

**Symantec 1Q08 June 2007 Earnings Transcript**  
**July 25, 2007**

**Helyn Corcos, Vice President Investor Relations**

Good afternoon and thank you for joining us. With me today are John Thompson, Chairman of the Board, and Chief Executive Officer of Symantec and James Beer, Executive Vice President and Chief Financial Officer.

In a moment, I will turn the call over to John. He will provide highlights of our fiscal first quarter results, which ended June 29, 2007. Then James will provide financial details and review 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 home page 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 comments will be available on the investor relations website shortly after the call is completed.

As mentioned in our press release, Symantec adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," during the June quarter. As such, our GAAP and non-GAAP results for the fiscal first quarter include the adoption of FIN 48.

Also during the June quarter, we made several adjustments to our business segments. We have recast maintenance revenues for each quarter of fiscal 2007 and 2006. In addition, we added a new business segment called Altiris and have moved a few products from our Security and Data Management unit into our Services and Altiris segments. We have provided historical comparative information for these adjustments in this quarter's supplemental financial package, which is available on our web site.

Before we begin, I would like to remind everyone that some of the information discussed on this 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 contain forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the 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 statements.

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 web site.

And now, I would like to introduce our CEO, Mr. John Thompson

**John W. Thompson, Chairman and CEO**

I'm very pleased with the team's ability to execute our operating plan and deliver solid June quarter results. Performance for the quarter was driven by strong demand for many of our core and emerging technology solutions, as well as solid execution by our services, consumer and Altiris groups. We have focused on improving our day-to-day business operations, which contributed to better than expected revenue yield and lower expense growth in our core business. The higher in period revenue was partially offset by a lower deferred revenue balance as we recognized a greater portion of revenue in the quarter.

While over 70% of our large deals included multiple Symantec products in the June quarter, we experienced a year-over-year decline in our large transaction volumes. This decline is primarily attributable to weaker than expected business in the Americas. We believe this was a Symantec specific issue and as such, took action to address the issues earlier this month. We expect our Americas performance to improve over time.

We were pleased, however, with the performance of our Altiris business unit. The team moved quickly to leverage Symantec's powerful go to market model to fuel geographic expansion. As a result, Altiris recorded its largest transaction ever outside the US and the pipeline for this business looks stronger than ever.

While our direct sales force is focused on developing relationships with large enterprises, we have also built an ecosystem of over 60,000 channel partners and resellers. Over the past two quarters, we have implemented significant enhancements to our systems environment, all focused on improving the ease of doing business with Symantec. We continued to make progress with our licensing portal and buying programs which resulted in strong revenue gains in our channel-based business.

Now, I'd like to take a minutes to discuss a few highlights from each of our business units.

Our Data Center Management group posted a strong quarter as NetBackup performed well and our Storage Foundation products produced record revenue results. Once again, these results were driven by our customers' desire to standardize and simplify their data center infrastructure.

During the quarter, we launched our next generation data protection solution – NetBackup 6.5, which will start shipping in a couple of weeks. NetBackup provides a single platform to unify recovery management across all protection technologies and delivers innovative new disk-based data protection capabilities.

Within our Security and Data Management group, our core Window's-based data recovery solution, Backup Exec, returned to solid levels driven by the strength of the new product and the success of our channel initiatives.

We also continued to see solid growth in the emerging product areas of compliance and enterprise messaging. Specifically, our compliance products, Control Compliance Suite and Enterprise Security Manager, as well as our Antispam products showed strong year-over-year growth.

In June, we launched our next generation enterprise Endpoint Protection solution, formerly known as Hamlet. We remain on track to ship the product towards the end of this quarter. Symantec Endpoint Protection lowers total cost of ownership through centralized management, ease of deployment, and seamless integration of several market leading security functions. Furthermore, we believe our customers will appreciate the smaller footprint and improved resource utilization of this product.

After a record March quarter, our services group posted another solid quarter of double digit growth. The June quarter results were driven by strong contributions from Company-i, a UK consultancy we acquired last December. Company-i is a great example of how a strategic acquisition of a services company can provide tremendous leverage for Symantec in certain vertical or geographic markets.

Our Services team is building a focused, complementary services business that helps customers address their IT risk management challenges. By pulling together our portfolio of products with services, we have the unique opportunity to assist our customers in an area of growing importance and complexity.

Now, let me spend a moment on our new Altiris business unit. I couldn't be more pleased with how the business and management team are integrating with the Symantec team.

Last year, Dell launched a software management strategy based on an "open platform" and they chose Altiris' unified architecture. This relationship remains quite strong and contributed meaningfully to the team's June quarter results.

In addition, we're integrating and leveraging our technologies on several fronts. For example, we have developed a special connector that provides the ability for us to synchronize the database between Symantec Endpoint Protection and the Altiris Configuration Management Database, helping to reduce the costs and complexity of software migration. This also provides an opportunity for us to up-sell customers to our patch management solution by selling the Altiris Client Management Suite or Total Management Suite.

Our consumer business posted another strong quarter of double digit growth led by sales of Norton Internet Security. Growth was particularly strong in the EMEA region.

Having experienced a full quarter of contribution from Norton 360 sales, we are quite pleased with its initial uptake. Norton 360 has been the most successful consumer product launch in Symantec's history.

Earlier this month, the consumer team launched another new product called Norton Antibot. According to our latest Internet Security Threat Report, bot-infected computers grew by 29% during the second half of 2006 to more than 6 million infected machines.

These Bots are covertly installed on a user's machine in order to allow an unauthorized user to control the computer remotely. This allows a remote attacker to take control of a large number of

compromised machines and create a bot network, which can then be used to launch a coordinated attack.

In addition, later this quarter the consumer team will launch the new 2008 versions of Norton Internet Security and Norton AntiVirus. These products will look to continue our focus on delivering market leading functionality and further enhance the recognition of our Norton brand.

In summary, I am pleased with the progress we've made over the past few quarters and believe many of the initiatives we implemented last year are beginning to bear fruit. With a solid first quarter behind us, we are well positioned for the balance of fiscal 2008. We will continue to take steps to drive our competitive differentiation in the marketplace through continued new product innovation, improve our internal cost structure and improve our relationships with customers and partners around the world.

And with that, I'd like to hand the call to James.

**James Beer, Executive Vice President and CFO**

Thank you John, and good afternoon everyone.

Our solid performance in the June quarter is a good indication of the progress we are making towards our FY08 targets.

GAAP revenue for our June 2007 quarter was \$1.4 billion. Non-GAAP revenue grew 10% versus the June 2006 period to \$1.42 billion, as we did a good job of converting our sales activity into recognized revenue. Excluding the addition of the revenue we acquired from Altiris, non-GAAP revenue grew by 6% year-over-year.

Foreign currency movements positively impacted non-GAAP revenue by \$38 million in the June 2007 quarter as compared to June 2006. Sequentially, foreign currency movements had approximately a \$15 million positive impact on revenue.

The June quarter's diluted GAAP earnings per share were 10¢. Non-GAAP diluted earnings per share for the quarter were 29¢, up 21% compared to the June 2006 results. This significant percentage increase is an illustration of the value we can create for our shareholders as a result of the substantial buyback activity, totaling \$7 billion in the last two years, that we have completed.

International non-GAAP revenue for the June quarter grew 12% to \$727 million versus the year ago period, and represented 51% of total non-GAAP revenue. The Europe/Middle East/Africa region grew 15% and Asia Pacific, including Japan grew 8%. The Americas grew 8% year-over-year. Holding currency constant, international revenue grew 7% year-over-year.

Now, I'd like to move to revenue by segment in the June 2007 quarter.

Consumer revenue generated \$424 million up 11% versus the June 2006 quarter. Electronic distribution channels represented 72% of consumer revenue and grew 19% versus the June 2006 quarter. Norton Internet Security revenue grew 31% and remains the single largest product contributor to our consumer category - - generating approximately 63% of consumer revenue.

Moving now to our enterprise segments. During the June 2007 quarter, we defined the new Altiris business unit as made up of the acquired Altiris products plus our Ghost, pcAnywhere, and LiveState Delivery products. These three products moved over from the Security and Data Management segment in order to enhance our go-to-market activities around endpoint management. We also moved our Managed Security Services and DeepSight business lines to the Services segment from the Security and Data Management segment in order to create a single area of focus for our service related activities.

In addition, following our ERP implementation during the December 2006 quarter, we completed an analysis of how maintenance revenues were being allocated among our enterprise segments. The maintenance analysis largely benefits the Data Center Management group to the offsetting detriment of the Security and Data Management segment. These initiatives have resulted in us recasting our segment data, both for this fiscal year and for the prior two fiscal years.

We have provided historical comparative data for these reclassifications in the supplemental information which is posted on our investor relations website.

The June quarter performance for the recasted segments is as follows. Our Security and Data Management revenue of \$424 million grew by 4% over the June 2006 quarter. The Data Center Management group produced revenue of \$404 million and grew 5% from the year ago period.

And, our Services unit posted another strong performance increasing revenue to \$81 million up 13% from the June 2006 quarter. Services represented 6% of our total revenue during the June 2007 quarter.

The Altiris business unit generated non-GAAP revenue of \$89 million, of which the three Symantec products produced \$36 million of the segment revenue and the former Altiris products contributed the remaining \$53 million. Altiris' non-GAAP revenue includes the impact of \$16 million worth of deferred revenue lost on a GAAP basis, as a result of the purchase accounting method related to the acquisition of Altiris.

Non-GAAP gross margin increased to 84.8% for the June 2007 quarter compared to 83.9% for the year ago period, driven by the divestiture last year of the Symantec-built appliances business and by the movement of the consumer OEM fees from the cost of goods sold line to operating expenses, as we discussed on our May conference call.

Non-GAAP operating expenses of \$841 million for the June 2007 quarter were flat sequentially, and up 16% year-over-year. Expenses grew primarily due to three factors. Altiris added \$31 million, foreign exchange movements added \$21 million and the OEM issue I just mentioned added \$42 million to our operating expense base. However, we were able to offset a portion of this expense growth by accelerating the pace of our cost reduction activities ahead of plan this quarter. Therefore, operating expenses grew only 3% year-over-year, after adjusting for exchange rates, OEM fees, and Altiris.

GAAP net income was \$95 million for the June 2007 quarter. Non-GAAP net income equaled \$263 million up nearly 4% compared to June 2006.

Symantec adopted FIN 48, the new standard related to “Accounting for Uncertainty in Income Taxes,” during the June 2007 quarter. As a result, we performed a comprehensive re-evaluation of our tax risks which resulted in a net decrease to our tax reserves of \$18 million. As a result, goodwill was reduced by \$11 million, retained earnings increased by \$6 million and stockholders’ equity increased by \$1 million.

Symantec exited June with a cash and short-term investments balance of \$2.0 billion, a decline of \$953 million versus the end of the March quarter. The decline is attributable to our purchase of Altiris, which reduced our cash and short-term investment balance by \$810 million, and our repurchase of \$500 million of our outstanding shares. During the June quarter, we repurchased 25 million shares at an average price of \$19.76.

Our net accounts receivable balance at the end of the June 2007 quarter was \$569 million. Days-sales-outstanding, or DSO, was 36 days, in line with normal seasonal trends.

Cash flow from operating activities for the June 2007 quarter is expected to be between \$345 and \$350 million. This is lower than our original expectation. Year-over-year, our cash flow from operations were impacted by higher fees paid to consumer OEMs and by the weakness in the Americas that John noted.

GAAP deferred revenue at the end of the June 2007 quarter was approximately \$2.665 billion. Non-GAAP deferred revenue at the end of the quarter was \$2.709 billion, up 16% compared to the June 2006 quarter. Deferred revenue at the end of the June quarter is typically lower than at the end of the March quarter due to seasonal trends. In addition, deferred revenue was impacted

by the stronger than expected recognized revenue yield that we generated during the June quarter. Lastly, foreign exchange rates had a positive benefit on deferred revenue of approximately \$61 million versus June 2006.

During the September quarter, we expect about \$905 million of our non-GAAP deferred revenue balance to convert into recognized revenue. This is 7% higher than the equivalent June 2007 quarter amount and 17% higher than the year ago period. We continue to benefit from an increasing volume of predictable revenue rolling off the balance sheet driven by our deferred revenue model.

Now, I'd like to spend a few minutes discussing our guidance.

Given the current business environment and an exchange rate of \$1.33 per EURO, our forecast for the September quarter is as follows.

GAAP revenue is estimated to be between \$1.35 and \$1.38 billion. Non-GAAP revenue is estimated to be between \$1.37 and \$1.4 billion.

GAAP earnings per share are forecasted between 7¢ and 9¢. Non-GAAP earnings per share are estimated between 24¢ and 26¢.

GAAP deferred revenue is estimated to be between \$2.53 and \$2.58 billion. We expect non-GAAP deferred revenue to be in the range of \$2.55 to \$2.6 billion.

The September quarter cash flow from operating activities is expected to be the lowest quarterly figure for the year following normal seasonal patterns. September quarter operating cash flow is expected to be below the \$276 million we recorded in the September 2006 quarter. The lower cash flow estimate is primarily due to the payment of higher consumer OEM fees year-over-year and to the weak Americas activity noted in the June quarter.

While we are pleased with our June quarter results and with the prospects for the September quarter, we plan to update our guidance one quarter at a time. We do not plan to revisit our full year guidance until the beginning of the March quarter, on our January earnings call.

And with that, I'll turn the call back over to Helyn so we can take some of your questions.

**Helyn Corcos, Vice President Investor Relations**

Thanks. Operator will you please begin polling for questions.

While the operator is polling for questions, I'd like to announce that Symantec plans to attend the Citigroup conference on September 6<sup>th</sup>.

We will be reporting our fiscal second quarter results on October 24<sup>th</sup>. This information will also be posted on our events calendar.

For a complete list of investor related events, please visit our events calendar on the investor relations website. Operator, we are ready for the first question.