

# FINAL TRANSCRIPT

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## **SYMC - Q4 2008 Symantec Earnings Conference Call**

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*Symantec - VP-IR*

**John W. Thompson**

*Symantec - Chairman & CEO*

**Enrique Salem**

*Symantec - COO*

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## PRESENTATION

**Operator**

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Good day, everyone, and welcome to Symantec's fourth quarter and fiscal year end 2008 earnings conference call. Today's call is being recorded. At this time, I'd like to turn the call over to Ms. Helyn Corcos, Vice President of Investor Relations. Please go ahead, ma'am.

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**Helyn Corcos** - *Symantec - VP-IR*

Good afternoon, and thank you for joining us. With me today are John Thompson, Chairman of the Board and Chief Executive Officer of Symantec; Enrique Salem, Chief Operating Officer; and James Beer, Executive Vice President and Chief Financial Officer. In a moment, I will turn the call over to John. He will provide high level comments on our fiscal fourth quarter and year-end results, which ended March 28, 2008, as well as provide an overview objectives for fiscal year 2009. Enrique will follow with highlights and James will wrap it up with a review of the financial details and a discussion of our guidance as outlined in the Press Release. This will be followed by a question and answer session. Today's call is being recorded and will be available for replay on Symantec's Investor Relations homepage at [www.symantec.com/invest](http://www.symantec.com/invest). A copy of today's Press Release and supplemental financial information are available on our website and a copy of today's prepared remarks will be available on the Investor Relations website shortly after the call is completed. During the March 2008 quarter, we modified the definition of our segments in order to best focus our efforts and maximize the cross utilization of our resources and expertise. We consolidated two of our business segments, the Security and Data Management Group and the Altiris Group into one segment called the Security and Compliance Group. We also moved our Backup Exec product from the Security and Data Management Group to join our net backup products in the Server and Storage Management segment. Our Consumer and Services segments remain unchanged. We provided the historical compares for these new segments in our Press Release and supplemental information, which has been posted on our website.

Before we begin, I would like to remind everyone that some of the information discussed on the call, including our projections regarding revenue, operating results, deferred revenue, cash flow from operations, amortization of acquisition related intangibles and stock based compensation for the coming quarter contains forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set in these statements. Additional information concerning these risks and uncertainties can be found in the Company's most recent periodic reports filed with the U.S. Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statement. In addition to reporting financial results in accordance with Generally Accepted Accounting Principles, or GAAP, Symantec reports non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in the Press Release and on our website. And now, I'd like to introduce our CEO, Mr. John Thompson.

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**John W. Thompson** - *Symantec - Chairman & CEO*

Thanks, Helyn, and good afternoon, everyone. We're pleased to announce another record revenue and earnings quarter for Symantec -- our fifth in a row. More importantly, we're quite pleased with the momentum we've built over the past several quarters. And I'm particularly proud of our team and their efforts and accomplishments. This performance is a great close to fiscal '08 and a good start to fiscal '09. In addition to strong revenue and earnings results, our deferred revenue and strong cash flow generation during the March quarter underscore the strength of our business. This strength was driven by our broad portfolio of offerings and continued focus on solid execution. In addition to continued solid performance in our consumer segment, there were a number of key product areas that delivered strong double digit growth including e-mail archiving, storage management, backup, and systems management. Throughout fiscal year '08, we made significant progress in cross-selling and up selling an expanded portfolio of Symantec's products and services to both new and existing customers. In addition, adjustments to sales and marketing programs, as well as improved execution, fueled more than 1500 large deals during the year. We fortified our strength at the endpoint with the addition of Altiris and Vontu.

We believe the combination of Symantec and Altiris will enable our customers to better manage and enforce security policies at the endpoint, identify and protect against threats as well as remediate and manage IT assets. And Vontu has enabled us to

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immediately achieve a leadership position in the rapidly growing market for Data Loss Prevention solutions. These transactions represent a natural extension of our security strategy and reflect the way our customers have told us they want to manage their infrastructure. We launched innovative new products in areas of the market where we already have strong leadership positions. For example, in backup, we added disk base backup to our market leading backup products and introduced new enterprise storage management to our foundation platform for more efficient use of storage resources. Another example of our product innovation was the creation of a powerful single agent for addressing multiple security threats at the enterprise endpoint, and the introduction of online backup for consumers and enterprises alike. We exit the fiscal year with the strongest product portfolio we've had in years. I'm pleased to say that we're able to accomplish these developments while managing our expenses and delivering on our long term objective of improving operating margins by 100 basis points per year. We believe we've entered the new Fiscal Year with momentum and we're well positioned for continued success. The pipeline is strong and visibility continues to improve. During this Fiscal Year, we intend to leverage our core strengths and endpoint protection and backup to slingshot new growth opportunities, up sell new functionalities, and drive incremental business.

There's several areas of focus for this fiscal year that should further strengthen our operating returns. First, we have a rich portfolio of products and services with a number of key product introductions scheduled during the year, which Enrique will highlight in a moment. Second, we've successfully highlighted a number of new technologies and businesses into Symantec that can be leveraged across our portfolio. Third, we are refocusing our investments toward higher growth areas while we continue to improve the overall operating returns. And finally, our cash position is quite strong as we enter the new year. So let me give you an example of how we intend to capitalize on a few emerging industry growth trends. These include Data Loss Prevention, Endpoint Virtualization, Softwares of Service and consumer services. First, on Data Loss Prevention, or DLP, Vontu expanded our presence in the rapidly growing Data Loss Prevention market with clear leadership functionality at all tiers -- network, storage, and endpoint, managed from a central console. In order to complement our Data Loss Prevention capabilities, Symantec is partnering with Guardian Edge to deliver proven endpoint encryption products to compliment our endpoint protection platform. Both DLP and endpoint encryption are key components in helping customers protect valuable information that resides on laptops and desktops.

During the March quarter, we launched Symantec Endpoint Encryption 6.0, a software tool that provides advanced encryption for desktops and laptops and removable storage devices. It offers scalable enterprise-wide security that prevents unauthorized access by using strong access control and powerful encryption. Its audit reporting capability helps address regulatory requirements for validating compliance, enforcing security policies, and mitigating risk of data loss. In addition, Endpoint Encryption can be managed by our Symantec Endpoint Protection 11.0 console. Going forward, we see excellent opportunities to broaden the distribution of our DLP and encryption products, particularly in international markets, and to integrate with several of our key products, including mail security and archiving. The content awareness capabilities of Vontu's technology will allow our customers to make smarter decisions about archiving and encrypting highly sensitive information. Through this integration, our customers will be able to archive only key data and save on the rapidly growing storage costs, further differentiating Symantec from competition.

Second, on endpoint virtualization. New technologies like virtualization are evolving to enable more efficient management and flexible use of endpoints. Symantec's application virtualization technology is changing the way software is delivered and managed at the endpoint. Bringing virtualization to the endpoint offers IT a natural migration path toward a more fluid computing environment, one that effectively balances the often conflicting trade off between security and flexibility. Our recent acquisition of AVStream, which is already Incorporated in our software virtualization services products, complement our endpoint management and virtualization portfolio. The combination of streaming technologies with our Endpoint Virtualization Solution provides customers the flexibility to offer On Demand services of data and applications free of application conflicts and upgrade concerns, thus saving on administrative and licensing costs. Over time, as endpoints evolve to incorporate a range of computing delivery models, local or streamed applications with physical and virtual desktops, Symantec will provide solutions that support and manage this complexity. The AVStream acquisition is also very attractive to Symantec in that it gives us the opportunity to integrate streaming technologies throughout our product offerings from endpoint security through the network tier.

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Third, on Softwares of Service. In mid February, we launched two services from the Symantec Protection Network. Our new Softwares of Service business is designed to provide our small and medium sized customers with a suite of online availability and security solutions. At that the time, we announced the first of many offerings we plan to deliver through the Symantec Protection Network. Symantec Online Backup, providing online backup for servers and desktops and laptops, and Symantec Online Storage for Backup Exec, a disaster recovery service for mid sized customers. Like future Symantec Protection Network services, each of these solutions was designed to provide best-in-class protection of our customers' mission critical business data. We're very pleased with the early reception of these offerings and have also been quite happy with the positive response from the press and analyst community. As we move forward, we expect to deliver additional SAS offerings in areas where we have market leading products such as endpoint security, archiving and messaging, and we will continue to work closely with our partners to bring these capabilities to market.

Lastly, on our consumer business, which is three times the scale of our nearest competitor, we will continue to expand our category leadership by bringing innovative products to the market. We've executed a winning strategy by driving incremental revenue per customer and monetizing our install base of customers as they migrate from point products to suites, to value-added services. We are complimenting our consumer software business by delivering a range of premium services such as expert installation, systems checks, and PC performance tune ups. The customer feedback has been quite strong and services should underpin our growth objectives for this segment this year. In closing, let me underscore the confidence I have in our business and our future. Symantec is a great Company of superb brands and a very talented team. More than ever, our customers and partners are looking to Symantec to help them secure and manage their information across the full spectrum of operating platforms. In the face of rapidly changing technologies, we feel good about how our business is positioned as we enter the new fiscal year. We look forward to delivering on those expectations, and have no doubt that we will succeed. With that, I'll turn the call over to Enrique, who will provide more details on the March

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**Enrique Salem** - Symantec - COO

Thanks, John, and good afternoon, everyone. I'm very pleased with the strong performance of our team during the March quarter. Sales execution continued to show improvement around the world, with all regions posting double digit revenue growth. In addition, there were a number of key product areas that generated strong growth. These include e-mail archiving, backup, storage management, systems management, and consumer. Each of these products have one thing in common -- they are industry leading and allow our customers to secure and manage their information. We continue to execute better than expected in the archiving market and are winning against our competitors. Our market leading product, Enterprise Vault, had another very strong quarter, with our revenue growing faster than the market growth rate. The ever-increasing demands on long term storage of e-mail combined with increasing regulations around compliance and e-discovery continues to drive the demand for this product. We have been the only vendor positioned in the leadership category of Gartner's Magic Quadrant for four years in a row. Enterprise Vault is recognized as the leading archiving product by Gartner, IDC, and Forrester.

Our market leading data protection franchise, which consists of Backup Exec and Netbackup, posted solid results and grew by double digits year-over-year on a revenue basis. We intend to leverage these technologies such as Continuous Data Protection, D-Duplication and Virtual Platform Support across both product sets, and also align our ongoing go-to market activities to further capture market share and extend our leadership position. In the March quarter, we released Backup Exec 12.0, the first fully certified backup product for the newly released Windows 2008 server. The release is a great example of how we're leveraging and integrating technologies across our product portfolio. For example, this new version of the Windows backup product is integrated with our threat sensor, enabling the product to automatically trigger frequent backups when threat levels are elevated. This new functionality is particularly important for SMB customers with limited staff. In addition, Backup Exec now provides data protection for Enterprise Vault and includes a simple, easy to manage, off site storage option via the Symantec Protection Network, our Software as a Service platform. Net Backup 6.5 continues to resonate well with our customers. Sales were driven by increased adoption of disk spaced backup protection and our peer disk D-Duplication product. Our relationship with many of the largest customers in the world is built on the success of our storage foundation product.

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Storage foundation posted strong revenue and grew in the midteens year-over-year. Results were driven by our customer desire to standardize the storage management software across their heterogenous environments and simplify their data center infrastructure. Our increased focus on operational efficiency will continue to drive improvements in operating results in this business. Our systems management business generated strong sales activity. We are quite pleased with the progress we've made integrating Altiris Technologies into some of our key products. The Altiris web services based architecture allowed for relatively easy integration of our core security and Windows-based backup offerings. We believe a well managed endpoint is a secure endpoint. During the March quarter, we released the Altiris Work Flow Solution, which includes process automation technology acquired earlier in the year. The capability in this new product enhances our ability to tie our endpoint security products with our management solutions.

The Work Flow Solution helps businesses reduce costs through IT process orchestration and automation. This product is not only aimed at large enterprises that want to implement process improvements through methodologies such as [ITIL], but is also targeted as a solution for both small and medium enterprises that want to lower their IT operation costs. We continue to grow our market leading security business, which is twice as large as our nearest competitor. In the March quarter, the Enterprise Security Business generated record revenue. We are focused on our current endpoint security customer base to moving them to Symantec Endpoint Protection 11.0, as well as driving new business. We are seeing good traction with large enterprises for this product and won a number of competitive displacements during the quarter. Customers value the product's single agent and single management console features. The integrated best in class Symantec Network Access Control add-on continues to do very well.

Moving on to the consumer business, we are enhancing our leadership position by bringing the most innovative products and services to market to address the evolving needs of today's consumer. Our all in one security suite, Norton 360, is doing very well and now represents almost 20% of our consumer revenue and more than 30% of our consumer sales. During the March quarter, we launched the second version of Norton 360. Norton 360 now includes enhanced browser protection to stop new threats, such as drive by downloads. It also has a new feature named Norton Identity Safe, which helps consumers protect their identities online by securely managing the countless number of passwords they utilize in combination with the most advanced anti-fishing technology on the market. Norton 360's backup options have also been expanded to include support for BluRay, iPods and shared network drives. Consumer adoption of the online backup option in Norton 360 has surpassed our expectations. With just one year of operations, Symantec is the leading provider of consumer online backup, with over 3 million customers protecting their data via our online backup service.

We continue to aggressively acquire new customers. During the March quarter, we secured several new OEM partnerships. Gateway Computer, in a multi-year contract, started shipping 60 day trial versions of Norton Internet Security worldwide in January. Earlier this month, we started shipping a 60 day trial version of Norton 360 on Toshiba computers in North America; and with Dell, we were awarded the recommended status in EMEA and Japan for consumer and SME PC shipments for the May-October period. Furthermore, Norton Internet security is the default security software that ships on Dell Computers sold through retail outlets in North America through June 2008. Overall, the team's execution was strong, as our security and storage portfolio represents an area of continued IT spending, even in this environment. Looking ahead, I am pleased with the June quarter pipeline. We have had a strong start to the quarter for our enterprise business.

Our salesforce is stable and executing well. We continue to put more emphasis on new license sales which should improve results during the fiscal year 2009. On the product side, in addition to delivering the larger technology trend such as Endpoint Virtualization, Softwares of Service and Data Loss Prevention that John spoke about. we will also be releasing a number of key products during the fiscal year. We plan to continue to build on the theme of product integration where it benefits our customers most. Altiris 7.0, which is one of the company's top priorities for fiscal year '09, is expected to release later this year. The new offerings and enhancement to the current web services platform and will provide additional opportunities to integrate other Symantec solutions such as our Endpoint Security, and into the Altiris framework. More and more, the traditional buyers of security software and systems management software are coming together. An integrated security and management offering will further differentiate us from our competitors since providing complete protection, requires better systems management,

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better patch management and better vulnerability management. Compliance is still an important driver of security spending as companies strive to get or remain compliant with SOX, HIPPA, and other regulatory requirements.

NexGen, our integrated IT governance risk and compliance offering, combines the agent and agent less compliance technologies from our ESN and control compliance suite products into one single offering. We expect to ship NexGen in the fall. On the consumer side, the 2009 addition of Norton Anti-Virus and Norton Internet Security will launch in its usual September timeframe. I am excited about the Company's growth prospects in fiscal year '09, and I am confident that we can maximize our potential and provide the best solutions and value to our customers. And with that, I'll hand the call over to James.

#### **James Beer - Symantec - CFO & EVP**

Thank you, Enrique, and good afternoon, everyone. I am pleased to report solid execution on each of our four key financial metrics. In fact, this is the fifth quarter in a row in which we have met or exceeded our revenue and earnings guidance, demonstrating our focus on consistent execution. In addition, we continue to improve the efficiency of both our operations and our cost structure. Now, first, I'll review the financial details of the March quarter. GAAP revenue for our March 2008 quarter was \$1.54 billion. Non-GAAP revenue grew 13% over the March 2007 period to \$1.548 billion. Foreign currency movements positively impacted non-GAAP revenue by six percentage points year-over-year. The March quarter's fully diluted GAAP earnings per share were \$0.22. Non-GAAP fully diluted earnings per share for quarter were \$0.36, up 50% year-over-year. International non-GAAP revenue of \$813 million grew 15% versus the year ago period, with all regions posting double digit growth. International revenue accounted for 53% of total non-GAAP revenue. We're also particularly pleased that the Americas grew 10% year-over-year.

Now, I'd like to move on to our non-GAAP revenue by segment. The consumer business record revenue of \$449 million, up 10% versus the March 2007 quarter. Electronics distribution represented nearly 75% of consumer revenue and grew 12% as compared to March 2007, driven primarily by strong activity from our subscription renewals, ISPs, and OEMs. In the enterprise arena, the breadth and quality of our security, availability and services solutions continues to drive the number of our large transactions. In the March quarter, we generated a total of 449 transactions valued at more than \$300,000 each, up 15% compared to 391 deals in the year ago quarter. We generated 115 deals worth more than \$1 million each, up 14% compared to 101 deals in the March 2007 quarter. In addition, nearly 80% of large transactions included multiple products or services, up more than 20% year-over-year, demonstrating the success our salesforce is having in selling broadly across our product portfolio. The Storage and Server Management Group generated revenue of \$563 million, up 11% compared to the March 2007 results, driven by strong backup and storage performance.

Storage Foundation performed particularly well during the quarter. We also recently implemented a targeted reduction in force in the Storage and Server Group, as we work to bring our expenses in line with peer and internal benchmarks. Our Security and Compliance Group, which now includes Altiris, generated revenue of \$439 million. We are pleased with the performance of Altiris during the March quarter, that they generated record sales activity and revenue in line with our expectations. Our Enterprise Security products also generated record revenue during the quarter, and we continued to see strong growth from our archiving solutions. Our Services Group generated revenue of \$97 million, up 12% year-over-year, representing 6% of our total revenue. We continue to refocus our services business on addressing the needs of our software customers. For example, Symantec Residency Services enable customers to augment the capabilities of their own IT staff with our highly qualified on site consultants, who possess the skills to manage complex IT solutions. We are seeing particularly strong demand for this type of service.

At the same time, we are focused on improving the cost efficiency of our services operations and we're pleased with the contribution improvements that the group has made during the past couple of quarters. Non-GAAP gross margin increased 200 basis points to 86% for the March 2008 quarter as compared to the year ago period. This resulted from our cost of goods sold remaining approximately constant year-over-year while revenue grew by \$183 million. Proved revenue and the focus on cost efficiency have also increased non-GAAP operating margins for the March quarter to 27.8%, up 540 basis points or nearly 25% year-over-year. This is the second consecutive quarter in which operating margins increased strongly year-over-year. We ended the fiscal year with non-GAAP operating margins of 26.6%, up approximately 100 basis points year-over-year, in line with

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our expectations. GAAP net income was \$186 million for the March 2008 quarter. Non-GAAP net income was \$309 million, up 36% as compared to \$227 million in the March 2007 quarter. Symantec exited March with a cash and short-term investments balance of more than \$2.4 billion.

During the quarter, Symantec contributed \$150 million in investment capital to fund our 49% stake in our joint venture with Huawei. We're excited about the opportunities this security and storage appliance joint venture offers us, particularly given Huawei's strengthen some of the world's fastest growing markets. An important way in which we return value to shareholders is through our use of cash. During the March quarter, we repurchased \$200 million worth of our shares at an average price of \$17.71. In total during fiscal year 2008, we returned \$1.5 billion to shareholders by repurchasing 81 million shares at an average price of \$18.53. Our net accounts receivable balance at the end of the March 2008 quarter was \$758 million. Day sales outstanding or DSO was 45 days, in line with normal seasonal trends. Cash flow from operating activities for the March quarter was up 19% to \$674 million, as compared to \$567 million in the March 2007 quarter, primarily due to strong collections and our cost controls.

GAAP deferred revenue at the end of March 2008 was approximately \$3.08 billion. Non-GAAP deferred revenue reached a record \$3.09 billion, up 11% year-over-year, assisted by strong selling activity towards the end of the quarter. Sequentially, deferred revenue grew \$191 million or 7%. Foreign currency movements positively impacted non-GAAP deferred revenue by seven percentage points year-over-year and three percentage points sequentially. Our financial results will benefit from our strong deferred revenue balance during fiscal 2009. For the full fiscal year of 2008, we grew our non-GAAP revenue by 13% to more than \$5.9 billion as compared to the prior fiscal year, and generated \$1.27 non-GAAP earnings per share, an increase of more than 25%. We also generated operating cash flow of approximately \$1.82 billion, up 9% as compared to fiscal 2007. Now I'd like to spend a few minutes discussing our guidance. It should be noted that Symantec's fiscal calendar has four quarters of 13 weeks each, which equates to 364 days per year, versus the normal calendar year of 365 days. Hence, every six years, during our first fiscal quarter, an extra week is added to make up for the lost days. As a result our June 2008 quarter contains 14 weeks and ends on July 4, 2008.

For the June 2008 quarter, we expect GAAP revenue to be in the range of \$1.55 to \$1.59 billion. Non-GAAP revenue sets is estimated to be in the range of 1.555 to \$1.595 billion, as compared to \$1.423 billion in June 2007. This revenue forecast includes a one-time benefit of approximately \$65 million generated from the extra week of deferred revenue amortization and incremental sales activity. GAAP earnings per share are forecasted to be in the range of between \$0.17 and \$0.19. Non-GAAP earnings per share are estimated to be in the range of between \$0.34 and \$0.36 as compared to \$0.29 in June 2007. The earnings per share forecast includes a one-time benefit from the 14th week of \$0.02 based on the additional revenue assumption described just before, partially offset by payroll and variable expenses of approximately \$40 million. We will be reflecting our share of the profits or losses from the joint venture with Huawei in the "Other Income" line of our quarterly financial statements. During FY '09, we will incur various start up costs and would therefore expect the joint venture to negatively impact our "Other Income" line.

At the end of the June quarter, we expect GAAP deferred revenue to be between 2.905 and \$3.005 billion. We expect non-GAAP deferred revenue to be between \$2.91 and \$ 3.01 billion, as compared to \$2.7 billion in June 2007. The deferred revenue forecast includes a one-time negative impact from the extra week of approximately \$20 million, driven by our expectation that incremental amortization will exceed newly added deferred revenue consistent with traditional seasonal patterns. We expect about 62% or approximately \$975 million of our June quarter revenue to come from the balance sheet. We expect cash flow from operations for the June 2008 to exceed the June 2007 result of \$351 million. This guidance assumes a common stock equivalence total for the quarter of approximately 850 million shares. We have also assumed an exchange rate of \$1.50 per Euro for the June quarter. In closing, we are enthusiastic about the competitiveness of our product set, the capabilities of our salesforce and distribution partners, and the continuing improvements in our operations and cost structure. The focus in fiscal year '09 will be on executing our plans quarter by quarter. And now, I'll turn it back to Hellen so we can take some of your questions.

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**Helyn Corcos** - *Symantec - VP-IR*

Thank you, James. Jamie, will you please begin to poll for questions?

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## QUESTIONS AND ANSWERS

**Operator**

Yes, ma'am, thank you. (OPERATOR INSTRUCTIONS).

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**Helyn Corcos** - *Symantec - VP-IR*

While the operator is polling for questions I'd like to announce that Symantec plans to attend the Merrill Lynch conference on May 6 and J.P. Morgan conference on May 19. In addition, we'll be hosting our annual Analyst Meeting on June 12 in Las Vegas. This event is by invitation only and registration is required. If you would like to take advantage of the special hotel rate for this event, we encourage you to register by this Friday, May 2nd. A live webcast and replay of the event will be available on the Investor Relations homepage for those who cannot attend. Finally, we will be reporting our fiscal First Quarter results on July 30th. For a complete list of our investor related events, please visit our events calendar on the website. Jamie, we're ready to take our first question.

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**Operator**

The question will come from Sarah Friar with Goldman Sachs.

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**Sarah Friar** - *Goldman Sachs - Analyst*

Thanks a lot, good quarter, guys. Hi. I'd like to just ask on the enterprise security side, so how far along are we in the upgrade cycle? Can you give a sense of penetration? And then, as customers have upgraded, can you also give a sense for how many have taken newer protects like Mac or Altiris, for example?

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

Yes, we shipped about 21 million clients in the most recent quarter, which was down a little bit from the December quarter but that's a function of December being a seasonally strong renewal period, if you will. So SEP is doing quite well in its first two quarters in the market. The Mac component is getting very, very strong lift in the marketplace and it's helping us to drive higher unit value, if you will, per endpoint sold, so we're quite pleased with the early receptivity of Mac and would expect that to continue, certainly as the product continues to mature in the market.

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**Sarah Friar** - *Goldman Sachs - Analyst*

And just on that 21 million clients this quarter and what then you had in December, penetration wise, is that a quarter in, a third in?

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**John W. Thompson** - *Symantec - Chairman & CEO*

Well, Sarah, we don't typically give numbers on the install base, but let's put it this way. We think we have close to a hundred million users out there on the enterprise side, so with 40 plus million to date, that might give you a sense of where we are.

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**Sarah Friar** - *Goldman Sachs - Analyst*

Got it. And then a quick follow-up just on the OP margin side. James, terrific job year-over-year. What's kind of the goal as you look forward over longer term in terms of how much more upside could we get to operating margin?

**James Beer** - *Symantec - CFO & EVP*

Well, one of the financial objectives is to improve operating margins by around 100 basis points each year, and obviously we're pleased that we've been able to deliver that in fiscal '08, and that's the plan going forward.

**Sarah Friar** - *Goldman Sachs - Analyst*

Great. Thanks a lot.

**Operator**

We'll take our next question from Heather Bellini with UBS.

**Heather Bellini** - *UBS - Analyst*

Hi, thank you. Good afternoon. Just a follow-up to Sarah's question, and then I had a quick follow-up to that. You were just referring, John, to an uptick in the average unit value that you see as people are adopting the Mac offerings. Could you give us an idea of what that uptick in average unit value is? And then I had a quick follow-up.

**John W. Thompson** - *Symantec - Chairman & CEO*

Yes, well, competitively, I'd really rather not start to talk about what kind of price yields we're seeing in the marketplace, Heather. I just don't think in light of the economic environment that's in our best interest; but I do think it's fair to say that the combination of SEP and maintenance price increase that we've built in and Mac are helping us drive higher price yield per endpoint. That's ultimately the objective.

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

It also varies by the size of deal that we do.

**John W. Thompson** - *Symantec - Chairman & CEO*

True.

**Heather Bellini** - *UBS - Analyst*

Okay, great. And then my follow-up is -- I mean, I was listening to James' comments. You've now had two very strong quarters in a row, where not just revenue and EPS but also deferred -- kind of there's really nothing to complain about when you look at these numbers. And I guess this is the level of consistency that I know the market's been waiting for. I was wondering if you could share with us, John or Enrique, what you think has changed that has enabled this to happen? What do you think -- where do you think you are in the process of kind of taking this to the next level and having this consistency going forward?

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**Enrique Salem** - Symantec - COO

Let me beg to differ with you just a little bit. This is the fifth consecutive quarter of beating all four of our primary metrics.

**Heather Bellini** - UBS - Analyst

Okay.

**Enrique Salem** - Symantec - COO

So while June was certainly -- I'm sorry, March was strong and December was strong, we have had five consistent --

**Heather Bellini** - UBS - Analyst

I was referring to September when you guys lowered guidance to December.

**Enrique Salem** - Symantec - COO

Oh, I understand.

**Heather Bellini** - UBS - Analyst

In terms of everything connecting together.

**John W. Thompson** - Symantec - Chairman & CEO

But let's get to the second question.

**Heather Bellini** - UBS - Analyst

Yes.

**John W. Thompson** - Symantec - Chairman & CEO

,Which is where do we think we are? We think we are in terrific shape. We have a very strong pipeline coming into this quarter. The sales leadership team around the world is really, really operating quite well. We just finished our Worldwide Sales kickoff for this fiscal year. It was probably the most exciting kickoff I've ever attended in the 37 years I've been in this business, and so I'm pleased with where our Company is. The back office is working well. The front office is doing well and the guys are building some pretty innovative products day in and day out; so all in all, I think we're on a role.

**Heather Bellini** - UBS - Analyst

Great. Thank you.

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**Operator**

We'll take our next question from Brett Sill with Citi.

**Brett Sill** - Citigroup - Analyst

Thanks. John, just on your comments on a strong pipeline, can you just contrast the demand environment when you look at the U.S. Versus EMEA and APAC?

**John W. Thompson** - Symantec - Chairman & CEO

Well, we don't see any real distinction between the regions of the world, given candidly the product portfolio that we have. Our products tend to be the hygiene components of every IT infrastructure. You must secure and manage the digital content picture creating, regardless to whether you're a small business or a large business or a consumer. And so around the world, there's fairly even pull on the reigns from a demand perspective. We would expect Asia to continue to do well, given that those are economies that that are growing faster than anywhere else in the world. Japan and Germany continue to be challenging environments; but nonetheless, overall EMEA and APJ are doing well. And candidly, the leadership change that we made in the Americas, what Bill has done with his team, has really got the Americas on track, and we're quite pleased with their performance.

**Brett Sill** - Citigroup - Analyst

Thanks.

**Operator**

We'll take our next question from Israel Hernandez with Lehman Brothers.

**Israel Hernandez** - Lehman Brothers - Analyst

Hi, John, and congratulations on a good quarter. Can you comment on what you are seeing in the SMB channel? A number of companies have commented that they were beginning to see some signs of weakness there; and I have a follow-up for James.

**John W. Thompson** - Symantec - Chairman & CEO

You know, Israel, we aren't seeing real changes in the SMB space. There continues to be strong demand for our security products and our backup offerings. Backup Exec continues to do very, very well for us, particularly focused on that segment; so we haven't seen anything that causes us concern.

**Israel Hernandez** - Lehman Brothers - Analyst

Great. And James, we've got an extra week here in Q1. Does that mean we have one less week in your Q2 and that we should model that accordingly so that we don't get this wrong when we model it out some

**James Beer** - Symantec - CFO & EVP

That's right. In Q2, Q3 and Q4 we go back to the traditional 13 week quarter.

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**Operator**

And we'll take our next question from Todd Raker with Deutsche Bank.

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

Hi, guys, nice quarter.

**John W. Thompson** - *Symantec - Chairman & CEO*

Thanks, Todd.

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

Two quick questions for you. First, on the consumer side, can you talk about what the you're seeing in terms of economics? You guys announced a nice wins on the OEM side, McAfee some announced nice wins. Are we continuing to see the economics of the OEM channel continue to deteriorate, or how do you see that playing out over the next few years?

**John W. Thompson** - *Symantec - Chairman & CEO*

Ultimately, Todd, the economics in that channel, it's a competitive market but they have stabilized from what we've seen over the last several years. But make no mistake about it, we will continue to compete with a number of folks in that channel. But it does continue to be an important customer acquisition channel for us, and so we will always make sure that we're doing deals that allow us to continue to bring in a nice steady stream of new customers into the consumer business.

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

And follow-up question, you guys have talked about divesting some of the slow to growth businesses -- any kind of update as you look at the portfolio products today, and thoughts in terms of potential divestitures going forward?

**John W. Thompson** - *Symantec - Chairman & CEO*

Contrary to popular rumor, we have no plans in place to divest of anything, none.

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

Very insightful, thanks.

**Operator**

We'll take our next question from Daniel Ives with Friedman, Billings.

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**Daniel Ives** - *Friedman, Billings, Ramsey & Co. - Analyst*

Thanks, congrats on the quarter. A question with the salesforce, can you maybe just give us some insight in regards to quarters or just incentivizing the sales if they continue to do good things there and what you've been doing, changes on the salesforce model? Thanks.

**John W. Thompson** - *Symantec - Chairman & CEO*

Yes. Our focus right now is to continue to move our team to be more focused on new license. Because that is ultimately what drives our business. And so we started that change last year focusing on our specialist organizations; and now as we look at fiscal year '09, we have broadened that to include more of our field teams. So ultimately the priority for Symantec is to drive new business and ultimately new license sales. That's the number one thing we're focused on in fiscal year '09.

**Daniel Ives** - *Friedman, Billings, Ramsey & Co. - Analyst*

Congrats, good quarter.

**John W. Thompson** - *Symantec - Chairman & CEO*

Thanks.

**Operator**

We'll take our next question from Aaron Schwartz with J.P. Morgan.

**Aaron Schwartz** - *J.P. Morgan - Analyst*

Good afternoon. Just a follow-up on the last question. It looks like the license as a percentage of revenue has picked up by about a point in the second half of the year, and I'm just wondering if that is a factor of the shift to new license, or if there's just been stabilization in the amount you're deferring. I'm trying to contrast the change in the sales organization with maybe what's being deferred and recognized on the license side.

**John W. Thompson** - *Symantec - Chairman & CEO*

Well, what I would comment on is we definitely have had a focus on driving new license, and that would lead to what you're saying. As far as it being 1%, that's not a number that I'm looking at right now, but ultimately our focus is on driving new license.

**James Beer** - *Symantec - CFO & EVP*

Yes, and remember that a lot of our new sales are accounted for in the subscriptions line. So consumer new sales, a lot of our enterprise security new sales. So when you look at the line labeled " License" on our press release, it doesn't give you the full picture for the new sales that are going on in the organization.

**Aaron Schwartz** - *J.P. Morgan - Analyst*

Okay, and just a second question. I know there's been a lot of changes on your channel side. I think the latest news was out of [inaudible]. I'm just wondering if you can update us with changes in your strategy there?

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**John W. Thompson** - Symantec - Chairman & CEO

Ultimately, when we look at our go-to markets strategy, we are always going to keep refining who are our priority partners and we will concentrate our business on a number of key partners, and what you heard there is that we're narrowing who are the folks we go to market with. Expect to continue to see us refine where we invest, both from a resource and focus perspective, and that's what you heard on that announcement. And in particular, though, expect us to continue to leverage our broad-based two tier distribution model where it makes sense. And there are places where absolutely we will continue to leverage it and there are places where we will refocus some of our efforts. So ultimately though, we have a very broad distribution channel that will continue to leverage.

**Aaron Schwartz** - J.P. Morgan - Analyst

Okay, congratulations and thanks for taking my questions.

**Operator**

We'll take our next question from Phil Winslow with Credit Suisse.

**Philip Winslow** - Credit Suisse - Analyst

Hi, guys, just a couple of quick questions. First, you mentioned a OEM relationship with Guardian Edge to get into the endpoint encryption market through a partnership. Wondering if you could comment just on integration there. Obviously, McAfee has been pitching with [inaudible] just the time with E-Policy Orchestrator. Just curious what you plan to do from that standpoint. And also, Enrique, you've been mentioning license revenue, and license revenue this quarter it was also particularly stronger, and probably one of the best quarters you've had year-over-year in a few years. Just what is driving that on the storage side, if anything in particular, what product lines?

**Enrique Salem** - Symantec - COO

Sure, on the first question, expect the new encryption technology will be integrated with our Symantec Endpoint Protection technology; so you'll manage all aspects of security from the Symantec Endpoint Protection console. So tight integration; but more importantly to us is not only what we're doing on the security side, but it's also the integration with our new systems management technology from Altiris, because that's where we drive the higher value. As we continue to say, it's all about the not only security but managing that endpoint, because that's the only way you truly have security And so expect that we'll continue to bring all of these technologies much closer together, as we've already started to with the release of Symantec Endpoint Protection 11. The second part of the question on new license, you know, what we think about is we had very good performance across the businesses, both in our storage business and our security business, and so we're seeing very good performance across a broad range of our portfolio; and that is really all about what we focus on is what we're going to deliver, and we've been focused on new license, and that's why you're seeing it in our results.

**Philip Winslow** - Credit Suisse - Analyst

Great. Thanks, guys.

**Operator**

Our next question from Katherine Egbert with Jefferies & Company.

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**Katherine Egbert** - *Jefferies & Company - Analyst*

Hi, good afternoon. We've seen a lot of weakness in terms of smaller point centers in the enterprise security area. Do you feel like you're taking share or are you in any way taking advantage of weakness in those areas? And then conversely, are you seeing your major competitors doing anything unusual to try to take share?

**John W. Thompson** - *Symantec - Chairman & CEO*

Well, I think what's playing out is what we believe for the last five or six years that large enterprises want to do business with fewer providers and they want to do business with providers that have a broader portfolio of offerings that helps them reduce the cost and complexity of deploying those technologies. And so I think in more challenging economic times you're going to see pressure perhaps first to the less scaled enterprises that don't have the richness of portfolio or the richness of relationships. That could, in fact, lead to price pressures, but we haven't seen that so far.

**Katherine Egbert** - *Jefferies & Company - Analyst*

Okay, that's helpful. And then James, I'm sorry if I missed it. Did you say what the impact of currency was on revenue and expenses?

**James Beer** - *Symantec - CFO & EVP*

Yes. In terms of the overall impact on revenue, we were up 13% year-over-year, and six points of that was driven by foreign exchange. And we don't break out the expenses, but directionally it's going to be a similar type figure.

**Katherine Egbert** - *Jefferies & Company - Analyst*

Okay, thanks. Good quarter.

**John W. Thompson** - *Symantec - Chairman & CEO*

Thank you.

**Operator**

We'll take our next question from Robert Breza from RBC.

**Robert Breza** - *RBC Capital Markets - Analyst*

Hi, nice quarter as well. James, I was wondering as we look to our models and think about adjusting for the one extra week here in Q1, would you expect a similar split kind of the 48-49% in the first half and 50, 51, 52 in the second half or is there anything else seasonally we need to think about as we kind of model through the year? Thanks.

**James Beer** - *Symantec - CFO & EVP*

Well, aside from this incremental 14th week, I wouldn't say we're seeing anything different seasonally than we were looking at this time last year.

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**Robert Breza** - *RBC Capital Markets - Analyst*

Okay, thank you.

**Operator**

And our next question comes from Michael Turits with Raymond James.

**Michael Turits** - *Raymond James - Analyst*

Hi, guys, a question first on storage. What are the dynamics you're seeing in the core backup business with Net Backup and some of the associated products with replication and [inaudible]? You've bought some good products and you've made some big improvements with Net Backup 6.5. Is there any change in the competitive environment in the shared trends?

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

Yes, so ultimately when you look at what we've done with our Data Protection Group, which is a combination of both Net Backup and Backup Exec, we are gaining share. That combination is serving us very well, and the thing that's most encouraging is as customers are migrating from tape based backup to disk based backup, we are seeing a significant opportunity around our new D-Dup capabilities and our pure disk offerings. So we're encouraged, because now with our 6.5 platform -- our Net Backup 6.5 platform -- we can continue to add these new modules, which I think will obviously benefit the overall performance of our Data Protection Group.

**Michael Turits** - *Raymond James - Analyst*

And I have a second question on the security and compliance group, it sounds like Altiris did well. If you were to strip out the compliance and look at the enterprise security, what are the growth rate trends there? Are they picking up? Anyway of characterizing what those growth rates are?

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

I don't think that we've -- I haven't broken it out that way, Michael.

**Michael Turits** - *Raymond James - Analyst*

Okay. Anything you can do to give me just some color on how that's doing directionally?

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

Our security business is doing great.

**Michael Turits** - *Raymond James - Analyst*

Great. Thanks very much, guys, appreciate it.

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**Operator**

We'll take our next question from Rob Owens with Pacific Crest.

**Rob Owens - Pacific Crest - Analyst**

Good afternoon, everyone. Looking at the security group along the lines of Michael's question, as you talked about some of your double digit growers in the quarter, you didn't talk about the endpoint and I'm wondering if you're stripping out the Mac and Altiris capabilities separately or if the endpoint in aggregate is growing at less than 10%?

**James Beer - Symantec - CFO & EVP**

Yes, the endpoint is growing at less than 10%, but we're very comfortable that that is the overall performance. As we said a couple of quarters back before we rolled out the new SCP product, the first job was going to be focused on upgrading the very large install base, and we're well down that track, as John was alluding to in one of the earlier questions. So that's been the primary focus. We are pleased that we've been able to see some lift year-over-year, even while we've been doing all of this on the revenue side.

**Rob Owens - Pacific Crest - Analyst**

Okay, great and then second, on the 14 week quarter I think last time you guys faced this, it actually provided a couple pennies dilution in the quarter. So is this more a function of the ratability of the model this time around six years later, or is this some expectations for the first week of July? In terms of just general sales and demand?

**James Beer - Symantec - CFO & EVP**

Well, it's hard for me to go back six years, but no. It's fair to say that it will be \$0.02 positive this time around. Yes, we do have a relatively large amount of amortization that the rolls off the Balance Sheet now, more so than it would have been the case in the past. But the flip side to that of course is that six years ago, we would have had more new license sales and the overall sales activity are being reflected in the P&L immediately. So I'm not sure that it's necessarily a big difference there in the way the numbers play out, but again I haven't sort of gone back six years to study how it used to be.

**Enrique Salem - Symantec - COO**

One thing I would add though is that we have products in the portfolio that have a higher license yield -- for example, our Backup Exec business.

**James Beer - Symantec - CFO & EVP**

Yes.

**Enrique Salem - Symantec - COO**

And that would probably have some too.

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**James Beer** - Symantec - CFO & EVP

Right.

**Rob Owens** - Pacific Crest - Analyst

Great, thank you.

**Operator**

We'll take our next question from Tim Klasell with Thomas Weisel Partners.

**Tim Klasell** - Thomas Weisel Partners - Analyst

Yes, good afternoon, everybody. Good quarter. First, just a quick housekeeping. James, can you hit us on -- you said there would be an impact on the "Other Income" from the Huawei joint venture. Can you give us a magnitude there? And how that should ramp throughout the year?

**James Beer** - Symantec - CFO & EVP

Well, no. I'm not going to throw out the specific numbers associated with the Huawei joint venture. I think it's fair to say when you look at the other income line and think about its primary constituents, obviously interest income has been coming down in recent times as interest rates have been reduced around -- certainly in this country, if not around the world. And then the other thing that's been happening there is we have a smaller cash balance year-over-year, and we've been looking to bring in the duration of our investments so that we have more cash available to us to do things like the buyback and to invest in our business in ways such as the Huawei joint venture presents itself. So on the interest expense line, that's pretty much a constant given the defined nature of the interest associated with the convert of a couple of years ago, and then the additional item this coming year will be the Huawei joint venture; and obviously, we'll look to minimize the set up costs, but there I think are going to beat some of those.

**Tim Klasell** - Thomas Weisel Partners - Analyst

Okay, and then sort of jumping over, Enrique, to your comments about focusing in on new license sales -- obviously, the maintenance streams are very valuable. Are you getting a separate salesforce or what are you doing to help protect that as your field salesforce focuses in on the new license sales?

**Enrique Salem** - Symantec - COO

We have a number of different things we do, as you know -- by segment, we have different things that we do. But if you look at our storage business, we have a team that is focused on renewals and they work very closely with our field force, so it's really a matter of -- it's not that we're saying that there's no focus or there's no competition on the renewal component. It's just that we're putting a higher emphasis on new license, and that's where you drive the acceleration for our field organization. So we've got a combination of things we're doing to insure renewal rates. And I don't expect to see renewal rates in this business drop. If anything, given some of the improvements we're making online in both our small and medium business and in consumer, I expect to see renewal rates to continue to improve.

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**Tim Klasell** - *Thomas Weisel Partners - Analyst*

Okay. Very good, thank you.

**Helyn Corcos** - *Symantec - VP-IR*

Jamie, we'll take one more question, please.

**Operator**

Our final question will come from [inaudible] from Wachovia.

**INAUDIBLE NAME** - *Wachovia - Analyst*

Thanks, [inaudible] quick question on the channel. Amid changes in management and focus on new license, are there any other new initiatives or major initiatives that you're focusing on the channel side that you also have an impact?

**John W. Thompson** - *Symantec - Chairman & CEO*

I'm sorry, on the channel side?

**INAUDIBLE NAME** - *Wachovia - Analyst*

On the channel side, that's right.

**John W. Thompson** - *Symantec - Chairman & CEO*

Yes, so I'm not sure that we've made changes on our personnel. We've actually been very stable on our channel personnel. The leadership team across the regions has been very stable through fiscal year '08, and I expect that to continue. As far as what we're doing with the channel, we're always reviewing the various programs and how they work; but I don't expect to see any material changes in fiscal year '09 -- but expect us to continue to look at how we incent the partners and the channels that drive new business. And that is the focus for our Company, and that's what we're going to continue to drive incentive around.

**INAUDIBLE NAME** - *Wachovia - Analyst*

Great. Thank you.

**Operator**

That does conclude our question and answer session. At this time, I'd like to turn the call back over to you, Mr. Thompson, for any additional or closing remarks.

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**John W. Thompson** - Symantec - Chairman & CEO

Well, thank very much, everyone for joining us this afternoon. I'm awfully proud of our team's performance, not just in the March quarter but throughout fiscal year '08. We had a very strong finishing quarter and we have a very strong pipeline as we head into fiscal year '09, and I am very very encouraged that this is our year. So thank you very much.

**Operator**

That does conclude today's conference. Thank you for your participation. You may disconnect at this time.

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