

FINAL TRANSCRIPT

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SYMC - Symantec at Citigroup Global Technology Conference

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CORPORATE PARTICIPANTS

John Thompson
Symantec - Chairman, CEO

PRESENTATION

John Thompson - *Symantec - Chairman, CEO*

Well, thank you and good morning, everyone. Thank you for taking the time to come see us today.

Our business is in a state of constant change, but change that we enjoy the most is good, solid results quarter after quarter. I think what underpins those results is the fact that we have a very diverse product portfolio, a very diverse customer base, and clearly a very diverse geographic mix in our business.

On the product front, we clearly have flagship products in our core of security and backup. Those are technologies that we would argue are not deferrable in good or bad times and as data volumes continue to grow, the need to secure and manage that information content really does become critical.

We embarked upon a series of changes over the last 12 to 18 months to refocus our company along a couple of important themes. First, our core -- our core business, we want and expect to see growth in the range of 6% to 8%. It represents all of the critical backup and information protection technologies that we have. Those are the component parts that quite frankly drive a significant portion of the cash flow from operations, and what we in turn use to repurchase shares or, quite frankly, buy little bolt-ons.

The second phase of that strategy is all about strategic M&A. We are an active acquirer. We believe that M&A should add somewhere in the range of 1 to 3 points to our annualized growth rate, and we think we should focus on strategic tuck-ins that are near the core or adjacency of our business, things like Altiris, things like Vontu, things like the recent transactions that you've seen us do around application streaming or application rendering.

Then the final one is what we do in important high-growth areas that should augment our core. That would be areas like archiving, disk-based backup, data de-duplication, [off-host] replication. All of those are markets that will grow in the range of 25% to 35%. They are very much core to our core business in terms of extending that core franchise and give us an opportunity to leverage, if you will, the aggregate growth of the Company with an overall financial model that says we should be able to grow a \$6 billion software company in the range of 8% to 12% per year; we should be able to return about half of the free cash flow from operations to investors through share repurchase. That would suggest that a significant portion of the US cash will go back to investors. We should be able to improve operating margins about 100 basis points a year, and we should have a company that really does have a solid footing in an industry that is inevitably going to consolidate around us.

We like the position that we are in. We've got a very stable management team now, and the Company seems to be executing quite well. Hopefully, that's evident to you as well.

Unidentified Participant

Great. If we could just talk a little bit about your largest business, the storage and server market, management market -- \$2.1 billion last year. It was 36% of your revenues, 10% growth last year. Q1, you pulled off double that growth rate at 20%. Maybe if you could just set the stage in terms of what's happening in the storage market, why you're doing so well, and how sustainable are these growth rates that you saw in Q1?

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John Thompson - Symantec - Chairman, CEO

Well, I think what drives that business is the fact that data volumes are doubling every two years. Unstructured data, which is an area that we tend to focus on more than what fits in a relational database -- that's growing even more rapidly. So a significant portion of our growth has come from the resurgence in purchasing around both Backup Exec, our core midmarket backup product, and NetBackup, our very, very high-end backup product that serves the needs of large enterprises like Citi, if you will.

In addition to that, we have seen, as the customer base has migrated from Sun's proprietary architecture to x86 running Solaris, we have seen growth, if you will, in our foundation products running on the x86 platform. That was clearly evident in the most recent quarter, as that business saw a resurgence, if you will, driven by that migration of work from proprietary operating environments to the open x86 platform.

Unidentified Participant

As it relates to the consumer business, you've had the leading product there. You have a lion's share of the market as it relates to the consumer side. One of the topics that's on everyone's mind in this room is the macro and how a macro slowdown impacts the behavior of consumer adoption of your products.

Can you just walk through some of the dynamics? I know, for when my renewal comes up, I don't even have to buy a new PC. Symantec is alerting me that I need to renew, which we do every year. So could you walk through the dynamics (multiple speakers)?

John Thompson - Symantec - Chairman, CEO

You can do it twice if you like! (LAUGHTER)

Unidentified Participant

(LAUGHTER)

John Thompson - Symantec - Chairman, CEO

We put in place, in 2006, an auto renewal process, first in North America. We wanted to make sure that we had it tamped down and we could meet the rigorous requirements, if you will, of the US marketplace. We've since rolled out that auto renewal process around the world. What we're seeing is that has a tendency to make the purchase price process much, much easier for our customers. Therefore, it makes defection, quite frankly, a little less likely.

We are certainly focused on making sure that we not only get customers to renew, but capture, if you will, new users. That's the set of things we do for upselling within the portfolio to a new set of offerings like our SwapDrive offering, or like the recent acquisition that we did for PC Tools. It's also focused on migrating customers across the portfolio, from Norton AntiVirus, which starts out at about \$39.95 to our most feature-rich suite which sells at \$79.95. So even in a period of relatively flat unit volume growth, as customers look for incremental function, we have an opportunity to grow the revenue base because these incremental products have met new function.

So we've got a number of strategies at play in the consumer business too -- one, retain the customers we have, upsell them to new features, and then add new customers through new product offerings that we bring into the portfolio.

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Unidentified Participant

You gave us a 40,000 foot view of what the new consumer offering will look like coming this fall. One of the key themes is around ease-of-use, not slowing down you overall PC experience. Can you just walk through what you're doing in this next release to maybe touch on how important that is to adoption?

John Thompson - Symantec - Chairman, CEO

Yes. Well, one of the knocks on all security software is that it is cumbersome on the PC. It makes the boot up time longer; it slows the performance of the machine as it's scanning files as you operate online -- on and on and on and on. So what the engineering team did this time around was they stepped back and said "We must think about this problem differently."

For example, when a machine boots up, why scan every file if nothing has changed in those files since the last time they were scanned? Well, gee, just that simple idea can cut boot time substantially and make the user experience a lot better with the PC and our products running on that PC.

So the team stepped away and went through every single process that the code goes through as it scans for infections or files that might be infected, and came up with new ideas and some new technologies to make a number of important movements in our product -- one, better boot time; two, better download time for the product and its updates; and three, faster overall performance, if you will, relative to the competitors in the marketplace.

So the '09 versions of both Norton AntiVirus and Norton Internet Security we are convinced will be the fastest and maintain their leading position for security efficacy. So it's our belief that we have always had the best products. Now, we not only have the best security products but they are the fastest as well.

Unidentified Participant

One of the big questions that we get now as it relates to the consumer business -- you've had an awakening of one of your competitors now as it relates to the new management that's come in and they've clearly been a little more aggressive. So, can you walk through what's happening in the pricing environment, why they seem to be claiming some of these big wins in consumer? They're not obviously -- it doesn't seem like they're taking some of the business away from you but it seems to be becoming a little aggressive, so can you walk through how you see the dynamics in the consumer market as it relates to what your competitors are doing now?

John Thompson - Symantec - Chairman, CEO

Well, a few years ago, we changed the model in this consumer security business. As a result of changing that model to a red-share model with the OEMs, we literally captured 100% share of the market. When you have the right business relationship and the right product, it yielded a phenomenal business for us and it has forced a number of our competitors to say, gee, how do I get a piece of this action? Because the consumer business, for us at least, is a very, very profitable business.

There are transactions that, in our mind, don't make economic sense for Symantec. They may make economic sense for someone else and I will let them make their own decisions, but we make decisions on what relationships we have with the OEMs based upon not just in-period P&L consequences but the consequences of that from our the P&L and cash flow over the course, if you will, of a two to three-year period. If those things don't close for us, from an equation point of view, we just don't do them. at doesn't mean that it's a bad deal for someone else; is just not a good deal for us.

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Unidentified Participant

As we were walking in, a number of our clients came up to you and asked you about -- and I'll ask you just because you're going to get a question around currency and how you think about the business.

John Thompson - Symantec - Chairman, CEO

I've heard that once today!

Unidentified Participant

Probably ten times (LAUGHTER). Some maybe if you could just address it for the broader community here in terms of how you think about running the Company with the currency impact today.

John Thompson - Symantec - Chairman, CEO

Well, our forecast for this quarter, the September quarter, assumed a currency rate of about \$1.53. We stand behind that forecast that we gave you, so I will reaffirm our guidance for the September quarter here this morning, independent of what's happened with currency during the quarter.

That said, I think there are two things that you have to look at. One is the impact of currency on the in-period revenue. For us, that ends up being an average of the currency rate for the quarter, and that is likely to be different than the spot rate at the exit of the quarter. That is important as it relates to deferred revenue that's on our balance sheet, because the deferred revenue essentially gets marked to market by whatever the exit rate is, and there could be a dislocation between those two. But we stand behind the guidance that we delivered earlier as we opened this quarter and independent of whatever the currency might be this quarter.

Unidentified Participant

Just back on the enterprise side, and enterprise security, there's been some concerns that, over the last four or five years, there's been a lot of compliance and governance that's put in, including at our firm, that has created this need to spend. There's now concern that maybe some of that is wearing off because they caught up to where they need to be, so maybe that the spending doesn't continue, that it's -- you know, the trajectory of (inaudible) and it doesn't die off, it just slows down or moderates a little bit. Do you think that -- at least that's the view for financial services.

Is that view the same in other industries or do you feel like it is being offset in other industries where they've underspent and now they have to overspend, so we're going through this cycle?

John Thompson - Symantec - Chairman, CEO

Well, I think, in the case of financial services, because of the regulatory oversight, they are in fact higher spenders on security than others in the industry at large. I wouldn't be one to declare that they've overspent. I would be one to declare that they've spent consistent with their view of how they want to conform to whatever the internal or external oversight is that they have.

Now, that being said, as the environment becomes economically tighter for them, I think the question becomes, simply put, do I want to ensure that everything on my network is compliant, or do I want to ensure that those things that are critical to business operations are compliant with overall policies? In tighter economic times, you may become a bit more granular as opposed to the broad-based approach that many might have envisioned when times were good.

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That I think applies to every customer in every industry. As times become more economically tight, you still have a grand vision of what you want to accomplish, but you may not try to accomplish it on the same timeline. In other words, I'd like to have a fully compliant IT infrastructure but rather than trying to get there in 18 months or 2 years, I might do that over a course of 3 years. I might want to have an ability to ensure that every e-mail message has been in fact archived and tagged for legal discovery. Well, maybe I only want to do those people that are most critical for the enterprise, who are most likely to be involved in a lawsuit. So I think people are going to take a more disciplined perhaps or a more steady approach to IT investments around security and compliance in challenging times. The spending won't stop, but spending may not be what people had envisioned when it was the go-go days of the West.

Unidentified Participant

You've been in sales operations for most of your career and as you look at this environment, what have you changed to ensure that the metrics that you're giving the Street are actually coming to fruition? It feels like -- I don't want to quote you but it feels like you feel confident in the business plan and environment with the subscription model; you know, a lot of that is actually going off your balance sheet.

John Thompson - Symantec - Chairman, CEO

Yes, I don't think there's any substitute for confidence in the sales force. Nothing. I think we have a sales force at this juncture that is very confident in the capabilities of our company and our products and our ability to tell a story to our customers that makes sense to them. So around the world, we've got teams who are very, very much engaged. I think that level of engagement was most evident when you look at our results from the June quarter and look at large deal volumes. Large deals for us in the June quarter were beyond even our wildest imaginations in terms of not just the number of big deals but the number of large deals that really had multiple products or offerings from Symantec as a part of that transaction. I think that's reflective of what customers want as well, which is large enterprise customers in good and bad times, but particularly in challenging times, would rather do business with fewer providers. They would rather have one company that can provide multiple capabilities to them as opposed to having to manage multiple entities and the transactions associated with multiple companies.

So our size and scale, the diversity of our portfolio, the confidence that our sales force has in our product portfolio is certainly helped our company. I think that should bode well for us as the year unfolds as well.

Unidentified Participant

Most software companies in this environment put away the elephant gun to go towards antelopes and it feels that the elephants are now roaming the den for you and you feel that trend continues just because -- I think some have drawn an analogy to SAP and Oracle in your market. They are financial firms that have hundreds of point products and now they're going back to the suites. Is that (multiple speakers) -- early?

John Thompson - Symantec - Chairman, CEO

Yes, but I don't think -- to use the metaphor of elephant hunting, I don't think the elephants we hunted were ever as big as the elephants that Oracle or SAP might have been hunting. We were looking for baby elephants perhaps compared to them.

But the truth be known is that the \$1 million transactions for us last quarter were up over 50%, year-over-year. I mean, it was a substantial increase in large deals. That is a statement about the interrelationship of the products that are in the portfolio and how customers see those products in tandem addressing many of the infrastructure related protection and backup and recovery problems that they have.

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So I'm quite pleased with how the portfolio has evolved. I would have loved to have seen it evolve more rapidly sooner, but it didn't, so we are in a great spot right now and I'm quite pleased.

Unidentified Participant

Great. Well, we will open it up to questions. Hang on for the mic.

QUESTIONS AND ANSWERS**Unidentified Audience Member**

When I was analyzing the Company, it looked like you went through a year and a half or so of high level turnover. It seems to have all of a sudden stabilized now, and it seems like that's been a big issue (inaudible) (technical difficulty) has also gotten better. But where do you think you are in that? Can you give us any idea of what caused that or just some background and how much better it is so that we have some sense (technical difficulty) --?

John Thompson - Symantec - Chairman, CEO

Yes, I think it would be fair to say that, post our acquisition of Veritas, we didn't have an all-volunteer army. We had an army that was made up of people who were there because they had financial incentives to stay around, and their attitude reflected that, quite frankly. Now, we've got an all-volunteer army. People are there because they want to be there. They believe in the company, and they believe in what we can get done in the marketplace. That makes all the difference in the world in overall morale and overall team execution.

In hindsight, perhaps the perception that we have of some people being critical to our business, they weren't so critical, and we might've been better served to have done things to move those off that we perceive to be critical but really weren't. We haven't missed a beat. As a matter of fact, some who have left, our performance is better now that they're gone.

Unidentified Audience Member

Can you comment on ISPs that are offering some version or some form of security, either at highly (technical difficulty) rates to their Internet subscribers and whether that is good, bad or indifferent for your industry and your business?

John Thompson - Symantec - Chairman, CEO

Well, the ISP is just another route to market or channel, if you will. The question becomes how do we or they monetize that activity? Some ISPs in some parts of the world, primarily North America, view that there is a price umbrella and therefore, peg it \$50 bucks a month, you get all that we have, including security.

In other parts of the world, they would say we have decomposed what we offer you and we sell you a set of services, one of which is connectivity services; another might be e-mail security; another might be antifraud, so on and so forth. In that latter model, there is a much clearer opportunity of how you monetize the relationship between both the ISP and their end-using customers.

We tend to chase opportunities in the ISP segment where there is a win-win for both us and the service provider. In other words, we can make money and they can make money.

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In the cases where there is no opportunity to make money, we are less interested in that. I'm sorry to be a capitalist and be interested in making a profit. I just think you would want me to do that.

Unidentified Audience Member

Best Buy and maybe some other retailers seem to be building a business scraping all the stuff off of new computers before they get sold. How does that impact your business, and will it impact you more going forward if it gets adopted further?

John Thompson - *Symantec - Chairman, CEO*

I think what Best Buy is doing is certainly offering to customers a service that customers perceive might enhance the performance of the machine. To the extent that we have paid for a placement on that machine and it's been wiped off, then clearly that impacts our ability to sell, if you will, at the end of the trial period, because there was no trial. So there's lots of discussions between us and Best Buy and all of our OEM suppliers about how do we make sure that what we pay for we do get in terms of value.

Unidentified Audience Member

Endpoint protection has been a very successful business for you. Could you comment on whether that franchise is at risk over the next two to three years as desktop virtualization picks up, albeit from a low base?

John Thompson - *Symantec - Chairman, CEO*

Yes, well, I don't think, over the next two or three years, desktop virtualization supplants the traditional way in which people manage applications at the desktop. If you were to look at where desktop virtualization is at this moment in time, it's truly in the test and pilot phase for many large enterprises, so the ultimate rollout will probably not occur for all desktops for quite some time to come. That's why we've got an important toe in the water there, because we think it represents an opportunity not just to change the paradigm of how security gets delivered, but quite frankly to change our overall endpoint business.

Altiris' acquisition was a very, very important acquisition for us for tying together how you secure the endpoint experience with how you manage the endpoint experience. Ultimately, management will be the issue in the virtualization of the desktop, just as security has been an important issue in the current desktop arena.

So, we think our endpoint business is not only secure -- no pun intended -- but we think it has the potential to continue to grow as we add more capabilities to the endpoint -- network admission control, endpoint encryption, a whole range of things that end-users have to avail themselves of in an environment where they are more and more exposed to the Internet, day in and day out.

Unidentified Audience Member

Can we just go back on that theme in terms of virtualization and (inaudible) into the server room and it would seem that, as there's new software that's being deployed for virtualization, that's creating the need to upgrade with new security solutions because you're having this virtual machine sprawl, you have to (inaudible) and then you have to back them up and store them. So how big of a driver has that been for the storage and security business, you know, the server room today versus the desktop?

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John Thompson - Symantec - Chairman, CEO

Well, what virtualization does is it creates more servers that have to be protected or secured or backed up. Hence, that should be a catalyst for a business.

Historically, we've been a physical server and storage array backup business. Now, we offer our products in both worlds, the virtual or the physical world. We would expect to continue to be platform-agnostic and virtual or physical-agnostic as well.

In the data center, we deliver clearly what VMware determined to be the best suite for backup in the VMware environment. We would expect to have that same capability on any operating platform or hypervisor. So be it HyperV or XenSource, our technologies will integrate well with those.

What we're doing with Citrix right now around XenSource is integrating our foundation layer technology. So what we do around clustering and file systems management and volume management integrated much more tightly with the XenSource hypervisor to deliver a more complete infrastructure stack on top of a virtual machine. We announced that back in June, and it's early, if you will, in its pilot phase in the marketplace, so there's not been a lot of revenue generated. But it's an exciting opportunity for us to ride the wave in the data center with tighter integration into the hypervisor itself.

Unidentified Audience Member

Following up on that question on virtualization, you have built your Veritas virtual infrastructure on the Citrix, on the Xen infrastructure, but sort of with this virtualization platform, it always upsets the Apple cart and new competitors come in, and with the high ability business -- take VMware, that's sort of their next layer, so it's sort of a new competitor and there are other new entrants popping up. How does that affect just sort of focusing in on the high availability business?

John Thompson - Symantec - Chairman, CEO

Well, clearly, in a virtual environment, it changes the way you think about disaster recovery, and our high-availability business is a part of this whole disaster-recovery scheme. What VMware has chosen to do is say, gee, we can provide all of the component parts ourselves. What we believe is that customers will want to have choice, and that is if I'm using the Veritas clustering capability in the physical world, I'd love to be able to extend that into the virtual world as well, because that limits the training costs and retraining expense, so on and so forth.

We would expect them to be able to deliver, to the extent that they open the interfaces, all of those capabilities, not just in XenSource but in HyperV and in VMware's environment. But VMware will have to open up the infrastructure just a bit in order to allow that to happen.

Unidentified Audience Member

Can you comment about pricing power? Specifically, you referenced some price points for some of your consumer products, \$39.95 for a subscription. What does that number compare to a year ago versus five years ago?

John Thompson - Symantec - Chairman, CEO

Consumer prices for the core AntiVirus product are fairly constant over the last few years. What has changed is what do you get for that price point? And, what do I mean by that?

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Well, in 2006/early 2007, Microsoft introduced their version of a consumer antivirus product called OneCare. When they introduced the product, they said "For \$39.95 or whatever the price point was, this covers three users." Up until that point, guess what? \$39.95 had covered a single user. So there was a fairly significant change in the pricing in the marketplace by Microsoft's entry.

Other than that, substantial as it might have been, the rest of us have behaved fairly rationally with respect to price in the consumer markets.

Unidentified Audience Member

Can I just ask a question related to the macro? The US has seemed to have caught somewhat of a cold in the fear that now that Europe is going to catch the same bug and then it spreads. In terms of what you've seen -- and I know you're not an economist -- in terms of how you think about the business, is that fair? Have you seen any evidence that Europe has caught the same bug? You haven't?

John Thompson - *Symantec - Chairman, CEO*

No. Now, remember, Europe is on holiday for July and August. They are back to work now, so what happens in the month of September will be quite telling, I think, for us.

Software businesses historically all of their business is skewed to the last month or the last week of the quarter. That's more pronounced in the September quarter because of the holiday period that (technical difficulty) Europe so substantially.

So, while I haven't seen anything yet, I can't wait to see how September unfolds to determine whether or not we are seeing any consequences on our business.

Unidentified Participant

One last question?

Unidentified Audience Member

I don't walk to sound anti-country or whatever, but as the number of PCs grows in China and India where there's a lot more hacking type stuff going on, is there any difference -- first I want to (inaudible) question, one is, is there a big price difference in the end point because it's a less revenue per person environment? The second question is are they [feeling] it (LAUGHTER) -- or is there substantial growth because a lot of viruses come from those parts of the world?

John Thompson - *Symantec - Chairman, CEO*

First off, there is a much, much lower price point for equivalent capability in some of the emerging markets around the world, not just China but places in Eastern Europe as well, and Latin America. And so one of our strategies there was what you saw unfold just a couple weeks ago, when we announced the purchase of PC Tools.

PC Tools delivers a collection of capabilities similar to Norton Internet Security, if you will, that allows us to enter the market at a lower price point. They have strong penetration in some of the emerging markets in the world. It allows us to participate there without collapsing the overall price umbrella for the Norton brand of products.

So our view is that a dual brand strategy allows you to protect price points and margins in the core business in your core markets while you aggressively go after opportunity in markets that may be a bit more price-sensitive.

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Unidentified Participant

Great, thank you, John.

John Thompson - *Symantec - Chairman, CEO*

Thank you very much.

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