665

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, 2005	July 31, 2004	July 31, 2003
Cash flows from operating activities:			
Net loss	$ (4,694)	$ (7,640)	$(13,798)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	941	1,468	5,351
Remeasurement of warrant liability	—	(1,566)	—
Provision for bad debts	40	56	(19)
Provision for excess and obsolete inventory	57	9	(6)
Loss on disposal of assets	9	—	35
Amortization of deferred stock compensation	—	20	144
Non-cash compensation expense	68	213	—
Non-cash restructuring expense	(101)	2,496	(569)
Impairment of long-lived assets	87	—	239
Changes in assets and liabilities:			
Accounts receivable	(438)	(2,036)	(1,178)
Inventories	239	(690)	(82)
Prepaid expenses and other assets	(238)	157	286
Accounts payable	(101)	812	(1,212)
Accrued restructuring liabilities	(3,327)	(3,606)	(3,105)
Accrued liabilities and other	1,401	(773)	(2,098)
Other long-term liabilities	(78)	168	203
Net cash used in operating activities	(6,135)	(10,912)	(15,809)
Cash flows from investing activities:			
Change in restricted cash	450	(550)	450
Purchase of property and equipment	(475)	(880)	(289)
Sale of property and equipment	49	—	8
Purchase of marketable securities	(25,622)	(44,976)	(34,335)
Sale of marketable securities	22,788	44,443	19,688
Other, net	(4)	(359)	30
Net cash used in investing activities	(2,814)	(2,322)	(14,448)
Cash flows from financing activities:			
Payments on notes payable	(29)	—	(42)
Proceeds from issuance of common stock	581	17,840	1,444
Repurchase of common stock	—	—	(2)
Net cash provided by financing activities	552	17,840	1,400
Effect of exchange rate changes on cash and cash equivalents	(69)	55	12
Net increase (decrease) in cash and cash equivalents	(8,466)	4,661	(28,845)
Cash and cash equivalents, beginning of year	10,964	6,303	35,148
Cash and cash equivalents, end of year	$ 2,498	$ 10,964	$ 6,303
Supplemental cash flow information:			
Cash paid for state taxes	$ 36	$ 26	$ 16
Cash paid for interest	$ 39	$ 5	$ 8

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.

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 of July 31, 2005, 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 operations of VA Linux Japan primarily relate to the Company's former systems and services business; however VA Linux Japan also acts as a reseller of the Company's SourceForge application to customers in Japan and, pursuant to a license agreement with the Company, resyndicates certain OSTG Web sites for the Japanese market. There are $59,000 of related-party receivables and $47,000 of related-party deferred revenue associated with VA Linux Japan as of July 31, 2005 that are included in trade receivables and deferred revenue in the accompanying Condensed Consolidated Balance Sheets. There are no related-party receivables and deferred revenue associated with VA Linux Japan as of July 31, 2004 that are included in trade receivables and deferred revenue in the accompanying Condensed Consolidated Balance Sheets. There were $0.5 million, $0.2 million and $0.1 million related-party revenues associated with VA Linux Japan for the years ended July 31, 2005, July 31, 2004 and July 31, 2003, respectively.

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, 2005, 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, 2005 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, 2005, July 31, 2004 and July 31, 2003 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, of which $35.5 million mature within one year, consist of the following (in thousands) at market value:

	July 31, 2005	July 31, 2004
Government securities	$22,103	$22,465
Corporate securities	12,357	14,134
Asset backed securities	2,021	2,731
Money market funds	788	1,056
Commercial paper	—	911
Total Investments	$37,269	$41,297
Operating cash	1,151	2,745
Restricted cash	1,000	1,450
Total cash, cash equivalents, short-term investments & long-term investments	$39,420	$45,492
Included in cash and cash equivalents	$ 1,347	$ 8,219
Included in short-term investments	34,116	17,145
Included in long-term investments	1,806	15,933
Total Investments	$37,269	$41,297

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. In the fourth quarter of fiscal 2005, $0.5 million had been released from restricted cash in accordance with the terms of the lease. The remaining amount restricted at July 31, 2005 was $1.0 million.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. The Company also reviews its trade receivables by aging category to identify specific customers with known disputes or collectibility issues. The Company exercises judgment when determining the adequacy of these reserves and evaluates historical bad debt trends, general economic conditions in the United States and internationally, and changes in customer financial conditions.

Inventories

Inventories related to the Company's E-commerce and Online Images segments consist solely of finished goods 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, 2005	July 31, 2004
Computer and office equipment (useful lives of 2 to 3 years)	$ 3,811	$ 6,820
Furniture and fixtures (useful lives of 2 to 4 years)	484	1,199
Leasehold improvements (useful lives of lesser of estimated life or lease term)	285	271
Software (useful lives of 2 to 5 years)	2,064	2,092
Total property and equipment	6,644	10,382
Less: Accumulated depreciation and amortization	(5,908)	(9,174)
Property and equipment, net	$ 736	$ 1,208

Depreciation expense for the years ended July 31, 2005, July 31, 2004, and July 31, 2003 was $0.9 million, $1.4 million, and $3.2 million, respectively.

Intangible Assets

Intangible assets are amortized on a straight-line basis over three to five years. Intangible asset amortization of $12,000, $12,000 and $2.1 million was recorded in fiscal 2005, 2004 and 2003, respectively. The intangible asset carrying value at July 31, 2005 is $7,000 and relates to domain and trade names associated with our current SourceForge and OSTG businesses. This balance has been included in "Other Assets" in the Consolidated Balance Sheets. 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. No events or circumstances occurred during fiscal year 2005 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2005.

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

	As of July 31, 2005		As of July 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Domain and trade names	$5,932	$(5,925)	$5,927	$(5,913)
Purchased technology	2,534	(2,534)	2,534	(2,534)
Total intangible assets	$8,466	$(8,459)	$8,461	$(8,447)

Impairment of Long-Lived Assets

As of July 31, 2005, the Company held an investment of approximately 14% in VA Linux Systems Japan, K.K. ("VA Linux Japan"). The Company continually evaluates whether events or circumstances have occurred that indicate the remaining value of the investment may be impaired. Based on the valuation performed at July 31, 2005, a small impairment was recorded for $0.1 million during the fourth quarter of fiscal 2005. There is no quoted market price for this investment; accordingly, fair value was estimated by management based on the estimated fair value of the underlying net assets. This investment is reported under our SourceForge segment. The impairment has been included in "Impairment of long-lived assets" in the Consolidated Statements of Operations and Other Comprehensive Income/(Loss)". As of July 31, 2005, the Company had an investment balance of $0.4 million in VA Linux Japan. This balance has been included in "Other Assets" in the Consolidated Balance Sheets.

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. Prior to the year ended July 31, 2004, the Company recorded 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. There were no barter revenue transactions for the fiscal year ended July 31, 2005. Barter revenue transactions totaled \$1.4 million and \$2.0 million for the fiscal years ended July 31, 2004 and July 31, 2003, 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. 104, "Revenue Recognition." Under SAB No. 104, 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 $0.9 million, $2.1 million and $2.5 million for fiscal years ending July 31, 2005, July 31, 2004 and July 31, 2003, 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."

The following table illustrates the effect if the Company had accounted for its stock option plans and Employee Stock Purchase Plan under the fair value method of accounting under Statement 123, as amended by Statement 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" (SFAS 148) (in thousands, except per share amounts):

	Fiscal Year Ended		
	July 31, 2005	July 31, 2004	July 31, 2003
Net loss as reported	($ 4,694)	($ 7,640)	($13,798)
Add back employee stock-based compensation expense related to stock options included in reported net loss	68	213	144
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards, net of related tax effects	(13,335)	(6,410)	(8,774)
Pro forma net loss	($ 17,961)	($13,837)	($22,428)
Basic and diluted net loss per share	($ 0.08)	($ 0.13)	($ 0.25)
Pro forma basic and diluted net loss per share	($ 0.29)	($ 0.23)	($ 0.41)

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, 2005	July 31, 2004	July 31, 2003	July 31, 2005	July 31, 2004	July 31, 2003
Expected life (years)	4.8	4.9	4.8	0.5	0.5	0.5
Risk-free interest rate	3.6%	3.5%	3.0%	2.1%	1.0%	1.1%
Volatility	98%	106%	108%	64%	98%	95%
Dividend yield	None	None	None	None	None	None

The weighted average fair value of options granted during fiscal years 2005, 2004 and 2003 was $1.51, $2.24 and $0.97, 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.

On June 8, 2005, the Compensation Committee of the Board of Directors of VA Software approved the vesting acceleration of certain unvested, out-of-the-money stock options outstanding under VA Software's employee stock option plans, effective June 7, 2005. Vesting was accelerated for stock options that had exercise prices greater than $1.67 per share, which was the closing price of VA Software's common stock on June 7, 2005. This action was taken to reduce the impact of future compensation expense that VA Software would otherwise be required to recognize in future consolidated statements of operations pursuant to SFAS 123R, which is applicable to VA Software beginning in the first fiscal quarter of 2006. As a result of the acceleration, VA Software expects to reduce future compensation expense by approximately $8.1 million over fiscal years 2006, 2007 and 2008.

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 and warrants 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, 2005	July 31, 2004	July 31, 2003
Net loss	$ (4,694)	$ (7,640)	$(13,798)
Basic and diluted:			
Weighted average shares of common stock outstanding	61,454	59,684	54,117
Less: Weighted average shares subject to repurchase	—	—	(7)
Shares used in computing basic and diluted net loss per share	61,454	59,684	54,110
Basic and diluted net loss per share	$ (0.08)	$ (0.13)	$ (0.25)

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, 2005	July 31, 2004	July 31, 2003
Anti-dilutive securities:			
Options to purchase common stock	11,226	12,132	9,433
Warrants	731	731	—
Total Anti-dilutive securities	11,957	12,863	9,433

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 2005, 2004 and 2003, there was no provision for income taxes in these 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 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning in our first quarter of fiscal 2006. The Company does not believe adoption of SFAS No. 151 will have a material effect on our consolidated financial position, results of operations or cash flows.

In December, 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 is effective for nonmonetary asset exchanges beginning in our first quarter of fiscal 2006. The Company does not believe adoption of SFAS No. 153 will have a material effect on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 123 — revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005.

The Company is required to adopt SFAS 123R in the first quarter of fiscal 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 2 "Stock Based Compensation" in our Notes to Consolidated Financial Statements for the pro forma net income and net income per share amounts, for fiscal 2004 and fiscal 2005 presented, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, the Company is evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on our consolidated statements of operations and net loss per share.

In May 2005, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 154, *Accounting Changes and Error Corrections,* which replaces Accounting Principles Board Opinion, or APB, No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28*. SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 to have a material impact on our consolidated financial position, results of operations, or cash flows.

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, 2005 and July 31, 2004, no gross accounts receivables were concentrated with one customer.

For the fiscal years ended July 31, 2005 and 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. 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. In the second quarter of fiscal 2005, a minor credit adjustment of $0.1 million was recorded to accurately reflect the current common area maintenance fees associated with the Fremont facilities. The remaining accrual from non-cancelable lease payments, which continue through 2010, 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, 2005, the Company had an accrual of approximately $7.9 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

In addition to the above, 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, 2005, 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 2001–2003	Total Charged To Operations Fiscal 2004	Total Charged To Operations Fiscal 2005	Total Cash Receipts/ (Payments)	Restructuring Liabilities at July 31, 2005
Cash Provisions:					
Other special charges relating to restructuring activities	$ 1,349	$ —	$ —	$ (1,349)	$ —
Facilities charges	16,176	713	(101)	(8,933)	7,855
Employee severance and other related charges	5,532	—	—	(5,532)	—
Total cash provisions	23,057	713	(101)	$(15,814)	$7,855
Non-cash:					
Write-off of goodwill and intangibles	90,355	—	—		
Write-off of other special charges relating to restructuring activities	9,323	2,496	—		
Write-off of accelerated options from terminated employees	1,352	—	—		
Acceleration of deferred stock compensation	36,064	—	—		
Total non-cash provisions	137,094	2,496	—		
Total provisions	$160,151	$3,209	$(101)		

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 31, 2003	$17,994	$ 306	$(3,411)	$14,889
For the year ended July 31, 2004	$14,889	$ 713	$(4,319)	$11,283
For the year ended July 31, 2005	$11,283	$ (101)	$(3,327)	$ 7,855

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
As of July 31, 2003	$ 4,117	$10,772	$14,889
As of July 31, 2004	$ 3,440	$ 7,843	$11,283
As of July 31, 2005	$ 1,748	$ 6,107	$ 7,855

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
2006	$ 3,789	$1,145	$ 2,644
2007	3,511	1,033	2,478
2008	3,616	1,064	2,552
2009	3,724	1,096	2,628
2010	3,181	938	2,243
Total minimum lease payments	$17,821	$5,276	$12,545

Gross rent expense for the years ended July 31, 2005, July 31, 2004 and July 31, 2003 was approximately $2.8 million, $3.0 million and $3.9 million, respectively. This rent expense was offset by sublease income of $1.8 million, $1.1 million and $2.4 million for the years ended July 31, 2005, July 31, 2004 and July 31, 2003, respectively. In addition, rent expense of $0.7 million and $0.1 million was recorded as a result of idle facilities charges for the years ended July 31, 2004 and July 31, 2003, respectively. No rent expense as a result of idle facilities charges was recorded for the year ended July 31, 2005. The idle facilities charges for the years ended July 31, 2004 and July 31, 2003 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. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the court for approval. The terms of the settlement if approved, would dismiss and release all claims against the participating defendants (including the Company). In exchange for this dismissal, D&O insurance carriers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1 billion, and the issuer defendants would agree to an assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On August 31, 2005, the Court confirmed preliminary approval of the settlement. The proposed settlement remains subject to a number of conditions, including receipt of final approval of 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, which have been included in accrued liabilities and other in the Company's Condensed Consolidated Balance Sheets as of April 30, 2005. The plaintiff has since filed a notice of appeal of his previously-dismissed claims and the judgment for Breach of Contract and Breach of the Covenant of Good Faith and Fair Dealing, and the Company has filed a notice of appeal of the judgment for Breach of the Covenant of Good Faith and Fair Dealing.

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, 2005.

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, 2005.

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, 2005.

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 2005, the Company did not cancel any shares of its common stock. In fiscal year 2004, the Company cancelled 104,127 shares of its common stock, which had been recorded as treasury stock in the consolidated balance sheets and statement of stockholders' equity. In fiscal 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.

On November 6, 2003, the company entered into a securities purchase agreement in which the company completed a private placement of 3,529,412 shares of its 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 the company's common stock, respectively, at an exercise price of $6.00 and $6.14 per share, respectively (collectively, the "Warrants"). The company entered into a registration rights agreement with Riverview on November 6, 2003 (the "Registration Rights Agreement") in which the company 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, the company 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 the company's common stock sold in the Private Placement and the shares of the 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 the company's common stock sold in the Private Placement and the shares of the 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 were 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. This credit adjustment was offset by a $0.3 million non-cash expense which 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. As a result of the S-3 becoming effective on April 30, 2004, the remaining liability for the Warrants of $0.6 million was reclassified to equity as of that date.

As of July 31, 2005 there were 61,659,119 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, 2005.

As of July 31, 2005, the Company had reserved shares of its common stock for future issuance as follows:

1998 Stock Option Plan and Assumed Plans	21,397,374
1999 Director Option Plan	1,337,084
1999 Employee Stock Purchase Plan	2,461,987
	25,196,445

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, 2005 both of these warrants remained outstanding.

Stock Option Plan

In fiscal year 1999, the Company adopted and the board of directors approved the 1998 Stock Option Plan (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, 2005, 45,843,687 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 1998 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 one month 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, 2005, 890,000 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, 2005, July 31, 2004 and July 31, 2003.

		Options Outstanding	
	Options Available for Grant	Number of Shares	Weighted Average Exercise Price
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
Authorized	—	—	—
Granted	(1,552,900)	1,552,900	2.05
Exercised	—	(300,374)	1.09
Cancelled	2,152,685	(2,158,352)	5.27
Repurchases	—	—	—
Balance at July 31, 2005	11,508,412	11,226,046	3.11

	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	631,304	3.51	$ 0.09	598,156	$ 0.05
$0.99 – $ 0.99	1,381,677	6.20	$ 0.99	1,217,792	$ 0.99
$1.00 – $ 1.77	1,123,502	7.68	$ 1.37	769,491	$ 1.37
$1.79 – $ 2.24	1,201,209	9.12	$ 1.99	1,157,875	$ 1.99
$2.26 – $ 2.33	857,226	8.21	$ 2.28	857,226	$ 2.28
$2.45 – $ 2.45	2,094,077	8.92	$ 2.45	2,094,077	$ 2.45
$2.49 – $ 2.93	355,850	8.57	$ 2.68	283,346	$ 2.64
$2.98 – $ 2.98	1,207,659	8.36	$ 2.98	1,207,659	$ 2.98
$3.00 – $ 4.57	1,560,161	6.97	$ 3.67	1,517,657	$ 3.66
$4.90 – $64.12	813,381	5.29	$14.98	813,381	$14.98
$0.02 – $64.12	11,226,046	7.52	$ 3.11	10,516,660	$ 3.21

During fiscal years 2005, 2004 and 2003, there were no options or stock purchase rights granted outside of either the 1998 Plan or the Directors' Plan outstanding. Total options exercisable at July 31, 2005 and July 31, 2004 were 10,516,660 and 4,536,731, respectively.

Employee Stock Purchase Plan

In October 1999, the Company adopted an Employee Stock Purchase Plan ("ESPP"). Under the terms of the ESPP, as authorized by the Board of Directors in September 2003, the maximum aggregate number of shares of stock that may be issued under the ESPP is 3,000,000, 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 173,888 shares of common stock were issued under the ESPP through July 31, 2005. At July 31, 2005, 2,461,987 shares were available for issuance. The Company cancelled its Employee Stock Purchase Plan on July 28, 2005.

Deferred Stock Compensation

In connection with the grant of stock options to employees during fiscal 1999 and prior to the Company's initial public offering in fiscal 2000, the Company recorded deferred stock compensation within stockholders' equity that was amortized on an accelerated basis in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 28 over the vesting period for the individual award. The amortization expense relates to options awarded to employees in all operating expense categories, however, the amortization of deferred stock compensation has not been separately allocated to these categories. The Company expensed deferred stock compensation of $20,000 and $0.1 million for fiscal years 2004 and 2003, respectively. Deferred stock compensation was fully amortized as of July 31, 2004. As such, there was no deferred stock compensation expense during fiscal 2005.

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 2005, 2004 and 2003, there was no provision for federal 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, 2005	July 31, 2004	July 31, 2003
Net operating loss carryforwards	$ 94,519	$ 86,796	$ 83,577
Other reserves and accruals	9,092	12,722	13,081
	103,611	99,518	96,658
Valuation allowance	(103,611)	(99,518)	(96,658)
Net deferred income tax asset	$ —	$ —	$ —

As of July 31, 2005, the Company has net operating loss carryforwards of approximately $263.2 million to offset future federal taxable income, which expire at various dates through fiscal year 2025. 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 $83.0 million to offset future California taxable income, which expire at various dates through fiscal year 2015. The net operating loss carryforwards also include approximately $29.1 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, 2005							
Revenue from external customers	$ 7,555	$ 8,130	$14,918	$2,284	$ —	$ —	$ 32,887
Revenue from intersegments	$ —	$ 279	$ —	$ 1	$ —	$(280)	$ —
Cost of revenues	$ 1,028	$ 3,320	$11,591	$ 495	$ —	$ —	$ 16,434
Gross margin	$ 6,527	$ 5,089	$ 3,327	$1,790	$ —	$(280)	$ 16,453
Operating income (loss)	$ (5,392)	$ (1,624)	$ 673	$ 955	$ (264)	$ —	$ (5,652)
Depreciation expense	$ 550	$ 346	$ 29	$ 4	$ —	$ —	$ 929
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	$ 6,997	$ 2,342	$1,427	$ 61	$(238)	$ 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	$ 6,716	$ 1,540	$1,242	$ 1,192	$(163)	$ 11,448
Operating income (loss)	$(13,575)	$ (376)	$ (162)	$ 353	$(1,122)	$ —	$(14,882)
Depreciation expense	$ 2,129	$ 1,049	$ 12	$ 12	$ —	$ —	$ 3,202

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, 2005, July 31, 2004 and July 31, 2003 were primarily generated from sales to end users in the United States of America.

Quarterly Financial Data

	Fiscal Year 2005 For the three months ended			
	October 31	January 31	April 30	July 31
Net revenues	$ 6,998	$ 9,927	$ 7,611	$ 8,351
Gross margin	3,479	4,316	4,029	4,629
Loss from operations	(1,871)	(918)	(1,617)	(1,246)
Net loss attributable to common stockholders	$ (1,616)	$ (702)	$ (1,376)	$ (1,000)
Per share amounts:				
Basic and diluted net loss per share	$ (0.03)	$ (0.01)	$ (0.02)	$ (0.02)
Shares used in computing basic and diluted net loss per share	61,296	61,412	61,523	61,586

	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
Gross margin	2,547	3,542	3,778	3,857
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

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

During its review of the Company's interim financial statements for the fiscal third quarter ended April 30, 2005, a disagreement arose between the Company and BDO regarding the application of accounting principles, which disagreement ultimately was resolved to BDO's satisfaction. The disagreement concerned the accounting for one of the Company's volume-based sales incentive programs, specifically, whether the Company had developed sufficient historical experience to begin calculating the amount of the accrued liability pertaining to such programs based on estimated future expiration rates versus continuing to calculate the liability based on actual expirations. The Audit Committee discussed this disagreement with BDO.

As disclosed in the Company's Form 10-Q for the period ended April 30, 2005, BDO notified the Company's Audit Committee and the Company's management of a control deficiency in the Company's internal control structure involving the design or operation of the Company's internal controls over financial reporting that BDO considered to be a material weakness, because the control deficiency resulted in more than a remote likelihood that a material misstatement could occur in the Company's annual or interim financial statements and not be prevented or detected. The material weakness identified by BDO pertained to the need for additional resources and technical accounting expertise to be available to the Company's accounting and financial reporting function to assist the Company in addressing relatively complex transactions and/or accounting issues that arise from time to time in the course of the Company's operations.

In addition, on October 10, 2005, the Company filed a current report on Form 8-K to report a change in the Company's independent registered public accounting firm.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of July 31, 2005. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that as of July 31, 2005, the Company's disclosure controls and procedures were not effective because of the material weaknesses described below.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

In connection with the preparation of the Company's annual financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of July 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting. As a result of the material weaknesses described in the following paragraphs, management has concluded that, as of July 31, 2005, the Company's internal control over financial reporting was not effective based on those criteria.

As defined by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2, a material weakness is a significant control deficiency or a combination of significant control deficiencies that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based upon our management's assessment of our internal control over financial reporting as of July 31, 2005, we have identified the following material weaknesses:

- *Lack of sufficient personnel and technical accounting and financial reporting expertise within the Company's accounting and finance function.* As of July 31, 2005, we did not have sufficient personnel and technical accounting and financial reporting expertise within our accounting function to sufficiently address relatively complex transactions and/or accounting and financial reporting issues that arise from time to time in the course of our operations. This situation was exacerbated by the additional demands placed upon our accounting and finance personnel as we worked to meet the internal control requirements under Section 404 of the Sarbanes-Oxley Act of 2002. We previously disclosed this material weakness in our Quarterly Report on Form 10-Q for the quarter ended April 30, 2005. At that time, the material weakness was identified as a result of our misapplication of generally accepted accounting principles pertaining to the accounting for our volume-based sales incentive programs. Further, in connection with preparing our fiscal 2005 annual financial statements, we did not initially classify a material amount of deferred sublease income and prepaid royalties correctly between current assets and long-term assets. The proper classification was identified by our independent registered public accounting firm and was adjusted in the Company's balance sheet at July 31, 2005.

  This material weakness resulted in adjustments to our fiscal year 2005 annual and interim financial statements. Further, this material weakness could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls over period-end financial reporting*. As of July 31, 2005, our Chief Financial Officer was responsible for preparing or compiling certain critical portions of the quarterly and annual internal financial information and was also responsible for performing a review of this information to monitor the results of operations. This review represents an important detective control in our internal control over financial reporting. Because there was no separate independent detailed review of this critical financial information, there is a risk that inaccurate information may be reported and errors may not be identified.

  This material weakness did not result in adjustments to our fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the areas of revenue and accounts receivable.* During the fiscal year ended July 31, 2005, there were certain instances in which fully executed contracts were not obtained in a timely manner in connection with providing online advertising services. Further, in a limited number of situations, revenue was not adjusted to properly reflect below-estimated "click-throughs" on certain advertising sponsorship buttons and links. In addition, in certain instances the same individual had authority for activities which should be segregated, such as processing of orders and authorization of shipping; and invoicing and collections. Furthermore, we did not have adequate oversight and review of these personnel to compensate for the inadequate segregation of duties. These weaknesses individually represent significant deficiencies and, in the aggregate, represent a material weakness.

  This material weakness did not result in adjustments to our fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the area of purchases.* During the fiscal year ended July 31, 2005, management did not ensure that the Company's Purchasing Policy was strictly enforced, including instances where the purchasing manager did not obtain appropriate approvals for purchasing and the facilities manager did not always sign off on the packing slips to provide evidence of the actual quantity received. In addition, we did not maintain adequate segregation of duties among members of our purchasing and receiving departments. In several instances, we had the same personnel performing duties that were not compatible. Furthermore, we did not have adequate oversight and review of these personnel to compensate for the inadequate segregation of duties. We determined that we have compensating controls in place to mitigate the risk that these control deficiencies could result in a material misstatement to our annual or interim financial statements; however, due to the opportunity for invalid and unauthorized purchases, we determined that these control deficiencies, in the aggregate, represent a material weakness.

This material weakness did not result in adjustments to our fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the area of information technology.* As of July 31, 2005, we did not maintain effective controls over access to the accounting system and in some cases did not maintain complete documentation regarding these access rights. Specifically, certain of our accounting users with financial, accounting and reporting responsibilities also had inappropriate access to financial application programs and data. Such access was not in compliance with segregation of duties requirements nor was this access independently monitored. In addition, the documentation regarding access privileges of certain individuals to the accounting system was not reflective of actual access privileges. Further, we did not maintain adequate controls in the areas of system development life cycle, or SDLC, and Change Management. Management determined that these weaknesses individually represent significant deficiencies and, in the aggregate, represent a material weakness.

  This material weakness did not result in adjustments to our fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

- *Lack of internal control reports (under SAS 70) from critical external service providers*. As of July 31, 2005, we were unable to obtain proper “Report on Controls Placed in Operation and Test of Operating Effectiveness” (issued under SAS 70) from two external service providers. These include the provider of our hosted accounting system and the provider of our hosted advertising servicing system. The services performed by these service providers were deemed material and significant to the Company’s business and accurate financial reporting.

  This material weakness did not result in adjustments to our fiscal year 2005 annual or interim financial statements. However, this material weakness could result in a risk that integrity of critical company data could be compromised at external service providers which could result in material misstatements to our annual or interim financial statements that would not be prevented or detected.

In light of these material weaknesses and the requirements enacted by the Sarbanes-Oxley Act of 2002 and the related rules and regulations adopted by the SEC, our chief executive officer and chief financial officer concluded that, as of July 31, 2005, our internal control over financial reporting was not effective.

Our independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report on management’s assessment of our internal control over financial reporting, which is included in this Annual Report on Form 10-K on page 72.

Completed and Planned Remediation Actions to Address Internal Control Deficiencies

Management believes the actions that we have taken since July 31, 2005 and actions that will be taken in fiscal year 2006, along with other improvements yet to be formally identified, will address the material weaknesses in our internal control over financial reporting noted above. Some of these remediation actions are discussed below.

- In relation to the material weakness in the area of lack of sufficient personnel and technical accounting and financial reporting expertise within the Company’s accounting and finance function, we are committed to hiring a sufficient number of technically-qualified employees and/or consultants to ensure that all significant accounting issues, both routine and non-routine, are identified, researched and properly concluded upon. Further, we will implement a detailed review of balance sheet classifications.

- In relation to the material weakness in the area of inadequate controls over period-end financial reporting, to remedy this deficiency, we will ensure that the internal reporting package is reviewed and signed off by a person other than the preparer.
- In relation to the material weakness in the area of inadequate controls in the area of revenue and accounts receivable, we are strictly enforcing the policy of obtaining fully-executed contracts from each customer before running the customer's ads and have put in place processes to independently review all sponsorship and "non-standard" impression contracts to ensure that they are captured and accounted for correctly. In addition, we will monitor job responsibilities for all accounting personnel and ensure that employees are not expected to take on multiple conflicting duties.
- In relation to the material weakness in the area of inadequate controls in the area of purchases, we are strictly enforcing the purchasing policy, including, but not limited to, requiring that approvals be obtained before the Company issues a purchase order and requiring that all packing slips be signed off as evidence of quantities purchased. We will also monitor job responsibilities for all accounting personnel and ensure that employees are not expected to take on multiple conflicting duties.
- In relation to the material weakness in the area of inadequate controls in the area of information technology, we are periodically reviewing access rights and are enforcing compliance to our SDLC and Change Management policies. In addition, we will update documentation regarding access privileges of certain individuals to the accounting system to reflect actual access privileges.
- In relation to the material weakness in the area of a lack of internal control reports (under SAS 70) from critical external service providers, we received a SAS 70 report from the provider of our hosted accounting system in October 2005 and expect to receive a SAS 70 report from the provider of our hosted ad servicing system in March 2006. In addition, we will work with our external service providers to obtain timely SAS 70 reports; in those instances where a timely report is unavailable, we will undertake additional testing to ensure adequate controls are in place and effective.

Limitations on Effectiveness of Controls

VA Software's management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of VA Software, Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that VA Software Corporation did not maintain effective internal control over financial reporting as of July 31, 2005, because of the effects of the material weaknesses identified in management's assessment, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). VA Software Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment:

- *Lack of sufficient personnel and technical accounting and financial reporting expertise within the Company's accounting and finance function.* As of July 31, 2005, the Company did not have sufficient personnel and technical accounting and financial reporting expertise within its accounting function to sufficiently address relatively complex transactions and/or accounting and financial reporting issues that arise from time to time in the course of its operations. This situation was exacerbated by the additional demands placed upon the Company's accounting and finance personnel as it worked to meet the internal control requirements under Section 404 of the Sarbanes-Oxley Act of 2002. The Company previously disclosed this material weakness in the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2005. At that time, the material weakness was identified as a result of the Company's misapplication of generally accepted accounting principles pertaining to the accounting for its volume-based sales incentive programs. Further, in connection with preparing its fiscal 2005 annual financial statements, the Company did not initially classify a material amount of deferred sublease income and prepaid royalties correctly between current assets and long-term assets. The proper classification was ultimately adjusted in the Company's balance sheet at July 31, 2005.

This material weakness resulted in adjustments to the Company's fiscal year 2005 annual and interim financial statements. Further, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls over period-end financial reporting*. As of July 31, 2005, the Company's Chief Financial Officer was responsible for preparing or compiling certain critical portions of the quarterly and annual internal financial information and was also responsible for performing a review of this information to monitor the results of operations. This review represents an important detective control in the Company's internal control over financial reporting. Because there was no separate independent detailed review of this critical financial information, there is a risk that inaccurate information may be reported and errors may not be identified.

  This material weakness did not result in adjustments to the Company's fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the areas of revenue and accounts receivable.* During the fiscal year ended July 31, 2005, there were certain instances in which fully executed contracts were not obtained in a timely manner in connection with providing online advertising services. Further, in a limited number of situations, revenue was not adjusted to properly reflect below-estimated "click-throughs" on certain advertising sponsorship buttons and links. In addition, in certain instances the same individual had authority for activities which should be segregated, such as processing of orders and authorization of shipping; and invoicing and collections. Furthermore, management did not have adequate oversight and review of these personnel to compensate for the inadequate segregation of duties. These weaknesses individually represent significant deficiencies and, in the aggregate, represent a material weakness.

  This material weakness did not result in adjustments to the Company's fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the area of purchases.* During the fiscal year ended July 31, 2005, management did not ensure that the Company's Purchasing Policy was strictly enforced, including instances where the purchasing manager did not obtain appropriate approvals for purchasing and the facilities manager did not always sign off on the packing slips to provide evidence of the actual quantity received. In addition, the Company did not maintain adequate segregation of duties among members of its purchasing and receiving departments. In several instances, the Company had the same personnel performing duties that were not compatible, such as purchasing and receiving. Furthermore, management did not have adequate oversight and review of these personnel to compensate for the inadequate segregation of duties. These weaknesses individually represent significant deficiencies and, in the aggregate, represent a material weakness.

  This material weakness did not result in adjustments to the Company's fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

- *Inadequate controls in the area of information technology.* As of July 31, 2005, the Company did not maintain effective controls over access to the accounting system and in some cases did not maintain complete documentation regarding these access rights. Specifically, certain of the Company's accounting users with financial, accounting and reporting responsibilities also had inappropriate access to financial application programs and data. Such access was not in compliance with segregation of duties requirements nor was this access independently monitored. In addition, the documentation regarding access privileges of certain individuals to the accounting system was not reflective of actual access privileges. Further, the Company did not maintain adequate controls in the areas of system development life cycle, or SDLC, and Change Management. These weaknesses individually represent significant deficiencies and, in the aggregate, represent a material weakness.

  This material weakness did not result in adjustments to the Company's fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

- *Lack of internal control reports (under SAS 70) from critical external service providers.* As of July 31, 2005, the Company was unable to obtain proper "Report on Controls Placed in Operation and Test of Operating Effectiveness" (issued under SAS 70) from two external service providers. These include the provider of the Company's hosted accounting system and the provider of its hosted advertising servicing system. The services performed by these service providers were deemed material and significant to the Company's business and accurate financial reporting.

  This material weakness did not result in adjustments to the Company's fiscal year 2005 annual or interim financial statements. However, this material weakness could result in material misstatements to the Company's annual or interim financial statements that would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of VA Software Corporation's consolidated financial statements as of and for the year ended July 31, 2005, and this report does not affect our report dated October 31, 2005 on those consolidated financial statements.

In our opinion, management's assessment that VA Software Corporation did not maintain effective internal control over financial reporting as of July 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, VA Software Corporation has not maintained effective internal control over financial reporting as of July 31, 2005, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion or any other form of assurance on management's statements regarding corrective actions taken by the Company after July 31, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of VA Software Corporation as of July 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the two years in the period ended July 31, 2005 and our report dated October 31, 2005 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

San Jose, California
October 31, 2005

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”, “Security Ownership of Directors and Executive Officers” and “Information About The Directors, Nominees And Executive Officers” in the Company’s 2005 Proxy Statement, which will be delivered to stockholders in connection with the Company’s annual stockholders’ meeting to be held on December 7, 2005.

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 2005 Proxy Statement, which will be delivered to stockholders in connection with the Company’s annual stockholders’ meeting to be held on December 7, 2005.

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 2005 Proxy Statement, which will be delivered to stockholders in connection with the Company’s annual stockholders’ meeting to be held on December 7, 2005.

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 2005 Proxy Statement, which will be delivered to stockholders in connection with the Company’s annual stockholders’ meeting to be held on December 7, 2005.

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 2005 Proxy Statement, which will be delivered to stockholders in connection with the Company’s annual stockholders’ meeting to be held on December 7, 2005.

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.

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 31, 2005

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 31, 2005
/s/ KATHLEEN R. MCELWEE Kathleen R. McElwee	Senior Vice President and Chief Financial Officer (principle accounting officer)	October 31, 2005
/s/ ANDREW ANKER Andrew Anker	Director	October 31, 2005
/s/ LARRY M. AUGUSTIN Larry M. Augustin	Chairman of the Board of Directors	October 31, 2005
/s/ ANDRE M. BOISVERT Andre M. Boisvert	Director	October 31, 2005
/s/ RAM GUPTA Ram Gupta	Director	October 31, 2005
/s/ ROBERT M. NEUMEISTER, JR. Robert M. Neumeister, Jr.	Director	October 31, 2005
/s/ CARL REDFIELD Carl Redfield	Director	October 31, 2005
/s/ DAVID B. WRIGHT David B. Wright	Director	October 31, 2005

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, 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
Year Ended July 31, 2005				
Allowance for doubtful accounts	$ 127	$ 40	$ 1	$166
Allowance for excess and obsolete inventory	$ 33	$ 57	$ 31	$ 59

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
10.6†(3)	— Master Lease Agreement between Boca Global, Inc. and Bordeaux Partners LLC
10.7†(4)	— Master Lease Agreement between Registrant and Renco Investment Company
10.8(5)	— Consent of Linus Torvalds
10.9(7)	— Sublease between registrant and @Road, Inc., dated June 9, 2004.
10.10(8)	— Consent to Sublease Agreement between registrant, @Road, Inc. and Renco Investment Company, dated June 9, 2004.
10.11(6)	— Registration Rights Agreement between Registrant and certain holders of Common Stock, dated November 6, 2003
10.12(9)	— 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 10.16 of Registrant's form S-1 and the amendments thereto (Commission registration no. 333-88687).

(4) 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).

(5) 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).

(6) Incorporated by reference from Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on November 7, 2003.

(7) Incorporated by reference from Exhibit 10.42 of Registrant's Annual Report on Form 10-K for the period ended July 31, 2004 filed on October 28, 2005 (Commission file number 000-28369).

(8) Incorporated by reference from Exhibit 10.43 of Registrant's Annual Report on Form 10-K for the period ended July 31, 2004 filed on October 28, 2005 (Commission file number 000-28369).

(9) Incorporated by reference from Exhibit 10.12 of Registrant's Annual Report on Form 10-K for the period ended July 31, 2004 filed on October 28, 2005 (Commission file number 000-28369).

‡ 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-3 (No. 333-11084) and Form 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 reports dated October 31, 2005, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of VA Software Corporation's internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ BDO Seidman, LLP

San Jose, California
October 31, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 VA Software Corporation of our report dated August 20, 2003, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
October 31, 2005

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)),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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 31, 2005

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)),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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 31, 2005

/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, 2005 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, 2005 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