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**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

SECURITIES AND EXCHANGE COMMISSION, :
100 F Street, N.E. :
Washington, DC 20549 :

Plaintiff,

v.

VERITAS SOFTWARE CORPORATION,
20330 Stevens Creek Blvd.
Cupertino, California 95014

Defendant. :

CASE NUMBER 1:07CV00364

JUDGE: Ricardo M. Urbina

DECK TYPE: General Civil

DATE STAMP: 02/20/2007

COMPLAINT

Plaintiff Securities and Exchange Commission alleges as follows:

SUMMARY

1. This is a financial fraud case. Veritas Software Corporation (“Veritas” or the “Company”) artificially inflated reported revenues in connection with a \$20 million round-trip transaction with America Online, Inc. (“AOL”) and smaller round-trip transactions with two other Internet companies in 2000. In addition, to produce what it believed were exceptional or “museum quality” financial results, Veritas systematically

manipulated its financial results through 2002 by (a) periodically recording and maintaining excess accrued liabilities or cushions in its accrual accounts; (b) cutting off professional service revenue upon reaching internal targets; and (c) inflating its deferred revenue balance. Each of these business practices violated the federal securities laws and constituted an unlawful departure from generally accepted accounting principles (“GAAP”).

2. As a result, the Company reported materially false and misleading financial results in periodic reports filed with the Commission and other public statements from at least January 2000 through 2003, and its January 28, 2004 earnings release of fourth quarter and annual results for 2003.

3. On January 17, 2003, Veritas announced that it would restate its financial statements in order to reverse the \$20 million of improperly recognized revenue from the AOL round-trip transaction and correct the related over-stated expenses (the “2003 Restatement”).

4. On March 15, 2004, the Company announced a second restatement of its financial statements to correct, among other things, the accounting of unsubstantiated accruals of certain expenses, the improper quarterly revenue cut-off of professional services revenues, and the overstatement of deferred revenues (the “2004 Restatement”).

JURISDICTION AND VENUE

5. This Court has jurisdiction over this action under Section 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77v(a)], and Sections 21(d), 21(e), and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d) and (e) and 78aa]. Defendant, directly or indirectly, made use of the means or

instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

6. Venue is appropriate in this Court under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because the defendant does business in this judicial district and certain acts or transactions constituting the violations occurred in this district.

DEFENDANT

7. Veritas Software Corporation, now a wholly owned subsidiary of Symantec Corporation, is a software company headquartered in Cupertino, California that creates and licenses data storage software. At the time of the events alleged in this Complaint, Veritas' common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act and was quoted on the Nasdaq National Market. Veritas filed annual, quarterly, and current reports with the Commission on Forms 10-K, 10-Q and 8-K. Veritas registered securities offerings from August 2000 through September 2003 by filing with the Commission Forms S-3, S-4 and S-8. On July 2, 2005, Symantec Corporation acquired Veritas.

FACTS

I.

AOL Transaction

A. Veritas Improperly Inflated the Price of a Software License as Part of a Round-trip Transaction with AOL

8. In September 2000, Veritas agreed to sell AOL an unlimited license for all of its software products as well as certain services, consulting and training commitments (the "License"). The parties agreed to a price of \$30 million for the License.

9. During negotiations in late August and September 2000, AOL proposed that Veritas purchase online advertising from AOL. Veritas rejected AOL's proposal.

10. Hours before the parties were set to execute the License agreement, AOL offered to pay an additional \$20 million for the License in return for Veritas' agreement to purchase \$20 million of AOL online advertising. Veritas agreed. The parties did not change the other terms of the License as a result of the price increase nor did they engage in any substantive negotiations regarding the online advertising contract other than the time period over which the advertising would be provided. By oral side agreement, the parties further agreed to simultaneously wire payments of the amounts due under the contracts.

11. Veritas and AOL documented the round-trip transaction as if it was two separate, bona fide transactions, which concealed the fact that AOL agreed to pay an additional \$20 million for the License in exchange for Veritas' agreement to purchase \$20 million in online advertising. Veritas improperly recognized the additional \$20 million as license and service revenue, and AOL improperly recognized the \$20 million as online ad revenue.

12. The net effect of the inflated prices of the License and the online ad deal improperly inflated Veritas' fourth quarter and 2000 annual earnings by 2 cents a share -- a material amount for Veritas.

13. On October 23, 2002, well after the Commission commenced its investigation, AOL announced that it would restate its financial results. As part of that restatement, AOL reversed the \$20 million of improperly recognized advertising revenue derived from its transaction with Veritas.

B. Veritas Lied to and Withheld Material Information from its Independent Auditors

14. In December 2000, Veritas' independent auditors reviewed the License as part of their regular in-quarter review of significant revenue transactions. Veritas did not tell the auditors about the existence of the contingent advertising deal. As a result, the auditors reviewed and treated the License as a stand-alone revenue contract.

15. Again, in January 2001, during its audit of Veritas' 2000 financial statements, Veritas did not inform the auditors of the true, contingent nature of the AOL contracts -- namely, that Veritas only agreed to enter the advertising contract after AOL agreed to fund that "purchase" by inflating the price of the License.

16. When the auditors asked Veritas to explain the business rationale behind the contracts and justify the prices paid, Veritas falsely represented that: the two AOL contracts were entered into for valid business reasons; the AOL software sale and advertising purchase were separate and not part of any overall arrangement between the two companies; AOL's commitment to pay the fee for the License was, from its initiation, never contingent upon Veritas entering into the advertising purchase; and the contracts were fairly priced at \$50 million and \$20 million, respectively.

17. Also, in January 2001, Veritas gave its independent auditors a materially misleading confirmation of the purported terms of the license, failing to disclose the contingent relationship of the parties' entry into the License at a \$50 million price and their entry into the advertising contract, as well as the parties' oral agreement to modify the payment terms under the contracts to require simultaneous wire transfers.

C. Veritas Aided and Abetted in AOL's Fraudulent Reporting of the Round-trip

18. AOL and AOL Time Warner Inc. (after the merger of AOL and Time Warner Inc. on January 11, 2001) were public companies with securities registered with the Commission (collectively, "AOL").

19. AOL used the round-trip transaction with Veritas to improperly inflate its revenues by \$20 million by recording and reporting these contracts at their respectively stated contract values of \$50 million and \$20 million.

20. By agreeing to inflate the sales price of the License and enter into the concomitant advertising contract and documenting the round-trip transaction as if it was two separate, bona fide transactions, Veritas aided and abetted AOL's fraud.

D. Veritas Restated its Financial Statements to Correct the Accounting Treatment for the AOL Transaction and Two Other Round-trips

21. On January 17, 2003, Veritas announced its 2003 Restatement in order to reverse the \$20 million of improperly recognized revenue from the inflated AOL transaction.

22. As part of this restatement, Veritas also reversed approximately \$1 million of improperly recognized revenue resulting from transactions with two other Internet companies, who required Veritas to purchase online advertising as part of their agreement

to purchase Veritas licenses. As with the AOL transaction, Veritas withheld material information from its independent auditors in its 2000 year-end audit with respect to these two concurrent transactions.

23. The 2003 Restatement was materially deficient, leading to a second restatement described below.

II.

Veritas' Accounting Manipulations Lead to a Second Restatement

24. During at least 2000 through 2002, Veritas engaged in a scheme consisting of three separate improper courses of conduct to manage its earnings and artificially smooth its financial results, all of which together distorted Veritas' reported financial results for 2000 through 2003, as described below.

A. Veritas Improperly Recorded and Maintained Accrued Liabilities, Employing "Accrual Wish Lists" and "Cushion Schedules"

25. Veritas recorded, maintained and tracked a variety of accrued liability balances (including a variety of compensation, bonus, and incentive accruals, fixed asset reserves and general reserves) that were not in conformity with GAAP because they were unsubstantiated and lacked properly documented support (the "improper accrued liabilities"). As a result, Veritas failed to accurately report its quarterly and annual financial results, causing overstatements of earnings in some quarters and understatements during other quarters.

26. After properly-determined accruals had been made, and as part of its quarterly process of closing its books and preparing financial statements, Veritas' finance department requested that financial analysts in finance and the operational units submit

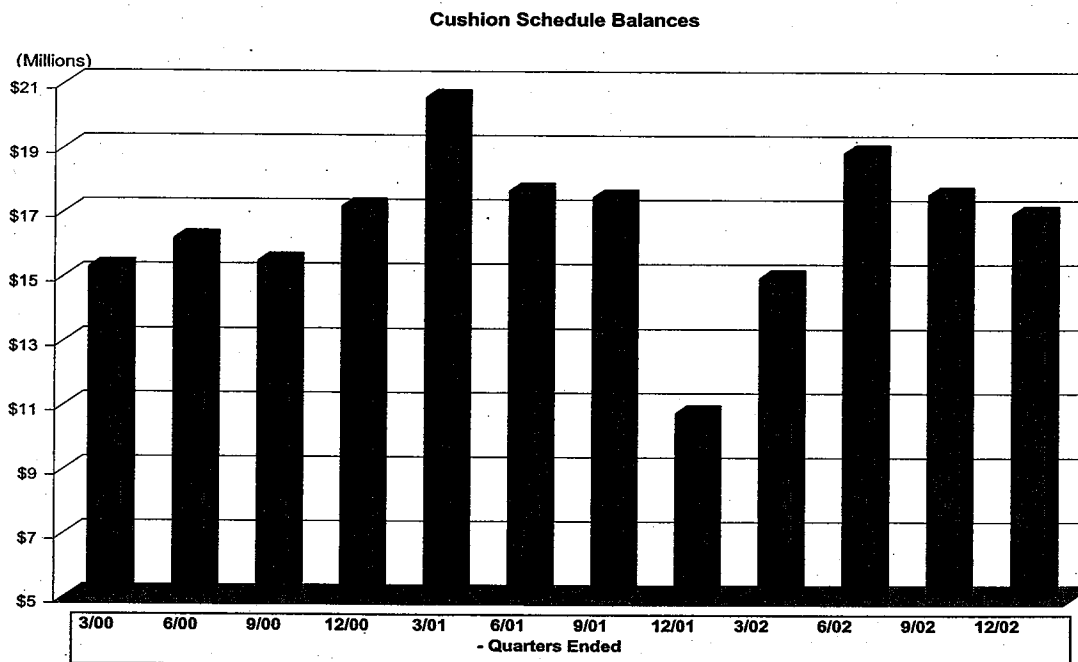
additional expenses for consideration of accruing in that period. These proposed, non-GAAP accruals were accumulated on an “accrual wish list.”

27. Veritas improperly evaluated the recording of these additional non-GAAP expenses from the wish list based primarily on whether: (a) there was room in the budget; (b) they could be taken as expenses without adversely impacting the desired financial results for the quarter; and/or (c) they would benefit results in the subsequent quarter by recording such expenses in the current quarter.

28. Veritas recorded these accruals from the wish lists without regard to GAAP. Rather, Veritas reviewed the impact of select proposed accruals on the financial statements for that quarter, including the impact on earnings. Veritas decided which accruals, and in what amounts, to add to the accrued liabilities in order to achieve desired financial results. Veritas improperly used these proposed accrued expenses in an effort to manage its earnings per share results.

29. Veritas tracked the improper accrued liabilities in “cushion schedules” prepared on a quarterly (and at times monthly) basis. The cushion schedules reflected the value of improper accrued liabilities that were available to fund new or unplanned expenditures without adversely impacting the Company’s planned earnings for a quarter.

30. As summarized below, the cumulative balances of over-stated accrued liabilities tracked on the Company’s cushion schedules for each quarter from 2000 through 2002 ranged from approximately \$10 million to \$21 million.



31. As part of its 2004 Restatement, Veritas corrected and restated its accounting for reserves in its financial statements for fiscal years 2000 through 2003.

B. Veritas Improperly Cut Off its Recognition of Professional Service Revenue

32. Through 2002, Veritas prematurely cut off its recognition of professional service revenues.

33. Each quarter, Veritas set internal targets for revenues. Later in the quarter, when it reached its revenue targets, Veritas stopped recognizing additional professional service revenue that it had fully delivered and earned in the current quarter. Veritas' failure to recognize revenues earned did not comply with GAAP.

34. By this practice, Veritas sought to improperly manage its quarterly professional service revenues, push additional service revenues into the next quarter, and cause the percentage of reported revenues attributable to professional services to be

smaller than it otherwise would be; and conversely, the ratio of reported license revenues would be larger than it should have been. Analysts tracked the license-to-service revenue mix as percentages of total revenues each quarter. License revenue that constituted a larger percentage of total revenue was more desirable because of the higher margins on license revenue.

35. As part of its 2004 Restatement, Veritas corrected the accounting of the improper quarterly revenue cut-off practice in its financial statements.

C. Veritas Improperly Manipulated its Deferred Revenue Balance

36. Veritas also manipulated its financial reporting by improperly inflating its reported deferred revenue on its balance sheet for the second quarter of 2002 by approximately \$7 million.

37. During the end of the second quarter of 2002, Veritas noticed that its deferred revenue balance was substantially lower than expected and less than it had been in the prior quarter. Concerned that analysts would view this declining deferred revenue balance negatively and interpret it as an indication that the amount of Veritas' new business had declined, possibly signaling a decline in revenues for the next quarter, Veritas improperly inflated its deferred revenue balance. Veritas did so by intentionally failing to subtract certain amounts from the deferred revenue balance that were attributable to unpaid contracts – something the Company normally did in reporting its deferred revenues in its quarterly financial statements.

38. To conceal this improper inflation, Veritas provided its independent auditors with a falsified account reconciliation schedule. The schedule falsely listed the status of certain licenses as “paid,” when such items were known to have been unpaid, so

that the deferred revenues associated with those contracts would not be subtracted from the deferred revenue balance.

39. As part of its 2004 Restatement, Veritas corrected its deferred revenue balance, which reduced the reported deferred revenue balance by approximately \$7 million for the second quarter of 2002.

FIRST CLAIM FOR RELIEF

Fraud

Violations of Section 17(a) [15 U.S.C. § 77q(a)] of the Securities Act, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]

40. Paragraphs 1 through 39 are re-alleged and incorporated by reference.

41. By reason of the foregoing, defendant directly or indirectly, acting intentionally or recklessly, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the offer, sale, or purchase of securities: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; (c) obtained money or property by means of any untrue statement of a material fact or any omission of a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading; or (d) engaged in transactions, acts, practices, or courses of business which operated as a fraud or deceit upon other persons.

42. By reason of the foregoing, defendant violated, and unless restrained will violate, Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5.

SECOND CLAIM FOR RELIEF

Reporting Violations

Violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13 [17 C.F.R. § 240.12b-20, § 240.13a-1, § 240.13a-11, and § 240.13a-13]

43. Paragraphs 1 through 39 are re-alleged and incorporated by reference.
44. The Exchange Act and Exchange Act Rules require every issuer of registered securities to file reports with the Commission that accurately reflect the issuer's financial performance and provide other true and accurate information to the public.
45. By reason of the foregoing, defendant violated, and unless restrained will violate, Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13.

THIRD CLAIM FOR RELIEF

Record Keeping Violations

Violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1]

46. Paragraphs 1 through 39 are re-alleged and incorporated by reference.
47. The Exchange Act and Exchange Act Rules promulgated thereunder require each issuer of registered securities to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the business of the issuer and to devise and maintain a system of internal controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit preparation of financial statements and to maintain the accountability of accounts.

48. By reason of the foregoing, defendant violated, and unless restrained will violate, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Exchange Act Rule 13b2-1.

FOURTH CLAIM FOR RELIEF

Aiding and Abetting Fraud

Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]

49. Paragraphs 1 through 3, and 5 through 23, are re-alleged and incorporated by reference.

50. As set forth more fully above, AOL, directly or indirectly, by use of the means or instrumentalities of interstate commerce, or by the use of the mails and of the facilities of a national securities exchange, in connection with the purchase or sale of securities: has employed devices, schemes, or artifices to defraud, has made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or has engaged in acts, practices, or courses of business which operate or would operate as a fraud or deceit upon any person.

51. As detailed above, defendant acted with knowledge or recklessly, and provided substantial assistance to AOL in violation of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

52. Based on the foregoing, defendant aided and abetted violations of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

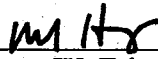
REQUEST FOR RELIEF

The Commission respectfully requests that the Court enter an Order:

- (i) Permanently restraining and enjoining defendant from violating Section 17(a) of the Securities Act, Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13, and 13b2-1;
- (ii) Permanently restraining and enjoining defendant, its subsidiaries, officers, directors, agents, servants, employees, and attorneys-in-fact, and all persons in active concert or participation with them, from aiding and abetting violations of any of the above-listed securities laws;
- (iii) Ordering defendant to disgorge ill-gotten gains, including pre-judgment and post-judgment interest, resulting from the violations alleged in this Complaint;
- (iv) Ordering defendant to pay a civil penalty; and
- (v) Granting such other relief as the Court deems just and appropriate.

Dated: February 20, 2007

Respectfully submitted,



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