

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

**SYMC - Symantec at Deutsche Bank Securities Technology Conference**

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## PRESENTATION

**Todd Raker** - *Deutsche Bank - Analyst*

Good afternoon. I'm Todd Raker, the Infrastructure Software Analyst at Deutsche Bank. It is my pleasure to have Symantec here presenting. And we have the honor of having Enrique Salem, who is the Chief Operating Officer of the company with us. He is going to give a five-minute business update. I will ask some questions, then we'll open up to the crowd. With that, I turn it over to Enrique.

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**Enrique Salem** - *Symantec - COO*

Thanks a lot, Todd. Good afternoon.

I appreciate the opportunity to spend some time with you today and I have had a number of folks who I have had a chance to spend some one on one time with. As you look at our business and what's going on I mean it's very interesting because you continue to see a lot of demand for security and storage products. They're not discretionary. They're not things that even as economic times change a little bit, you still continue to see demand for our products in both markets.

I think the other thing that's interesting for us, is that there are a number of trends that are favoring Symantec right now. One of those big trends is that CIOs absolutely want to consolidate vendors. They want to do business with less companies. It is too complex for them to continue to buy lots and lots of point products from different folks and then have to basically be systems integrators. So they are looking at companies like ours to start aggregating some of these products into integrated offerings that then they can more efficiently deploy and ultimately reduce the complexity of their environments.

The other thing that we're seeing that has been very successful is that the breadth of our portfolio is now allowing us to do some very effective cost selling and upselling. And so we're seeing more customers buy more aspects of our technology. And I will give you an example, with the recent addition of the Altiris technology, the client management suite, we have been able to take our security business and upsell folks to the Altiris client management capabilities. That's just one example where we're being able to cross-sell more and more of our portfolio.

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Couple of other trends that are being -- are helping us, we are seeing increasing demand for the DLP or Data Loss Prevention. Every business that we deal with has critical information that they need to protect. And we are seeing, as we saw last quarter, our largest deal ever. We did last quarter in DL P. We did our largest international deal and so we're continuing to see the demand for DLP. Archiving, e-mail archiving our market leading product, Enterprise Vault, we're seeing it not only be used for exchange and notes space management, but also in the area of e-discovery. As companies are being required to retain e-mail for longer and longer periods of time it is a pretty critical tool for them to be able to more effectively work and process e-mail, especially in the case of a lawsuit.

The other trend that's important to us is software service site. Many of you probably saw the information we cover and we will move a majority of our product portfolio to deliver it as a service. Today we already offer our backup capabilities, Symantec Protection Network. It is available on-line, and over the coming 12 to 24 months you should expect to see our Endpoint business, our messaging business move to be delivered as a service. So we think that that trend will also favor the things that we're doing at Symantec.

If we think about the financials of the business and some of the things that we have said, we've talked about long-term sustainable growth rate of about eight to 12%. That is our target, and we believe that that is absolutely achievable through a combination of organic development and also M&A. We've committed to spending about half of our operating cash flow in share repurchase, and the other half in M&A and organic development.

We've also discussed and we think is the right targets for us, a 100 basis point improvement in margin on a go-forward basis, and there is a number of different opportunities that we're looking at as a company that still allow us to achieve that, not just this year but going forward. So from a financial perspective, we definitely are seeing good continued execution across the business and obviously we're in the month of September which is the busiest month for any enterprise software company. And so we've got a lot of work to do between now and the end of the quarter.

Todd, I'll turn it back over to you.

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## QUESTIONS AND ANSWERS

**Todd Raker** - Deutsche Bank - Analyst

I think that closing comment was a perfect segway. Clearly there's a lot of macro concern. You guys have put up two very solid quarters this year so security is defensible. But what kind of linearity do we typically see in a September quarter, especially on the enterprise side and how much visibility do you have into the consumer business?

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**Enrique Salem** - Symantec - COO

Yes. When you look at our enterprise business, typically a quarter is 20% the first month, 30% the middle month, 50% the last month of the quarter. And what you are seeing in -- what you see in the September quarter is a 10/20/70 ratio. That's because, for example, in Europe it is August is a very slow month. We don't see anything different this quarter, and from everything that I can see from a sales perspective, meaning what we call bookings ultimately, we have the pipelines to support our forecast at this point from.

From a consumer business perspective, as you know that business is ratable. We recognize all the business ratably and that business has continued to perform well on the on-line side it's now 80% of our business comes through on-line, 20% through other channels including retail. And visibility is good. We've actually just initiated a test of a higher price point for Norton 360 in the US and Canada, where we've taken the renewal price up to \$69 -- sorry to \$59 -- sorry to \$69 for the testing purposes.

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And as we look at it, we fundamentally believe that that price should hold given some of the analysis that we had done previously.

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**Todd Raker** - Deutsche Bank - Analyst

Can you walk us through the competitive landscape on both the enterprise and consumer side and kind of walk us through recent changes?

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**Enrique Salem** - Symantec - COO

Sure. When we think about the competitive landscape we compete with a number of different companies because Symantec is in three very large markets. One is security, second is storage, and the third is systems management. What we see though is an opportunity to start consolidating these markets in a meaningful way where we can combine our systems management and security technologies. And that becomes very important because the only way that you can secure your environment, secure your systems, secure your servers, is by making sure that they are well managed.

A number of you have heard me use this example, but once month Microsoft will put out what they call patches to their operating system, to the office applications, to Internet explorer, it is something that they refer to as patch Tuesday. That's not a dig at Microsoft. That's ultimately what all software companies do to patch their vulnerabilities. So if you're running a security product, but you haven't deployed the patches to protect you from the vulnerability, you're not secure. You're fundamentally not secure. So many of our competitors in the security market companies like McAfee and others, do a good job on the security side, but that's not enough. You have to have both.

And so Todd what I would tell you is that we're changing the game a little bit into what IT will buy from us and ultimately not have to worry about integrating lots of different point products. The third step in that will be combining the backup technologies. So then you will have backup and point security and the systems management combined together. I think that starts moving us away from the traditional competition who is still selling point products or suites of security storage or systems management.

I think on the backup business we're gaining share. We've got 47% market share today, and what is interesting about that number is that we are starting to see some of the smaller competitors struggle a little bit as we become more aggressive with some of our marketing campaigns. Our probably two biggest competitors though are EMC and IBM in the high-end backup market. But that's how I kind of look at the competitive landscape.

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**Todd Raker** - Deutsche Bank - Analyst

On the consumer side, it appears that McAfee has gotten very aggressive in terms of OEM economics and has captured some new OEM relationships over the last six months. Two questions. One, competitively, how do you guys respond? Two, are you seeing OEM economics decline from Symantec's perspective as a result?

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**Enrique Salem** - Symantec - COO

What we do is we evaluate every OEM deal and we look at a model that says what's the revenue yield and what are the implications to the margin in the business. And I would say the economics are pretty stable for where they've been over the last probably 12 to 24 months. We continue to have our fair share of the OEM market. For example, HP, which is the largest OEM in the world, on the consumer side, we have 100% of that business today. While there's sometimes little parts of the business that get auctioned off to other companies, we have a very strong position with a number of the largest OEMs around the world.

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We don't feel that we're going to go chase bad deals. We're going to protect our margins in the consumer business, and we think there's other ways that we can acquire new customers. The other thing that's important in the consumer business, is we just shipped Norton Internet Security 2009, and once again it's won PC Magazine editor's choice.

So now we have PC Magazine editor's choice for both Norton Internet Security and Norton 360. And so we think that helps when you say we go into discussion with OEMs because ultimately customers want the best products on their computers. And so we think that that gives us a strong position.

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**Todd Raker** - Deutsche Bank - Analyst

You guys on the enterprise side have talked about two product shipping here in the back half of the year, Altiris 7.0 and then NextGen. Can you give us a status update, and generally just talk about the -- it looks like the product development cycle within Symantec has improved. You guys clearly had some hiccups, Net Backup 6.0, Fab 10.0. What's changed with the company that's improved the organic capability to introduce product?

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**Enrique Salem** - Symantec - COO

I think there's been a range of things that we've done to improve our product delivery. We are in a great position right now. Our product portfolio has never been better. I can say with confidence that when you look at products like Symantec Endpoint Protection and Net Backup 6.5, Backup Exec 12-D, we really have moved our products forward in a meaningful way.

Part of what has happened, as we've gotten to be bigger company we are doing a much better job of using our own products internally. We deploy all these product now to 17,500 people before we ship them. We back up, our company backs up now, internally we manage about 20 pedobytes of data. So when you use our own products against that kind of install base, it improves the quality of products. I mean we are able to ship, I think, higher quality product as a result of using that one simple concept.

I think the other thing that is going though from an execution perspective, is I think we're becoming more focused as a company. We've divested a couple businesses, the Appliance Performance Management business, our Appliance business, because we felt they were distractions. And so I think with an improved focus on the R&D side I think that's also allowing us to do a better job of shipping more robust products in a timely fashion.

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**Todd Raker** - Deutsche Bank - Analyst

On the consumer side, you guys have started to broaden the market opportunity. You've got on-line backups out there today. Can you talk about the economic opportunity to grow the consumer business outside just core security functionality, and how big can some of these incremental markets be?

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**Enrique Salem** - Symantec - COO

Yes, I think the way you want to look at it, our core security market has served us very well and it will continue. We are now, though, looking at what are the new capabilities that we can add. And I will give you a couple of examples. First on the services side, we think that for your average user they need help managing and taking care of their PC's.

And what we're offering now is a service from roughly \$49 to \$99 that helps people tune up their PCs, helps them make their PCs more green, so more efficient use of power, we help them install software. So we have a range of services that we're offering to consumers that we think will add incremental revenue growth to the business. The other area that we're spending time in

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right now is, historically parents have wanted help with their kids when they go on-line, but the tools that they've been using have been pretty blunt instruments, block a site.

The problem is that kids are becoming pretty darn smart and they can usually figure out ways around some of those tools. And so what we're going to be -- we're in beta test right now with a product that we call Watchdog. What does it do? It looks at and helps parents understand what are their kids doing on-line.

So it's not about blocking, facebook, myspace or any of the sites that they are going to go visit. It's more about allowing parents to know what are their kids doing. And so when we talk to our target market for this product you see a lot of heads going up and down, they definitely want that kind of capability. So there's a number of opportunities for us to add new products and services into the consumer space.

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**Todd Raker** - Deutsche Bank - Analyst

Let me open up for the audience. Any questions before I continue mine? Over here.

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**Unidentified Audience Member** - Analyst

You mentioned the DLP space. Can you give us some more details on that? How big is this opportunity first of all and who are your main competitors, who has the best technology in the space?

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**Todd Raker** - Deutsche Bank - Analyst

Which space was that, we didn't hear?

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**Unidentified Audience Member** - Analyst

DLP.

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**Enrique Salem** - Symantec - COO

So how big is the opportunity? To our business, it's about securing and managing information. And when I think about the opportunity there, today we've had tremendous success in the large enterprises around the world. Especially financial services. We've done some work in healthcare. But I see an opportunity for that to be any company, with probably 100 or more employees is a target, because everybody's got to protect their data.

Everybody's got to protect customer data, financial data, intellectual property. And what we're doing with our DLP technology, is we're integrated into everything, into the endpoint, into the network, into the gateways, into our storage. And so we feel DLP is something that if you look at what it can do to all of our business, it's significant.

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**Todd Raker** - Deutsche Bank - Analyst

Let me follow up on that because DLP has a lot of buzz but there's definitely been some data points that would indicate that the implementations around DLP have been much, much more challenging than corporations expected and there have been a fair number of failures. How do you guys respond to that?

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**Enrique Salem** - Symantec - COO

So we did our largest deal last quarter. We announced it in our June conference call. Met with the CISO last week, she said it was the best implementation they've ever done. They had it up and running within six weeks.

**Todd Raker** - Deutsche Bank - Analyst

Roughly how many use users would that be?

**Enrique Salem** - Symantec - COO

That is an environment that has over 100,000 users. So we are clearly the market leader. When we acquired Vontu, our M&A strategy is we're not bottom feeders. We're looking for the best technology, especially in security. You cannot, CISOs always are looking for best of breed technologies. And so when we acquired Vontu, if you look at Gartner, Forester or any of the major analysts, they consistently rate Vontu as the best technology in the market.

**Todd Raker** - Deutsche Bank - Analyst

Any other questions from the audience? Here we go. Front.

**Unidentified Audience Member** - - Analyst

Yes. What is your response to the threat that desktop virtualization may provide to the endpoint business, in particular let's say in the 2010 time frame you will see desktop virtualization going more into knowledge worker environments as opposed to task worker environments&gt; Currently with golden images potentially that has to be a threat to the existing endpoint business.

**Enrique Salem** - Symantec - COO

Yes, we actually think endpoint virtualization is probably one of our biggest long-term opportunities and let me tell you what we see happening. So as I spent the last 12 months with 200 or so customers, they are all talking about endpoint virtualization. And what's going to happen is that they will start virtualizing those end points. They have some pilots right now. And I think it really takes off as we look out a couple years.

But no customers that I have spoken with, so far has said that they are going to virtualize every endpoint. And what that means is they are going to have a mixed environment, so they are going to have to manage both a traditional thick or PC client, and they are going to manage a virtual endpoint. The good news for us is that we already have a dominant position in securing and managing the traditional client. And so we'll extend our technology to allow to you manage virtual end points. To that end what we've done is we recently, through the acquisition of Altiris, we acquired a number of endpoint virtualization technologies.

And just recently, we added two acquisitions. One, a company called [AppStream], that does application streaming and another called [End Suite] which does what's known as connection brokers. And why that's important, is now if you take a device like my cell phone, what you're able to do is you're able to stream an application to this device.

So we're virtualizing those end points today. So we think we've got a better position in most companies because we can do both the traditional end point and we've got technologies to work in the virtualized endpoint. And I think that's going to be very important as we look out into 2009, '10, and '11.

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**Todd Raker** - Deutsche Bank - Analyst

Any other questions? Enrique, if you look on the Veritas side of the business, two questions for you. One, we are now several years past the acquisitions. I think the strategic objective was you guys saw vendor consolidation coming down the pipe and thought it would be a natural fit. Update us in terms of how customers are buying the product. Are you starting to see some of the synergies? And then the second question for you is on that business, unstructured data is doubling every two years. Why is the growth profile of Veritas so muted, given what's going on in terms of data?

**Enrique Salem** - Symantec - COO

Let's start with the second part of that question, Todd. If you look at the results reported in June, we had one of our highest growth rates in the traditional storage data center business, over 20% growth. I think that is driven exactly by what you said. The data volumes are double now every two years. And what that means is you have more data to backup. They have more data to protect, and that is allowing us to do a better job of helping our customers reduce their cost of storage.

Let me give you a simple example. With our new pier disk technology, which is our backup to disk, customers are now able to do data deduplication. And so if you look at what happens in any of our environments, somebody sends out a presentation they send it to 25 people, it's a two megabyte presentation, now you've got 50 megabytes.

With our dedup technology, you can reduce that to basically one copy. And so technologies like that are being successfully deployed by our customers and that's helping drive some of the growth rates in our storage and storage management business.

**Todd Raker** - Deutsche Bank - Analyst

In the first aspect, vendor consolidation, what you're seeing in terms of the purchase cess?

**Enrique Salem** - Symantec - COO

When we look at the vendor consolidation, we expect that to continue and we think that, we're in three big markets right now, system management, storage management and security. And we'll continue to look at those three spaces and acquire small companies that fit into those areas. When you look at the benefits we've seen from the Veritas transaction we now have one integrated sales force.

While it probably took us a little longer than we would have liked, to get the company's integrated, I think at this point we have successfully merged the sales force and so you have a set of relationships that are managed by one account manager, then we're able to come in with our entire product portfolio.

And if we look back at the June quarter and the last several quarters of successful performance a lot of that is driven because we have strong relationships and a strong portfolio that we can go back into our accounts with and effectively monetize.

**Todd Raker** - Deutsche Bank - Analyst

What percentage of your customers would you say are cross-sell customers today? I mean, where are you selling kind of multiple products into a customer?

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**Enrique Salem** - Symantec - COO

For us, we're in 100% of the fortune 500, we're in almost in 100% of the global 2000. So there its continuing to be more of the portfolio, so more cross-selling and up selling. As we go down into, what we call the enterprise segment, 1,000 to 5,000 or the mid-market, I think that you are seeing good new customer acquisitions.

And part of the reason for that is that we have now changed our compensation model for our sales force where they are highly incented to sell new license. Because successful software companies focus on bringing in new customers and driving new licenses because renewals are typically easier to achieve once you've got the product deployed.

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**Todd Raker** - Deutsche Bank - Analyst

On the sales force side, you guys made some announcements earlier this year about large customers being able to work with you directly. I think there was some misinformation and it got misinterpreted. Walk us through what your channel strategy looks like and what you guys are trying to achieve with that.

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**Enrique Salem** - Symantec - COO

Yes. This is one of my favorite topics is that a journalist decided that they would try to grab a couple headlines. We talked about this publicly a number of different times, but basically what we've done with our channel strategy for a number of reasons. Some of it is customer drive, some of it quite frankly, we think we have an opportunity to improve our cost structure.

Is we said for the largest 900 customers in the world we are going to give those customers the option to go direct. Basically the will have the opportunity to buy the products from us, directly. That was interpreted as we are basically going to cut out the channel. The channel is critically important. More than half of our business comes through the channel, but for those 900 customers they will have that option. Now, would it also means is that we won't go below 900 direct. So that was a net positive to our channel community.

The second thing that we said was that our premium partners will also be able to buy direct from us. And so that means that we don't need as many distributors as we once had because our business has changed. 1990 when I first worked at Symantec, we use to ship 30, 40, 50 million yellow boxes. Well that's no longer the preferred model of software distribution. And so that means we probably don't need as many distributors.

We absolutely need distributors and we will continue to work with distribution, but maybe just not as many. So I think those comments were taken and publicized and I don't think we got a balanced story. Plenty of partners wanted to be quoted as saying how good the business was working with us, but that was left out.

In the other markets outside the US when at the did the same checks, partners came out on both sides and the journalists decided not to publish it. So our business model continues to be very channel friendly and focused for at least half if not more of our business.

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**Todd Raker** - Deutsche Bank - Analyst

Any questions? If you look at the consumer product, you said you just started to ship the '09 version. Back at the analyst day you guys talked about how your sole focus around consumer was performance, improving the performance experience. Can you update us in terms of what you've achieved there and are you able to change the game from a competitive perspective on this issue?

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**Enrique Salem** - Symantec - COO

We made 300 improvements in Norton Internet Security 2009. We won editor's choice yesterday for the product, the first day that it was available. And so, I think when you look at what we've done, we've achieved what we call zero impact security. One of the biggest knocks against our consumer product was that they were too big and too heavy and slowed down your computer.

Probably some of you have had that experience. With the new release of the 2009 product, we have resolved that. The product installs in 45 seconds. It has significantly reduced the memory utilization to under ten megabytes when previously it was potentially an order of magnitude more. We've improved the overall security capabilities of the product.

So at the end of the day we think we've got a real winner on our hands, and I think it will start changing the buying behavior in the consumer business.

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**Todd Raker** - Deutsche Bank - Analyst

Let me circle back to something you said earlier, the fact that you guys are going to change the game by using systems management. McAfee has made a big deal of EPO and their ability to manage the desktop environment. [Dewault] has talked about a lot of competitive displacements. How do you respond and where do you see over the next 18 months the competitive landscape shifting?

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**Enrique Salem** - Symantec - COO

Happy to take them on account by account and see who's won more. I think the interesting thing to think about is that EPO is effective at managing their security product. It doesn't do systems management. I'd like to see them use EPO to update Office or the operating or any of the other applications rung on the machine. And so I think it's -- what happens a lot of times is you have a situation where the customer does the evaluations and the absolutely get the distinction of what EPO can do we can do with Altiris. And so I'm happy to go into any bake-off where the customer understands that you have to have both security and management together, and bring it on.

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**Todd Raker** - Deutsche Bank - Analyst

Do you need Altiris 7.0 to achieve that?

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**Enrique Salem** - Symantec - COO

No, we've already been able to do some of the work, prior to the shipment of Altiris 7.0. We're expecting 7.0 to be available later this year to some of our key partners and then we will continue to integrate that technology with Symantec Endpoint protection 11, Net Backup and the other products. But we can already get those benefits today.

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**Todd Raker** - Deutsche Bank - Analyst

Okay. If you look at the growth objective you guys have outlined 6% to 8% for the core, 1% to 3% for M&A. Walk us through what the thoughts are on the M&A strategy and what should we be anticipating here over the next 12 to 24 months?

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**Enrique Salem** - Symantec - COO

Sure. When you look at our M&A strategy what we've done is we don't feel that we need to go into any markets. We are currently in systems management, storage management, and security. Those are very big markets. So we'll go deeper into those markets. At this point, we talked a little about endpoint virtualization; we've just done a couple of acquisitions in that area.

Virtualization is a very hot topic in the minds of our customers, both in the data center and in the endpoint. And so expect to us continue to look at what more we need to do. There's no specific target at this point but that's an area of investment. The other area is information risk management because our customers continue to want help securing information. And so expect us to continue to look at opportunities in that space.

**Todd Raker** - Deutsche Bank - Analyst

Okay. On the financial model you mentioned 100 basis point margin improvement target. Last quarter we saw some very nice outperformance on margins. Two questions, why can't we see more leverage as we go forward and what are going to be the drivers of leverage as we look at the model?

**Enrique Salem** - Symantec - COO

Yes. I think there's -- we're going to continue to focus on driving top-line revenue growth. That's why you saw the over performance above the 100 basis points in the June quarter. What happened there is given our margin structure and given the high gross margins business that we're in, as we beat the top line a lot of that just flowed through. And I think that it's one of those situations where we have plenty of opportunities to continue to improve our cost structure.

My focus right now is how do we improve our cost structure in sales and marketing. If you look at all the different line items, R&D, G&A, sales and marketing, that's probably our single biggest opportunity. Now if we can do better than 100 basis point, given that we're targeting growth and we've talked about this 8% to 12% target. I think it's important for us to make sure that we're reinvesting in the business, because getting to that growth rate is going to definitely require investment.

**Unidentified Audience Member** - Analyst

In the consumer business you mentioned that your beta and higher price point subscription renewals. Can you just talk about when you expect that to become more permanent? More importantly where do you think pricing can go on those subscription renewals?

**Enrique Salem** - Symantec - COO

When you look at our consumer business, we expect, we're doing the tests in US and Canada right now, we expect that to basically take -- be fully implemented probably before the end of the years then we'll roll it out worldwide. When you look at price points in the consumer space, my sense right now is that sub-\$100 is something that the market will bear, but this is testable. When you've got a business like ours, this isn't something that we take chances with, this is all testable.

And so as we add more functionality into our product we think that we should be able to get a premium, and I'll give you an example. We've got some premium SKUs today that for example, when you add incremental storage that we get \$99 for a day. But I don't expect to see significant changes in pricing one year to the next.

It will be things that we continue to move up as appropriate. My comments earlier though around new services and new products is where we think we can really get more revenue per customer. And that is one of the priorities for our company is how do we take our 55 million active consumers and sell them more new services and products.

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**Todd Raker** - Deutsche Bank - Analyst

Last question over here.

**Unidentified Audience Member** - - Analyst

You said that you will be making some small acquisitions. Is there a limit, where you are going to go -- like one billion or less or more?

**Enrique Salem** - Symantec - COO

I guess as we get bigger, the definition of small changes, right. And I think when you look at it, I don't expect to do anything that's much different than what we've done. Altiris was about a billion dollars. That feels like a comfortable range, from there down. But 1.2, 1.3 down.

As we become \$6, \$7 billion, the definition changes slightly. But I'm very comfortable with the acquisitions we've done. Vontu has been a big success. Altiris has been a big success. And I expect that to continue.

**Todd Raker** - Deutsche Bank - Analyst

We are out of time. Thank you for your time, Enrique. Very insightful.

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