UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended October 31, 2003

Or

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

For the transition period from to .

Commission File Number: 000-28369

VA Software Corporation

(Exact name of Registrant as specified in its charter)

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

47071 Bayside Parkway, Fremont, California, 94538
(Address, including zip code, of principal executive offices)

(510) 687-7000
(Registrant's telephone number, including area code)

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title Of Class	*Outstanding At December 1, 2003*
Common Stock, $0.001 par value	60,516,449

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PART I

VA SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	October 31, 2003	July 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,539	$ 6,303
Short-term investments	26,627	27,864
Restricted cash, current	450	450
Accounts receivable, net	2,539	1,928
Inventories	568	388
Prepaid expenses and other assets	1,771	1,232
Total current assets	36,494	38,165
Property and equipment, net	4,165	4,267
Goodwill and intangibles, net	18	21
Long-term investments	6,133	4,680
Restricted cash, non current	450	450
Other assets	1,049	912
Total assets	$ 48,309	$ 48,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 977	$ 863
Accrued restructuring liabilities, current portion	3,577	4,117
Accrued compensation	1,358	1,346
Deferred revenue	1,400	751
Accrued liabilities and other	1,186	2,263
Total current liabilities	8,498	9,340
Accrued restructuring liabilities, net of current portion	10,272	10,772
Other long-term liabilities	1,166	1,181
Total liabilities	19,936	21,293
Commitments and contingencies (Notes 7 and 9)		
Stockholders' equity:		
Common stock	57	56
Treasury stock	(4)	(4)
Additional paid-in capital	769,215	766,765
Deferred stock compensation	-	(20)
Accumulated other comprehensive gain	51	128
Accumulated deficit	(740,946)	(739,723)
Total stockholders' equity	28,373	27,202
Total liabilities and stockholders' equity	$ 48,309	$ 48,495

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

VA SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share amounts, unaudited)

	Three Months Ended	
	October 31, 2003	October 26, 2002
Net revenues:		
Software revenues	$ 815	$ 711
Online revenues	4,951	4,155
Other revenues	31	209
Net revenues	5,797	5,075
Cost of revenues:		
Software cost of revenues	595	593
Online cost of revenues	2,655	2,311
Other cost of revenues	---	(157)
Cost of revenues	3,250	2,747
Gross margin	2,547	2,328
Operating expenses:		
Sales and marketing	2,392	2,321
Research and development	1,827	2,044
General and administrative	724	1,755
Restructuring costs and other special charges	(17)	(15)
Amortization of deferred stock compensation	20	38
Amortization of goodwill and intangible assets	3	644
Total operating expenses	4,949	6,787
Loss from operations	(2,402)	(4,459)
Interest income, net	248	354
Other income (expense) , net	931	(28)
Net loss	$ (1,223)	$ (4,133)
Basic and diluted net loss per share	$ (0.02)	$ (0.08)
Shares used in computing basic and diluted net loss per share	56,255	53,717

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

VA SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Three Months Ended October 31, 2003	Three Months Ended October 26, 2002
Cash flows from operating activities:		
Net loss	$ (1,223)	$ (4,133)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of intangibles	489	1,618
Provision for bad debts	8	(2)
Provision for excess and obsolete inventory	(1)	6
Loss on disposal of assets	—	1
Amortization of deferred stock compensation	20	38
Non-cash restructuring expense	—	(85)
Changes in assets and liabilities:		
Accounts receivable	(619)	(126)
Inventories	(179)	(42)
Prepaid expenses and other assets	(676)	(166)
Accounts payable	114	(271)
Accrued restructuring liabilities	(1,040)	(852)
Deferred revenue	649	(129)
Accrued liabilities and other	(1,065)	(1,571)
Other long-term liabilities	(15)	36
Net cash used in operating activities	(3,538)	(5,678)
Cash flows from investing activities:		
Purchase of property and equipment	(384)	(33)
Purchase of marketable securities	(6,148)	(17,671)
Sale of marketable securities	5,932	3,501
Other, net	(80)	(69)
Net cash used in investing activities	(680)	(14,272)
Cash flows from financing activities:		
Payments on notes payable	—	(42)
Proceeds from issuance of common stock, net	2,451	165
Net cash provided by financing activities	2,451	123
Effect of exchange rate changes on cash and cash equivalents	3	(3)
Net decrease in cash and cash equivalents	(1,764)	(19,830)
Cash and cash equivalents, beginning of period	6,303	35,148
Cash and cash equivalents, end of period	$ 4,539	$ 15,318

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

VA SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by VA Software Corp. ("VA," "VA Software" or the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and other comprehensive loss and cash flows for the interim periods presented. The financial statements and the accompanying notes, however, should be read in conjunction with VA's audited consolidated financial statements and the notes thereto included in VA's Annual Report on Form 10-K for the fiscal year ended July 31, 2003, filed with the SEC on October 14, 2003. The condensed consolidated balance sheet as of July 31, 2003 has been derived from the audited financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles for complete financial statements.

The results of operations for the three months ended October 31, 2003 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending July 31, 2004.

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.

Principles of Consolidation

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

Foreign Currency Translation

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

Segment and Geographic Information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as

components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-making group, as defined under SFAS No. 131, is comprised of the Chief Executive Officer and the executive team. The Company operates as two reportable business segments: software and online. Due to the significant amount of shared operating resources that are utilized by both of the business segments, the Company only reports segment information for revenues and cost of sales.

The Company markets its products in the United States through its direct sales force. Revenues for each of the three months ended October 31, 2003 and October 26, 2002 were primarily generated from sales to end users in the United States.

Revenue Recognition

Software Revenues

Software revenues are derived from the Company's SourceForge application software business and include software licenses, professional services, maintenance, support and training. Software revenue represents $815,000 and $711,000, or 14.1% and 14.0% , of total revenue for the three months ended October 31, 2003 and October 26, 2002, respectively.

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

For perpetual licenses, the Company uses the residual method to recognize revenues. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the 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. A typical perpetual license agreement may include professional services, maintenance and training. Revenue from non-essential professional services is recognized as the work is performed based on fair value. When an agreement includes professional services that are significant or essential to the functionality of the software, the Company uses the percentage of completion contract accounting method for the entire arrangement, including license fees. Maintenance revenues are recognized ratably over the term of the maintenance period (generally one year). Software maintenance agreements provide technical support and the right to unspecified updates/upgrades on an if-and-when-available basis. Fair value for the ongoing maintenance obligations are based upon separate sales or maintenance sold to customers or upon renewal rates quoted in the contract, when these exist. The unrecognized portion of amounts paid in advance for licenses and services are recorded as deferred revenue.

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

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

Online Revenues

Online revenues include online advertising and e-commerce revenues. Total online revenues of $5.0 million and $4.2 million represented 85.4% and 81.9% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. Online advertising revenues of $2.3 million and $2.3 million represented 39.7% and 45.0% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. Online advertising revenues included $0.5 million of barter revenue for each of the three months ended October 31, 2003 and October 26, 2002. E-commerce revenues of $2.7 million and $1.9 million represented 46.6% and 36.9% of total revenues for the three months ended October 31, 2003, and October 26, 2002, respectively.

Advertising revenues are derived from the sale of advertising space on our various Web sites. Advertising revenues are

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

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

Other Revenues

Other revenues are derived from the Company's former hardware, customer support, and hardware-related professional services businesses. Other revenues represent $31,000 and $209,000 or 0.5% and 4.1% of total revenues, for the three months ended October 31, 2003 and October 26, 2002, respectively.

The Company's revenue recognition policy related to its former hardware systems business follows SAB No. 101. Under SAB No. 101, the Company recognized product revenues from the sale of Linux-based servers, components, and desktop computers when persuasive objective 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 does not grant customers any rights to return these products.

The Company recognizes revenues from customer support services, including on-site maintenance and technical support on a pro-rata basis over the term of the related service agreement. The Company recognizes revenues from professional service contracts upon completion of the project, or using the percentage of completion contract accounting method where project costs can be reasonably estimated. The Company records any payments received prior to revenue recognition as deferred revenue. For the three months ended October 31, 2003, revenues from customer support services and professional service contracts associated with our former hardware business were not material.

Software Development Costs

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, the Company's software development has been completed concurrent with the establishment of technological feasibility and, accordingly, all software development costs have been charged to research and development expense in the accompanying statements of operations.

Stock Based Compensation

The Company accounts for its employee stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation—an Interpretation of APB Opinion No. 25, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost is recognized for any of the Company's fixed stock options granted to employees when the exercise price of the option equals or exceeds the fair value of the underlying common stock as of the grant date for each stock option. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with

Selling, Goods or Services. Deferred stock-based compensation is included as a component of stockholders' equity and is being amortized by charges to operations over the vesting period of the options and restricted stock consistent with the method described in FIN No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

Had compensation cost been recognized based on the fair value at the date of grant for options granted and Employee Stock Purchase Plan issuances during the three months ended October 31, 2003, and October 26, 2002 the Company's pro forma net loss and net loss per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended	
	October 31, 2003	October 26, 2002
Net loss as reported	$ (1,223)	$ (4,133)
Add back employee stock-based compensation expense related to stock options included in reported net loss	20	38
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards, net of related tax effects	(1,402)	(2,300)
Pro forma net loss	$ (2,605)	$ (6,395)
Shares used in computing basic and diluted net loss per share	56,255	53,717
Reported Basic and diluted net loss per share	$ (0.02)	$ (0.08)
Pro forma basic and diluted net loss per share	$ (0.05)	$ (0.12)

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 Three Months Ended		ESPP Plans For The Three Months Ended	
	October 31, 2003	October 26, 2002	October 31, 2003	October 26, 2002
Expected life (years)	5.09	4.74	0.49	0.50
Risk-free interest rate	3.3%	2.9%	1.1%	1.2%
Volatility	1.1%	1.1%	1.0%	1.0%
Dividend yield	None	None	None	None

Goodwill and Intangibles

Intangible assets are amortized on a straight-line basis over three to five years. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of these intangible assets may not be recoverable. When events or circumstances indicate that the intangible assets should be evaluated for possible impairment, the Company uses an estimate of the related business segment's undiscounted net income over the remaining useful life of the intangible assets in measuring whether they are recoverable. No events or circumstances occurred during the three months ended October 31, 2003 that would indicate a possible impairment in the carrying value of intangible assets at October 31, 2003.

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

	As of October 31, 2003		As of July 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Domain and trade names	$ 5,922	$ (5,904)	$ 5,922	$ (5,901)
Purchased technology	2,534	(2,534)	2,534	(2,534)

Total intangible assets……………………………	8,456	(8,438)	8,456	(8,435)
Goodwill………………………………………………..	60,362	(60,362)	60,362	(60,362)
Total changes in Goodwill and intangible assets………	$ 68,818	$ (68,800)	$ 68,818	$ (68,797)

The aggregate amortization expense of intangible assets, net of restructuring charges was $3,000 and $644,000 for the three-month periods ending October 31, 2003 and October 26, 2002, respectively. The estimated total amortization expense of acquired intangible assets is $12,700 and $9,500 for the fiscal years ending July 31, 2004 and July 31, 2005, respectively.

Inventories

Inventories related to our online operations consist 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.

Concentrations of Credit Risk and Significant Customers

The Company's investments are held with two reputable financial institutions. Both institutions are headquartered in the United States. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and trade receivable. The Company provides credit, in the normal course of business, to a number of companies and performs ongoing credit evaluations of its customers. As of October 31, 2003, one customer accounted for 11.2% of gross accounts receivables outstanding. The receivable is less than 31 days old and the Company believes the receivable is fully collectable.

For the three months ended October 31, 2003, no single customer accounted for more than 10% of VA's net revenues. For the three months ended October 26, 2002 one customer, Intel Corporation, accounted for approximately 19.7% of net revenues.

3. Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, the Company adopted plans to exit the systems and hardware-related software engineering and professional services businesses, as well as exit a sublease agreement and reduce its general and administrative overhead costs. The Company exited these activities to pursue its software and online businesses and reduce its operating losses to improve cash flow. The Company recorded restructuring charges of $180.2 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $19.8 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases (with payments continuing until fiscal 2010, unless sublet completely). The accrual from non-cancelable lease payments includes management's estimates of sublease income. These estimates are subject to change based on actual events. The Company evaluates and updates, if applicable, these estimates quarterly. As of October 31, 2003, the Company had an accrual of approximately $13.8 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses. The non-cancelable leases will expire by the end of fiscal year 2010.

The Company recorded a $17,000 net credit in restructuring expenses in the consolidated statement of operations for the three months ended October 31, 2003. The $17,000 net credit was a result of sublease income earned from a non-related party.

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

	Total Charged To Operations Fiscal 2001	Total Charged To Operations Fiscal 2002	Total Charged To Operations Fiscal 2003	Total Charged To Operations Quarter ended October 31, 2003	Total Cash Receipts/ (Payments)	Restructuring Liabilities at October 31, 2003
Cash Provisions:						
Other special charges relating to restructuring activities………………….	$ 2,159	$ (888)	$ 78	$ --	$ (1,349)	$ --
Facilities charges………………………...	6,584	9,401	191	(17)	(2,310)	$13,849
Employee severance and other related						

charges	3,498	1,997	37	--	(5,532)	--
Total cash provisions	12,241	10,510	306	(17)	$ (9,191)	$ 13,849
Non-cash:						
Write-off of goodwill and intangibles	59,723	30,632	--	--		
Write-off of other special charges relating to restructuring activities	4,434	5,442	(553)	--		
Write-off of accelerated options from terminated employees	1,352	--	--	--		
Acceleration of deferred stock compensation	35,728	352	(16)	--		
Total non-cash provisions	101,237	36,426	(569)	--		
Total provisions	$ 113,478	$ 46,936	$ (263)	$ (17)		

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

Changes in the total accrued restructuring liability	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
For the year ended July 28, 2001	$ —	$ 12,241	$ (2,728)	$ 9,513
For the year ended July 27, 2002	$ 9,513	$ 10,510	$ (2,029)	$ 17,994
For the year ended July 31, 2003	$17,994	$ 306	$ (3,411)	$ 14,889
For the quarter ended October 26, 2002	$17,994	$ (15)	$ (837)	$ 17,142
For the quarter ended October 31, 2003	$14,889	$ (17)	$ (1,023)	$ 13,849

Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability
For the year ended July 28, 2001	$ 3,135	$ 6,378	$ 9,513
For the year ended July 27, 2002	$ 3,397	$ 14,597	$ 17,994
For the year ended July 31, 2003	$ 4,117	$ 10,772	$ 14,889
For the quarter ended October 26, 2002	$ 3,782	$ 13,360	$ 17,142
For the quarter ended October 31, 2003	$ 3,577	$ 10,272	$ 13,849

4. Computation of Per Share Amounts

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 all periods presented, the Company has excluded all outstanding stock options from the calculation of diluted net loss per common share because all such securities are anti-dilutive for those periods.

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

	Three Months Ended	
	October 31, 2003	**October 26, 2002**
Net loss	$ (1,223)	$ (4,133)
Basic and diluted:		
Weighted average shares of common stock outstanding	56,255	53,734
Less: Weighted average shares subject to repurchase	--	(17)
Shares used in computing basic and diluted net loss per share	56,255	53,717
Basic and diluted net loss per share	$ (0.02)	$ (0.08)

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):

	Three Months Ended	
	October 31, 2003	**October 26, 2002**
Anti-dilutive securities:		
Options to purchase common stock	8,347	11,511
Common stock subject to repurchase	-	5

Total	8,347	11,516

5. 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. The Company follows SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign translation adjustments, which have been included in stockholders' equity and excluded from net income, to be included in comprehensive income. For the three months ended October 31, 2003 and October 26, 2002, total comprehensive loss was approximately $1.3 million and $4.2 million, respectively.

6. Segment and Geographic Information

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

(in thousands)	Software	Online	Other	Total Company
Three Months Ended October 31, 2003				
Revenue from external customers	$ 815	$ 4,951	$ 31	$ 5,797
Cost of revenues	$ 595	$ 2,655	$ --	$ 3,250
Gross margin	$ 220	$ 2,296	$ 31	$ 2,547
Three Months Ended October 26, 2002				
Revenue from external customers	$ 711	$ 4,155	$ 209	$ 5,075
Cost of revenues	$ 593	$ 2,311	$ (157)	$ 2,747
Gross margin	$ 118	$ 1,844	$ 366	$ 2,328

7. Litigation

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

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.

8. Recent Accounting Policies

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

9. 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. All of these indemnification agreements were grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these agreements as of October 31, 2003.

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

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

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

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Special Note Regarding Forward-Looking Statements

This Form 10-Q 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 the Risk Factors contained in the section of this Form 10-Q 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-Q.

Overview

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

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

OSDN is a network of media and e-commerce Internet sites serving the IT professional and the software development communities. As of December 1, 2003, OSDN reaches 12 million unique visitors and serves more than 225 million page views per month. Our OSDN Web sites include:

- *SourceForge.net,* our flagship Web site and software development center. As of December 1, 2003, SourceForge.net was the development home for more than 72,000 software development projects and had more than 740,000 registered users.
- *Slashdot.org,* our leading discussion site for technically-inclined individuals. Slashdot is dedicated to providing the IT and software development communities with cutting-edge technology, science and culture news and interactive commentary.
- *ThinkGeek.com,* our e-commerce site, which provides online sales of a variety of retail products of interest to the software development and IT communities.
- *Linux.com,* our comprehensive Web site for Linux and open source news and information. Linux.com caters to business and IT managers looking for migration strategies to Linux.
- *freshmeat.net,* one of the Internet's most comprehensive indices of downloadable Linux, Unix and cross-platform software.
- *NewsForge.com,* the online newspaper of record for Linux and open source software.
- *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.
- *Animation Factory.com,* a source for three-dimensional art, animations and presentations. Animation Factory offers a dynamic collection of easy to use animations that work can be added to email, Web pages and presentations.

Results of Operations

We review our annual and quarterly results, along with key accounting policies, with our audit committee prior to the release of financial results. In addition, we have not entered into any significant transactions with related parties. We do not use off-balance-sheet arrangements with unconsolidated related parties, nor do we use other forms of off-balance-sheet arrangements such as research and development arrangements.

We have completed nine quarters of operations focused on building our application software business, and accordingly have a

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

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

	Three Months Ended	
	October 31, 2003	October 26, 2002
Consolidated Statements of Operations Data:		
Software revenues	14.1%	14.0%
Online revenues	85.4	81.9
Other revenues	0.5	4.1
Net revenues	100.0%	100.0%
Software cost of revenues	10.3	11.7
Online cost of revenues	45.8	45.5
Other cost of revenues	—	(3.1)
Cost of revenues	56.1	54.1
Gross margin	43.9	45.9
Operating expenses:		
Sales and marketing	41.3	45.7
Research and development	31.5	40.3
General and administrative	12.5	34.6
Restructuring costs and other special charges	(0.3)	(0.3)
Amortization of deferred stock compensation	0.3	0.7
Amortization of goodwill and intangible assets	0.1	12.7
Total operating expenses	85.4	133.7
Loss from operations	(41.5)	(87.8)
Interest Income, net	4.3	7.0
Interest and other income, net	16.0	(0.6)
Net loss	(21.2)%	(81.4)%

Net Revenues

During the fourth quarter of fiscal 2003, two separate businesses emerged and as of July 31, 2003, we operate as two reportable business segments: software and online.

Our net revenues increased to $5.8 million for the three months ended October 31, 2003, from $5.1 million for the three months ended October 26, 2002. The $0.7 million increase in net revenues was due primarily to an increase in our online and software businesses, offset by a decrease in other revenue derived from our exited hardware business.

For the three months ended October 31, 2003, no single customer accounted for more than 10% of VA's net revenues. For the three months ended October 26, 2002 one customer, Intel Corporation, accounted for approximately 19.7% of net revenues. Going forward, we do not anticipate that any one customer will represent more than 10% of net revenues.

Software Revenues

Software revenues are derived from our application software business and include software licenses, professional services, maintenance, support and training. Software revenues represent $0.8 million, or 14.1%, and $0.7 million, or 14.0%, of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. The increase in software revenues is primarily due to the year over year increase in our installed customer base.

Revenues from software license agreements are accounted for in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2 and are recognized when objective, persuasive evidence of an agreement

exists, delivery of the product has occurred, provided the arrangement does not require significant customization of the software, the fee is fixed or determinable and collectibility is probable.

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

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

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

Online Revenues

Online revenues include online advertising and e-commerce revenues. Total online revenues of $5.0 million and $4.2 million represented 85.4% and 81.9% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. Online advertising revenues of $2.3 million and $2.3 million represented 39.7% and 45.0% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. Online advertising revenues included $0.5 million of barter revenue for each of the three months ended October 31, 2003 and October 26, 2002. E-commerce revenues of $2.7 million and $1.9 million represented 46.6% and 36.9% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. The increase in e-commerce revenues was primarily due to an increase in our online community, web site enhancements and an increase in the number of product offerings sold on our sites.

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

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

Other Revenues

Other revenues are derived from our former hardware, customer support, and professional services businesses. Other revenues represent $31,000 or 0.5%, of total revenues for the three months ended October 31, 2003 and $0.2 million or 4.1% for the three months ended October 26, 2002.

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

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

Cost of Revenues

Cost of software revenues were $0.6 million for each of the three months ended October 31, 2003 and October 26, 2002. Cost of software revenues were 10.3% and 11.7% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. This percentage decrease was primary related to an increase in total revenue. Software margin increased to $0.2 million for the three months ended October 31, 2003, from $0.1 million for the three months ended October 26, 2002. Software gross margin was 3.8% and 2.3% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. This percentage increase was primary related to an increase in total revenue

Cost of online revenues increased to $2.7 million for the three months ended October 31, 2003, from $2.3 million for the three months ended October 26, 2002. Cost of online revenues was 45.8% and 45.5% of total revenues for the three months ended October 31, 2003 and October 26, 2002 respectively. The increase in cost of online revenues was primary due to the increase in e-commerce revenue which carries a higher variable cost of revenues than our other businesses. Online gross margin increased to $2.3 million for the three months ended October 31, 2003, from $1.8 million for the three months ended October 26, 2002. Online gross margin was 39.6% and 36.3% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. The increase in online gross margin was related to an increase in total revenue partially offset by an increase in cost of online revenues.

Sales and Marketing Expenses

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

Sales and marketing expenses were $2.4 million for the three months ended October 31, 2003 and $2.3 million for the three months ended October 26, 2002. The 4% increase was primarily related to increased marketing activities related to our online business. Sales and marketing expenses were 41.3% and 45.7% of total revenues for the three months ended October 31, 2003 and October 26, 2002, respectively. This decrease as a percentage of net revenues was primarily related to our increase in revenue. Going forward we expect sales and marketing expenses to increase in absolute dollars but decrease as a percentage of net revenues.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses for software engineers.

Research and development expenses decreased by 10% to $1.8 million for the three months ended October 31, 2003 from $2.0 million for the three months ended October 26, 2002. The $0.2 million decrease was primarily due to a $0.1 million decrease in salary expense and a $0.1 million decrease in outside contractor expense. Average headcount decreased to 39 during the three months ended October 31, 2003 from an average headcount of 44 during the three months ended October 26, 2002. Research and development expenses as a percentage of net revenues decreased to 31.5% for the three months ended October 31, 2003 from 40.3% for the three months ended October 26, 2002. This decrease as a percentage of net revenues was the result of both lower expenses and increased

revenues. Going forward we expect research and development expenses to nominally increase in absolute dollars but to decrease as a percentage of net revenues.

General and Administrative Expenses

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

General and administrative expenses decreased by 61% to $0.7 million for the three months ended October 31, 2003 from $1.8 million for the three months ended October 26, 2002. The $1.1 million dollar decrease was primarily due to a $0.9 million reversal of accrued legal expenses reserved for securities litigation expenses that were ultimately paid by a Company insurer, and a $0.3 million reversal of legal expenses related to a lawsuit that was favorably resolved during the quarter, partially offset by a $0.1 million increase in direct labor costs. General and administrative expenses as a percentage of net revenues decreased to 12.5% for the three months ended October 31, 2003 from 34.6% for the three months ended October 26, 2002. This decrease as a percentage of net revenues was primarily the result of lower expenses. As a result of the one-time expense reductions noted above, going forward, we expect G&A expenses to increase substantially both in absolute dollars and as a percentage of net revenues.

Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, we adopted plans to exit the systems and hardware-related software engineering and professional services businesses, as well as exit a sublease agreement and reduce our general and administrative overhead costs. We exited these activities to pursue our software and online businesses and reduce our operating losses to improve cash flow. We recorded restructuring charges of $180.2 million related to exiting these activities, $160.4 million of which was included in restructuring charges and other special charges in operating expenses and $19.8 million of which was included in cost of sales. Included in the restructuring were charges related to excess facilities from non-cancelable leases (with payments continuing until fiscal 2010, unless sublet completely). The accrual from non-cancelable lease payments includes management's estimates of sublease income. These estimates are subject to change based on actual events. We evaluate and update, if applicable, these estimates quarterly. As of October 31, 2003, we had an accrual of approximately $13.8 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

We recorded a $17,000 net credit in restructuring expenses in the consolidated statement of operations for the three ended months October 31, 2003. The $17,000 net credit was related to sublease income received from a non-related party.

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

	Total Charged To Operations Fiscal 2001	Total Charged To Operations Fiscal 2002	Total Charged To Operations Fiscal 2003	Total Charged To Operations Quarter ended October 31, 2003	Total Cash Receipts/ (Payments)	Restructuring Liabilities at October 31, 2003
Cash Provisions:						
Other special charges relating to restructuring activities………………….	$ 2,159	$ (888)	$ 78	$ --	$ (1,349)	$ --
Facilities charges………………………..	6,584	9,401	191	(17)	(2,310)	$13,849
Employee severance and other related charges…………………………………	3,498	1,997	37	--	(5,532)	--
Total cash provisions…………………	12,241	10,510	306	(17)	$ (9,191)	$ 13,849
Non-cash:						
Write-off of goodwill and intangibles…...	59,723	30,632	--	--		
Write-off of other special charges relating to restructuring activities……...	4,434	5,442	(553)	--		
Write-off of accelerated options from terminated employees…………………	1,352	--	--	--		
Acceleration of deferred stock						

compensation………………………….	35,728	352	(16)	--
Total non-cash provisions…………….	101,237	36,426	(569)	--
Total provisions………………………	$ 113,478	$ 46,936	$ (263)	$ (17)

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

Changes in the total accrued restructuring liability	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
For the year ended July 28, 2001……………………....................	$ —	$ 12,241	$ (2,728)	$ 9,513
For the year ended July 27, 2002…………………………………..	$ 9,513	$ 10,510	$ (2,029)	$ 17,994
For the year ended July 31, 2003……………………....................	$17,994	$ 306	$ (3,411)	$ 14,889
For the quarter ended October 26, 2002………………………...........	$17,994	$ (15)	$ (837)	$ 17,142
For the quarter ended October 31, 2003………………………...........	$14,889	$ (17)	$ (1,023)	$ 13,849
Components of the total accrued restructuring liability	Short Term	Long Term	Total Liability	
For the year ended July 28, 2001……………………....................	$ 3,135	$ 6,378	$ 9,513	
For the year ended July 27, 2002………………………………….	$ 3,397	$ 14,597	$ 17,994	
For the year ended July 31, 2003……………………....................	$ 4,117	$ 10,772	$ 14,889	
For the quarter ended October 26, 2002………………………...........	$ 3,782	$ 13,360	$ 17,142	
For the quarter ended October 31, 2003………………………...........	$ 3,577	$ 10,272	$ 13,849	

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 expensed deferred stock compensation of $20,000 during the three months ended October 31, 2003, compared to $38,000 during the three months ended October 26, 2002. We expect amortization of deferred stock compensation, in absolute dollars, to decrease through fiscal year 2004.

Amortization of Intangible Assets

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized but are subject to at least an annual assessment for impairment applying a fair-value based test. Upon adoption of SFAS No. 142 on July 29, 2001, we no longer amortize goodwill. In connection with the acquisition of OSDN, we amortized $3,000 and $0.6 million of intangibles for the three months ended October 31, 2003 and October 26, 2002, respectively. The estimated total amortization expense of acquired intangible assets is $12,700 and $9,500 for the fiscal years ending July 31, 2004 and July 31, 2005, respectively.

We periodically evaluate the carrying amount of our long-lived assets and apply the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No changes occurred during the three months ended October 31, 2003 that would indicate a possible impairment in the carrying value of intangible assets at October 31, 2003.

Interest and Other Income, Net

Interest income, net, includes income from our cash investments net of interest expense. Net interest income decreased to $0.2 million for the three months ended October 31, 2003 from $0.4 million for the three months ended October 26, 2002. This decrease was primarily related to our lower average cash balance coupled with the year over year interest rate decline.

Other income, net, includes items such as legal settlement proceeds net of other expenses. Other income, net increased to $0.9 million for the three months ended October 31, 2003 from a $28,000 expense for the three months ended October 26, 2002. The $0.9 million increase in interest and other income was due to a $1.0 million legal settlement and a $0.3 million business recovery payment related to the World Trade Center disaster, partially offset by a decrease $0.3 million of other expenses related to our exited hardware business.

Income Taxes

As of October 31, 2003, we had federal and state net operating loss carry-forwards for tax reporting purposes available to offset future taxable income. 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 consistent profitability to date and the uncertainty of future profitability. The federal and state net operating loss carry-forwards expire at various dates through fiscal year 2021 and fiscal year 2012, respectively, to the extent that they are not utilized. We have not recognized any benefit from these net operating loss carry-forwards because of uncertainty surrounding their realization. The amount of net operating losses that we can utilize is limited under tax regulations because we have experienced a cumulative stock ownership change of more than 50% over the last three years.

Liquidity and Capital Resources

As of October 31, 2003, our available capital resources totaled $37.3 million, comprised of marketable securities of $32.8 million and cash and cash equivalents of $4.5 million. As of July 31, 2003, our available capital resources totaled $38.8 million, comprised of $32.5 million in marketable securities and $6.3 million in cash and cash equivalents

For the three months ended October 31, 2003, we used $3.5 million in cash for operating activities, compared to $5.7 million for the three months ended October 26, 2002. This represents a decrease of 38.6% and is primarily due to the reduction in our net loss. Net loss for the three months ended October 31, 2003 was $1.2 million compared to a net loss of $4.1 million for the three months ended October 26, 2002. The decrease in net loss was primarily due to reversal of a $0.9 million reserve for securities litigation expenses that were ultimately paid by a Company insurer, $1.3 million from the settlement of contract litigation, $0.6 million decrease in amortization of intangible assets expense and $0.2 million increase in gross margin. Non-cash items consisting primarily of depreciation and amortization of fixed assets and intangibles, provision for bad debts and obsolete inventory, loss on disposal of assets, non-cash restructuring and compensation expense were $0.5 million and $1.6 million for the three months ended October 31, 2003 and October 26, 2002, respectively. The $1.1 million decrease was primarily related to a decrease in depreciation and amortization expense. Other significant operating activities during the three months ended were increases in accounts receivable, inventory, prepaid assets and other assets and decreases in accounts payable, accrued restructuring liabilities, and accrued liabilities and other.

For the three months ended October 31, 2003, we used $0.7 million in cash for investing activities, compared to the use of $14.3 million for the three months ended October 26, 2002. During the three months ended October 31, 2003 we purchased $0.4 million in fixed assets and $6.1 million in marketable securities and sold $5.9 million in marketable securities. Cash used for investing activities was significantly higher for the three months ended October 26, 2002 when we purchased $17.7 million in marketable securities and sold $3.5 million in marketable securities, due to implementing our strategic decision to increase our short and long-term investments and decrease our cash equivalent investments in an effort to maximize our rate of return.

For the three months ended October 31, 2003, we generated $2.5 million in cash from financing activities, compared to $0.1 million for the three months ended October 26, 2002. The increase was related to cash generated from the issuance of common stock to our employees. We are uncertain of the level of cash that will be generated in the future from the issuance of common stock to our employees as the exercising of options is dependant upon several factors such as the price of our common stock and the number of employees participating in our stock option plans.

For the three months ended October 31, 2003 and October 26, 2002, 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 October 31, 2003 and July 31, 2003, we had outstanding letters of credit issued under a line of credit of approximately $0.9 million related to the corporate facility lease. The amount related to this letter of credit is recorded in the "Restricted cash" section of the condensed consolidated balance sheet. We anticipate that this balance will decline by $0.5 million in the fourth quarter of each fiscal year through 2005 under our existing lease agreement.

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

	Gross	Net

	Operating Leases	Sublease Income	Operating Leases
2004	$4,837	$512	$4,325
2005	5,002	662	4,340
2006	3,733	151	3,582
2007	3,511	-	3,511
2008	3,616	-	3,616
Thereafter	6,905	-	6,905
Total minimum lease payments...	$27,604	$1,325	$26,279

Our liquidity and capital requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing, marketing, selling and supporting our products, the timing and expense associated with expanding our distribution channels, potential acquisitions and other factors. We expect to devote capital resources to continue our research and development efforts, to invest in our sales, support, marketing and product development organizations, to enhance and introduce marketing programs, and for other general corporate activities. We believe that our existing cash balances will be sufficient to fund our operations through fiscal 2005 under our current business strategy, however, if we fail to adequately monitor and minimize our use of existing cash, we may need additional capital to fund continued operations beyond fiscal year 2005. We expect to continue to experience negative cash flow from operations for at least the foreseeable future. Unless we monitor and minimize the level of use of our existing cash, cash equivalents and marketable securities, we may require additional capital to fund continued operations beyond our fiscal year 2005. See "Risks Related to our Financial Results" in the Risk Factors section of this Form 10-Q.

Financial Risk Management

As a primarily US-based 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 condensed consolidated balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). These securities are not leveraged and are held for purposes other than trading.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from those disclosed in our report on Form 10-K for our fiscal year ended July 31, 2003.

Recent Accounting Pronouncements

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

Risk Factors

INVESTORS SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. IN ADDITION, THESE RISKS ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS OF WHICH WE ARE NOT PRESENTLY AWARE OR THAT WE CURRENTLY BELIEVE ARE

IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND INVESTORS MAY LOSE ALL OR PART OF THEIR INVESTMENT.

Risks Related To Our Software Business

Because the market for our SourceForge application software is new and rapidly evolving, we do not know whether existing and potential customers will license SourceForge in sufficient quantities for us to achieve profitability.

Our future growth and financial performance will depend on market acceptance of SourceForge and our ability to license our software in sufficient quantities and under acceptable terms. The number of customers using SourceForge is still relatively small. We expect that we will continue to need intensive marketing and sales efforts to educate prospective clients about the uses and benefits of SourceForge. Various factors could inhibit the growth of the market for and market acceptance of SourceForge. In particular, potential customers may be unwilling to make the significant capital investment needed to license SourceForge. Many of our customers have licensed only limited quantities of SourceForge, and these or new customers may decide not to broadly implement our software by licensing additional copies from us. We cannot be certain that a viable market for SourceForge will emerge or, if it does emerge, that it will be sustainable. If a sustainable viable market for SourceForge fails to emerge, this would have a significant, adverse effect upon our software business and operating results.

We are concentrating our sales efforts on SourceForge, so if this software does not achieve market acceptance we are likely to experience continued operating losses.

We are directing the majority of our product research and development efforts to SourceForge. The failure to achieve market acceptance of SourceForge would adversely affect our business and operating results. There can be no assurance that we will be successful in marketing, licensing, upgrading and supporting SourceForge. Our failure to do so could adversely affect our business and operating results.

If we fail to attract and retain larger corporate and enterprise-level customers, our revenues will not grow and may decline.

We have focused our sales and marketing efforts upon larger corporate and enterprise-level customers. This strategy may fail to generate sufficient revenue to offset the substantial demands that this strategy will place on our business, in particular the longer sales cycles, higher levels of service and support and volume pricing and terms that larger corporate and enterprise accounts often demand. In addition, these larger customers generally have significant financial and personnel resources. As a result, rather than license SourceForge, our target customers may develop collaborative software development applications internally, including ad hoc development of applications based on open source code. A failure to successfully obtain revenues from larger corporate or enterprise-level customers will materially and adversely affect our operating results.

If we do not develop and enhance SourceForge to keep pace with technological, market, and industry changes, our software revenue will not grow and may decline.

Rapid technological advances, changes in customer requirements, and frequent new product introductions and enhancements characterize the software industry generally. We must respond rapidly to developments related to hardware platforms, operating systems, and software development tools. These developments will require us to make substantial product development investments. If we fail to anticipate or respond adequately to technology developments, industry standards, or practices and customer requirements, or if we experience any significant delays in product development, introduction, or integration, SourceForge may become obsolete or unmarketable, our ability to compete may be impaired, and our software revenues may not grow or may decline. We believe the success of our software business will become increasingly dependent on our ability to:

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

In addition, our software products are complex and may contain undetected defects or errors when first introduced or as new versions are released. Although we have not experienced adverse effects resulting from any software errors, we cannot be sure that,

despite testing by us and our clients, defects or errors will not be found in new products after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could seriously harm our business.

Our application software has a long and unpredictable sales cycle, which makes it difficult to forecast our future results and may cause our operating results to vary significantly.

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

- Our ability to sell SourceForge licenses may be impacted by changes in the strategic importance of software projects due to our customers' budgetary constraints or changes in customer personnel;

- A customer's internal approval and expenditure authorization process can be difficult and time consuming. Delays in approvals, even after we are selected as a vendor, could impact the timing and amount of revenues recognized in a quarterly period; and

- The number, timing and significance of enhancements to our software products and future introductions of new software by our competitors and us may affect customer-purchasing decisions.

Contractual issues may arise during the negotiation process that may delay the anticipated closure of a transaction and our ability to recognize revenue as anticipated.

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

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

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

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

We generate a significant amount of our software license revenues from existing customers. Most of our current customers initially purchased a limited number of licenses as they implemented and adopted SourceForge. Even if customers successfully use SourceForge, such customers may not purchase additional licenses to expand the use of our product. Purchases of additional licenses by these customers will depend on their success in deploying SourceForge, their satisfaction with our product and support services and their use of competitive alternatives. A customer's decision to widely deploy SourceForge and purchase additional licenses may also be affected by factors that are outside of our control or which are not related to our product or services. In addition, as we deploy new

versions of SourceForge, or introduce new products, our current customers may not require the functionality of our new versions or products and may decide not to license these products.

If we fail to maintain our strategic relationship with IBM, the market acceptance of our products and our financial performance may suffer.

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

Our research and development efforts may be costly and may not produce successful new products and product upgrades.

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

Delays in introducing upgrades to our products may cause us to lose customers to our competitors or harm our reputation.

We attempt to maintain a consistent release schedule for upgrades of existing products. Due to uncertainties inherent in software development, it is likely that delays will materialize from time to time in the future. We could lose customers as a result of substantial delays in the shipment of product upgrades.

If we are unable to provide high-quality customer support and services, we will not meet the needs of our customers and revenue will not grow and may decline.

For our business to succeed, we must effectively market and provide customer support for SourceForge. If we do not develop our customer support organization to meet the needs or expectations of customers, we face an increased risk that customers will purchase software from other providers or forgo deployment of collaborative software development applications entirely, which would materially and adversely affect our operating results.

Increased utilization and costs of our technical support services may adversely affect our financial results.

Over the short term, we may be unable to respond to fluctuations in customer demand for support services. We may also be unable to modify the format of our support services to compete with changes in support services provided by competitors. Further, customer demand for these services could cause increases in the costs of providing such services and adversely affect our operating results.

Promotional product versions may adversely impact our actual product sales.

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

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

Risks Related To Our Online Business

Our online content and services may not achieve continued acceptance, which could adversely affect our financial results.

Our future success depends upon our ability to deliver original and compelling content and services that attract and retain users. The successful development and production of content and services is subject to numerous uncertainties, including our ability to:

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

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

Decreases or delays in advertising spending due to general economic conditions could harm our ability to generate advertising revenue.

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

We cannot predict our e-commerce customers' preferences with certainty and such preferences may change rapidly.

Our e-commerce offerings on our ThinkGeek.com Web site are designed to appeal to IT professionals, software developers and others in technical fields. If we misjudge either the market for our products or our customers' purchasing habits, our sales may decline, our inventories may increase or we may be required to sell our products at lower prices. This would have a negative effect on our business.

We are exposed to significant inventory risks as a result of seasonality, new product launches, rapid changes in product cycles and changes in consumer tastes with respect to our products offered at our ThinkGeek e-commerce web site.

In order to be successful, we must accurately predict these trends and avoid overstocking or under-stocking products. Demand for products can change significantly between the time inventory is ordered and the date of sale. In addition, when we begin selling a new product, it is particularly difficult to forecast product demand accurately. The acquisition of certain types of inventory, or inventory from certain sources, may require significant lead-time and prepayment, and such inventory may not be returnable. We carry a broad selection and significant inventory levels of certain products and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Our ability to receive inbound inventory efficiently or ship completed orders to customers may be negatively affected by a number of factors, including our dependence on a single third party contract fulfillment and warehouse facility in Baltimore, Maryland to handle the majority of our ThinkGeek e-commerce distribution and fulfillment operations and reliance upon third party carriers for all of our product shipments.

If we do not maintain sufficient e-commerce inventory levels, or if we are unable to deliver our e-commerce products to our customers in sufficient quantities, our online business operating results will be adversely affected.

We must be able to deliver our merchandise in sufficient quantities to meet the demands of our customers and deliver this merchandise to customers in a timely manner. We must be able to maintain sufficient inventory levels, particularly during the peak holiday selling seasons. If we fail to achieve these goals, we may be unable to meet customer demand, and our future results will be adversely affected.

Risks Related To Our Financial Results

If we fail to adequately monitor and minimize our use of existing cash, we may need additional capital to fund continued operations beyond fiscal year 2004.

Since becoming a public company, we have experienced negative cash flow from operations and expect to experience negative cash flow from operations for fiscal year 2004. Unless we monitor and minimize the level of use of our existing cash, cash equivalents and marketable securities, we may require additional capital to fund continued operations beyond our fiscal year 2004. While we believe we will not require additional capital to fund continued operations during fiscal year 2004, we may require additional funding within this time frame, and this additional funding, if needed, may not be available on terms acceptable to us, or at all. A continued slowdown in technology or advertising spending as compared to the general economy, as well as other factors that may arise, could affect our future capital requirements and the adequacy of our available funds. As a result, we may be required to raise additional funds through private or public financing facilities, strategic relationships or other arrangements. Any additional equity financing would likely be dilutive to our stockholders. For example, in November 2003 we issued shares of our common stock and warrants to purchase shares of our common stock in a private placement and on November 26, 2003 we filed a registration statement on Form S-3 with the SEC covering 5,104,354 shares of our common stock in connection with the private placement. The presence of these additional shares of our common stock in the public market may depress our stock price. Debt financing, if available, may involve restrictive covenants on our operations and financial condition. Our inability to raise capital when needed could seriously harm our business.

It is difficult to evaluate our business because we have a limited history operating as a provider of application software.

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

Because we have a limited operating history selling SourceForge, we may not accurately forecast our sales and revenues, which will cause quarterly fluctuations in our net revenues and results of operations.

Our ability to accurately forecast our quarterly software sales and revenue is made difficult by our limited operating history with our new business direction and the continued slowdown in technology spending. In addition, most of our operating costs are fixed and based on our revenue expectations. Therefore, if we have a shortfall in revenues, we may be unable to reduce our expenses quickly enough to avoid lower quarterly operating results.

Our quarterly net revenues and results of operations may vary significantly in the future due to a number of factors, many of which are outside of our control.

The primary factors that may cause our quarterly net revenues and results of operations to fluctuate include the following:

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

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

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

Future guidelines and interpretations regarding software revenue recognition could have a material impact on our business.

In October 1997, the AICPA issued SOP No. 97-2, "Software Revenue Recognition" which superceded SOP No. 91-1. SOP No. 97-2, as amended by SOP No. 98-4 and SOP No. 98-9, provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements," which provides further revenue recognition guidance. We adopted SAB No. 101, as amended, and SOP No. 97-2, as amended by SOP No. 98-4 and SOP No. 98-9 in the fourth quarter of fiscal 2001 as required. The adoption of SAB No. 101 did not

have a material effect on our consolidated financial position, results of operations or cash flows. The accounting profession continues to review certain provisions of SOP No. 97-2 and SAB No. 101 with the objective of providing additional guidance on implementing its provisions. Depending upon the outcome of these reviews and the issuance of implementation guidelines and interpretations or of future guidelines and interpretations, we may be required to change our revenue recognition policies and business practices and such changes could have a material adverse effect on our business, results of operations or financial position.

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

We incurred a loss of $1.2 million for our first quarter ended October 31, 2003, and we had an accumulated deficit of $740.9 million as of October 31, 2003. We expect to continue to incur significant product development, sales and marketing and administrative expenses. We expect to continue to incur net losses for at least the foreseeable future. If we do achieve profitability, we may not be able to sustain it. Failure to become and remain profitable may materially and adversely affect the market price of our common stock and our ability to raise capital and continue operations.

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

During fiscal year 2001, 2002 and 2003 we substantially reduced the size of our workforce. As of October 31, 2003, we had 122 employees. Despite, the substantial reductions in the size of our workforce, our business my never the less 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 stock.

Risks Related To Competition

If we do not effectively compete with new and existing competitors, our revenues and operating margins will not grow and may decline.

We believe that the newly emerging collaborative software development market is fragmented, subject to rapid change and highly sensitive to new product introductions and marketing efforts by industry participants. Competition in related markets is intense. If our products gain market acceptance, we expect the competition to rapidly intensify as new competitors enter the marketplace. Our potential competitors include entrenched companies in closely related markets who may choose to enter and focus on collaborative software development. Although we do not believe that we presently have an entrenched competitor, we expect competition to intensify in the future if the market for collaborative software development applications continues to expand. Our potential competitors include providers of software and related services as well as providers of hosted application services. Many of our potential competitors have significantly more resources, more experience, longer operating histories and greater financial, technical, sales and marketing resources than we do. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure will not result in price reductions, reduced operating margins and loss of market share, any one of which could seriously harm our business. Because individual product sales often lead to a broader customer relationship, our products must be able to successfully compete with and complement numerous competitors' current and potential offerings. Moreover, we may be forced to compete with our strategic partners, and potential strategic partners, and this may adversely impact our relationship with an individual partner or a number of partners. Consolidation is underway among companies in the software industry as firms seek to offer more extensive suites of software products and broader arrays of software solutions. Changes resulting from this consolidation may negatively impact our competitive position and operating results.

Online competition is intense. Our failure to compete successfully could adversely affect our revenue and financial results.

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

Risks Related To Intellectual Property

We are vulnerable to claims that our products infringe third-party intellectual property rights. Any resulting claims against us could be costly to defend or subject us to significant damages.

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

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

If we fail to adequately protect our intellectual property rights, competitors may use our technology and trademarks, which could weaken our competitive position, reduce our revenues, and increase our costs.

We rely on a combination of copyright, trademark and trade-secret laws, employee and third-party nondisclosure agreements, and other arrangements to protect our proprietary rights. Despite these precautions, it may be possible for unauthorized third parties to copy our products or obtain and use information that we regard as proprietary to create products that compete against ours. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our licensed programs may be unenforceable under the laws of certain jurisdictions and foreign countries.

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

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

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

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

Other Risks Related To Our Business

We may be subject to claims as a result of information published on, posted on or accessible from our Internet sites.

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

We may be subject to product liability claims if people or property are harmed by the products we sell on our e-commerce web sites.

Some of the products we offer for sale on our e-commerce Web sites, such as consumer electronics, toys, computers and peripherals, toiletries, beverages and clothing, may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take actions such as product recalls. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our vendor agreements with our suppliers do not indemnify us from product liability.

If we are unable to implement appropriate systems, procedures and controls, we may not be able to successfully offer our services and grow our software business.

Our ability to successfully offer our services and grow our software business requires an effective planning and management process. Over the past year, we have implemented or updated our operations and financial systems, procedures and controls as we focused on our application software and online businesses. Our systems will continue to require additional modifications and improvements to respond to current and future changes in our business. If we cannot grow our software and online businesses, and manage that growth effectively, or if we fail to timely implement appropriate internal systems, procedures, controls and necessary modifications and improvements to these systems, our businesses will suffer.

Our stock price has been volatile historically and may continue to be volatile.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the first quarter of fiscal year 2004, the closing sale prices of our common stock on the Nasdaq ranged from $1.92 to $5.84 per share and the closing sale price on October 31, 2003 was $5.10 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

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

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

Our networks may be vulnerable to unauthorized persons accessing our systems, which could disrupt our operations and result in the theft of our proprietary information.

A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions or malfunctions in our Internet operations. We may be required to expend significant capital and resources to protect against the threat of security breaches or to alleviate problems caused by breaches in security.

Increasing regulation of the Internet or imposition of sales and other taxes on products sold or distributed over the Internet could harm our business.

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

Business disruptions could affect our future operating results.

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

System disruptions could adversely affect our future operating results.

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

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

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

The following table presents the amounts of our cash equivalents and short-term investments (in thousands) that are subject to market risk and weighted-average interest rates, categorized by expected maturity dates, as of October 31, 2003. 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 October 31, 2003			
Cash equivalents	$2,090		
Weighted-average interest rate	1.08%		
Short-term investments		$26,627	

Weighted-average interest rate	2.35%	
Long-term investments		$6,133
Weighted-average interest rate		2.00%

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 4. ***Controls and Procedures***

a) **Evaluation of disclosure controls and procedures.** Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b) **Changes in internal controls over financial reporting.** There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

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

Item 5. ***Other Information***

On November 6, 2003 we sold 3,529,412 shares of our common stock and warrants to purchase 705,883 shares of our common stock at an exercise price of $6.00 per share to The Riverview Group LLC for aggregate consideration of $15 million. These securities were sold pursuant to Section 4(2) of the Securities Act of 1933, as emended.

Item 6. ***Exhibits and Reports On Form 8-K***

(a) Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	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.
32.2	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.

(b) Reports on Form 8-K

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

On November 7, 2003, the Company filed a Current Report on Form 8-K under Item 5 (Other Events and Regulation FD Disclosure) disclosing the issuance of a November 6, 2003 press release announcing that VA Software Corporation had completed a private placement of its common stock and warrants to purchase shares of its common stock.

On November 19, 2003, the Company furnished a Current Report on Form 8-K under Item 12 (Results of Operations and Financial Condition) disclosing the issuance of a November 19, 2003 press release announcing its financial results for the Company's first quarter ended October 31, 2003.

SIGNATURES

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

VA SOFTWARE CORPORATION

By: /s/ ALI JENAB
Ali Jenab
President and Chief Executive Officer

By: /s/ KATHLEEN R. MCELWEE
Kathleen R. McElwee
Vice President and Chief Financial Officer

Date: December 11, 2003

EXHIBIT INDEX

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Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ali Jenab certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VA Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the 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.

December 11, 2003
(Date)

/s/ ALI JENAB
Ali Jenab
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kathleen R. McElwee certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VA Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) affect, the registrant's internal control over the 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.

December 11, 2003
(Date)

/s/ KATHLEEN R. MCELWEE
Kathleen R. McElwee
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 32.1

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 Quarterly Report of VA Software Corporation on Form 10-Q for the fiscal quarter ended October 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of VA Software Corporation.

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

EXHIBIT 32.2

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 Quarterly Report of VA Software Corporation on Form 10-Q for the fiscal quarter ended October 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q 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