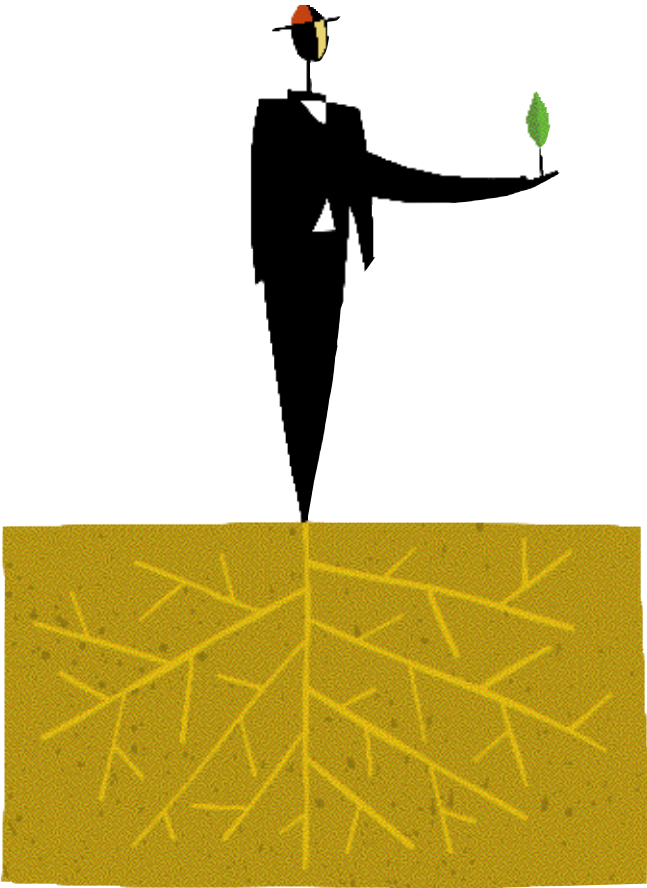




Growing Focused 1996 Symantec Annual Report



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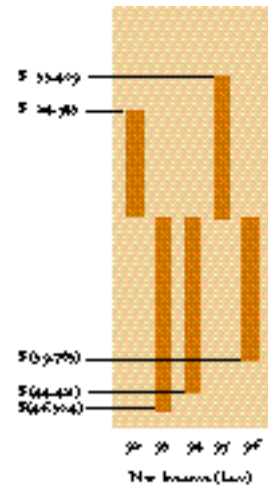
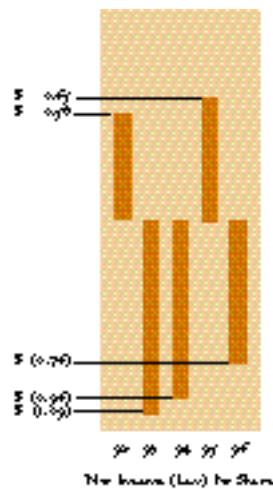
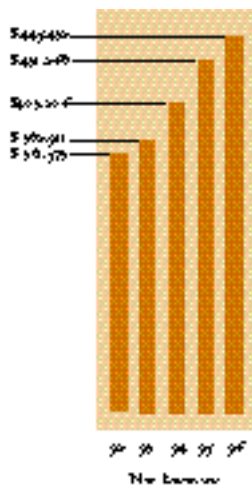
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SYMANTEC CORPORATION develops, markets, and supports a diversified line of application and system software products designed to enhance individual and workgroup productivity as well as manage networked computing environments. Principal products include advanced utilities, security utilities, fax, network/communication utilities, contact management, development tools, and consumer/productivity applications. Customers consist primarily of corporations, higher education institutions, government agencies, and individual users, which are mainly located in North America, Europe, Asia/Pacific, and Latin America.

Symantec is headquartered in Cupertino, California, with manufacturing facilities in Sunnyvale, California, and Dublin, Ireland. Sales and support offices are located in more than 30 major cities throughout the United States and internationally in Sydney, Australia; Toronto, Canada; Düsseldorf, Germany; Tokyo, Japan; Paris, France; Milan, Italy; Maidenhead, United

FINANCIAL HIGHLIGHTS

	Fiscal Year				
<i>(In thousands, except per share data)</i>	1996	1995	1994	1993	1992
Net revenues	\$ 445,432	\$ 431,268	\$ 403,206	\$ 382,911	\$ 381,573
Net income (loss)	(39,783)	33,409	(44,421)	(46,304)	24,543
Net income (loss) per share	(0.76)	0.65	(0.96)	(1.09)	0.58
Total assets	297,929	309,632	266,368	261,360	229,987
Stockholders' equity	180,317	184,874	129,193	139,056	144,238





Gordon E. Eubanks, Jr.

Fiscal 1996 marked an important and successful year for Symantec. As one of the preeminent software companies in the world, we continued to play a major role in helping to shape the rapidly changing personal computer market.

During the past 12 months, we took action on several fronts to ensure that we maintain the leadership positions of our products within the industry: first, we restructured several of our own internal business processes to better serve customer, employee, and industry expectations; second, we introduced and implemented tightly focused product strategies in high-growth segments of the market; and third, we acquired Delrina Corporation to enhance our presence in the rapidly expanding communications market.

While these investments in products, procedures, and new markets contributed to our overall revenue growth for the year, we experienced lower-than-anticipated financial results. Nevertheless, we firmly believe that the growth we are now seeing in several key product areas validated actions and strategies implemented throughout the year. With record revenues of \$116.0 million in the quarter ended March 31, 1996, our revenues for fiscal year 1996 totaled \$445.4 million, compared with \$431.3 million for fiscal 1995.

During the year, we recorded nonrecurring charges of \$27.6 million, principally related to the acquisition of Delrina Corporation. The net loss for the year, after acquisition and other nonrecurring expenses, was \$0.76 per share. Excluding one-time charges and Delrina preacquisition losses, our operations showed a profit of \$35.3 million.

Models of efficiency.

A good company seeks every opportunity to improve its business processes, and Symantec in fiscal 1996 identified two areas in which focused, measured restructuring resulted in greatly streamlined and more highly-effective operations.

The first of these changes was to give a greater measure of autonomy to our business units. This new arrangement, in which each group is responsible for product definition and strategy—as well as profit and loss—has fostered a healthy sense of interdependence, as each group is encouraged to share

ideas and leverage the experiences of the others. Any such large-scale change is difficult, of course, but we are already seeing a greater synergy of effort across disciplines, better financial performance, and not least, the growth of our people in new and satisfying ways.

To help us better support our customers around the world, we also reorganized our sales force from what was essentially a domestic/international model to one that more accurately segments our markets into Europe, the Americas, Asia/Pacific, and Japan. This new model allows us greater flexibility and focus in understanding the different needs of our many and diverse customers, and enables us to be more responsive in supplying them with the products and solutions they require.

Growing markets, growing success.

In keeping with our strategy of providing users with best-of-breed products in high-growth categories, Symantec focused on several areas in fiscal 1996 that promised especially attractive opportunities. In November 1995, for example, we completed the acquisition of Delrina Corporation. As customers for Delrina's and Symantec's products had complementary needs, this strategic acquisition provided a merging of resources that now gives us an extremely strong, unified presence in the burgeoning communications arena.

By far the most visible product event of the past year was the Company's launch of Windows 95-specific utility products in conjunction with Microsoft's introduction of that operating system in August 1995. To help make the migration to Windows 95 as seamless as possible for users, Symantec undertook the most ambitious internal product and marketing development effort in the Company's history. Under the theme "From Day One," we began working in 1993 with Microsoft and our reseller and end-user partners to develop software that would complement and enhance the new operating system.

In March 1995, a full five months before the Windows 95 launch, we released a highly successful preview version of our Norton Utilities for Windows 95 software. And on August 28th, two weeks before the operating system's worldwide debut, our Norton Utilities, Norton AntiVirus, and Norton Navigator products were available in 6 languages.

In the area of network utilities, we redoubled our efforts to understand the special needs of our corporate customers. This led us to commit additional resources to those products that have demonstrated success in this segment, such as our Norton Administrator for Networks. In fiscal 1996, the Company reconfigured this product into easier-to-use, easier-to-deploy management suites and acquired technology that enabled us to add to our offerings. In addition, we entered into strategic relationships with such companies as Hewlett-Packard, Mitsui, Computer Associates, and Cheyenne to provide our customers with complete network management solutions. At the beginning of fiscal year 1997, we acquired Fast Track, Inc., to provide a server management component to these solutions.

New products, new opportunities.

During the year, we also introduced our Symantec Café for Windows and Macintosh, the first comprehensive development environment for building Web applets based on Sun's Java programming language. As a programmer myself, I am particularly gratified to see the success of this product, as it enables developers to build useful, creative applications for this dynamic new platform. We intend to sustain this early presence in the Internet arena with continuing enhancements to Café, as well as, in the longer term, with Internet-enabled components for many of our applications.

Finally, in fiscal 1996 we explored and focused on a market that represents the most exciting new opportunity Symantec has yet encountered: that of the home and small-office computer user. With computing becoming ever more accepted and pervasive, we are witnessing a true sea change in the way that people relate to the information all around them—the way they locate it, the way they access it, and the way they adapt it to their purposes.

With this new paradigm has come a growing need to educate people on how to get the most from their investments in technology, while at the same time protect themselves against the kind of troubles—some routine, some serious—that are part of the computing experience. To accomplish this, over the past 12 months we devoted a significant portion of our marketing efforts to better explaining the benefits of products such as Norton Utilities and Norton AntiVirus to this new user.

As the PC begins to fulfill its promise of becoming a household appliance—in a truly mass market—Symantec is committed to giving customers the tools they need to be in total control of their computing

experience. We're gratified with the success that our products and system solutions have enjoyed in the market during the past year. Each product has been re-evaluated from the consumer's viewpoint, to ensure that it delivers exactly what our users want and need—whether those users are tried-and-true Symantec loyalists or brand-new, somewhat-wary, first-time computer buyers.

These efforts to understand our customers, even as their needs evolve in today's dynamic PC market, have always been a hallmark of our Company and will continue to drive our development efforts.

Goals for 1997.

This year, we have set ambitious goals for the Company. Far from resting on the laurels of being a successful, \$400 million company, we want to aggressively grow our organization to the next level. This means focusing our efforts in several key areas: maintaining and developing our market leadership in such emerging segments as home computing and the Internet; becoming a more global corporation through an increased understanding of our partners' and customers' needs around the world; and continuing to improve our operational effectiveness using advanced technologies, organizational efficiencies, and the talents of bright, motivated people.

I look forward to reporting to you on our progress throughout what promises to be an exciting year ahead. And as always, I thank you for your ongoing support.

Sincerely,

A handwritten signature in dark ink, appearing to read "Gordon E. Eubanks, Jr.", written in a cursive style.

Gordon E. Eubanks, Jr.

President and Chief Executive Officer

The following Report contains forward looking statements that are subject to significant risks and uncertainties. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward looking statements contained in this Report. Readers should pay particular attention to the risk factors described in the section of this Report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers should carefully review the risk factors described in the other documents the Company files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K as filed by Symantec Corporation on June 26, 1996.

Welcome to the neighborhood.

After 20 years, the personal computer has finally come home.

From its debut as a hobbyist machine in the circles of a few dedicated enthusiasts to its ultimate integration into corporate America, the humble PC has profoundly changed the way most of us think and work. And now, with an estimated 33%¹ of U.S. households owning one or more of these machines, the PC is finally beginning to make its mark on the folks down the street.

At Symantec, we've been with the PC virtually from the start, supplying productivity, communication, and utility software to help users get the most from their computers. Our heritage as a PC software developer has always encompassed an intimate knowledge of desktop users, and of the kinds of tools they need to keep their systems working at peak efficiency. Today, as the computer comes home to a broader audience, we're leveraging this knowledge to help these new users feel more comfortable with, and in better control of, their computing experiences.

To this end, Symantec in fiscal 1996 invested heavily in developing marketing activities that addressed the specific concerns of new users. We initiated, for example, a highly successful program that communicated through mainstream consumer and business media basic tips and techniques for home PC operation and maintenance. Just as we know we should change our car's oil every 3,000 miles, we also should know

about certain techniques—such as backing up files and protecting against viruses—that keep our computers and data in optimum shape.

This is especially true as the emergence of the Internet offers new ways to transmit not only data, but also, unfortunately, viruses. Although we may be vigilant ourselves, we still need to practice “defensive computing” in our daily lives.

Symantec's Peter Norton Group has been at the forefront of the Company's effort in this area, with our industry-leading *Norton Utilities* and *Norton AntiVirus* products. These powerful programs enable users to perform basic diagnostic and repair functions through simple, unintimidating interfaces that shield users from complex, underlying operations. With 70%² of the U.S. market, and 53%² of the market outside the U.S., *Norton AntiVirus* is the program of choice in the anti-virus category, as is *Norton Utilities* in the broader utilities category.

Through ongoing enhancements in these and other utility programs, Symantec will continue to ensure that the Company's products remain synonymous with the needs of basic, everyday computing. Welcome home.

1. Computer Intelligence InfoCorp, January 1996

2. International Data Corp, 1995

It's not just for business anymore; the PC is now at home anywhere.
And so is Symantec software.



If you had to share information in 1996,
the best place to be was at a PC
running Symantec communications software.



Projecting our voices in new directions.

While the personal computer has already been many things in its brief lifetime—number cruncher, writing instrument, artistic tool, to name a few—it is now evolving into what may be its ultimate destiny: the personal communicator. For whether the PC is at home, on our office desktops, in our laps, or eventually on our wrists, it is empowering us to make ourselves heard in brand-new ways.

At Symantec, we continue to provide the software that is enabling this historic transition to occur. From remote-computing products to contact-management software to new communications suites, we are offering users ever more powerful and flexible ways to share ideas and information.

Nowhere is this commitment more evident than in our new Delrina products. By allowing users to fax simply and reliably from a desktop computer, to use familiar electronic forms to automate an enterprise-wide business process, and to access the Internet in powerful yet unintimidating ways, our *WinFax Pro*, *FormFlow*, and Internet-enabled products, respectively, afford people a newfound flexibility to be more productive—and communicative—than they ever thought possible.

Today, a growing number of business users also need this kind of communication when they're away from the office. Using notebook computers to prepare presentations and manage

their activities, they still need to remain connected to the office. Symantec's market-leading *pcANYWHERE* software provides this vital link, allowing users instant access to remote applications, files, email, and even printers. And with the introduction in November 1995 of Windows 95 and Windows NT versions, an increasing number of people are able to make these contacts no matter where they are.

To help them stay in touch, Symantec's award-winning *ACT!* software integrates a full-featured contact database with a powerful scheduling function to enable users to manage all of their communications—from storing detailed records of business conversations to maintaining a list of upcoming meetings to preparing high-quality documents and reports. The most recent version of *ACT!* for Windows will support screen synchronization in concert with the phone company's Caller ID capability, so users can have contact information on their monitors instantly—even before answering the phone.

All of Symantec's efforts in communications software have a common objective: to help users make their voices heard. Anytime. Anywhere. By whatever means available.

Working hard to make it easy.

By handling more complex applications and increasing amounts of information, today's new 32-bit operating systems are beginning to fulfill their promise of making things easier and more reliable for PC users. But migrating to more advanced systems such as Microsoft's Windows 95 and Windows NT continues to pose challenges for both individuals and corporations alike. In anticipation of this, Symantec delivered a host of new products and tools in fiscal 1996, on both platforms, to help users make the transition easier.

Working closely with Microsoft, Symantec developed three powerful products for the launch of Windows 95 that complemented and enhanced the operating system's utility features. For example, *Norton Utilities for Windows 95*—the market's only 32-bit continuous system-protection and data-recovery system—gave users the means to thoroughly analyze and repair virtually any problem on their disks. Equally important, the program didn't require users to know how or even when to use it; its modules work in the background, automatically monitoring all vital system components, and alerting the user to any problems.

Similarly, *Norton Navigator* improved the user's experience with a host of highly valuable file management features not found in Windows 95, such as index-based searching for speedy access to programs and information. And, with the

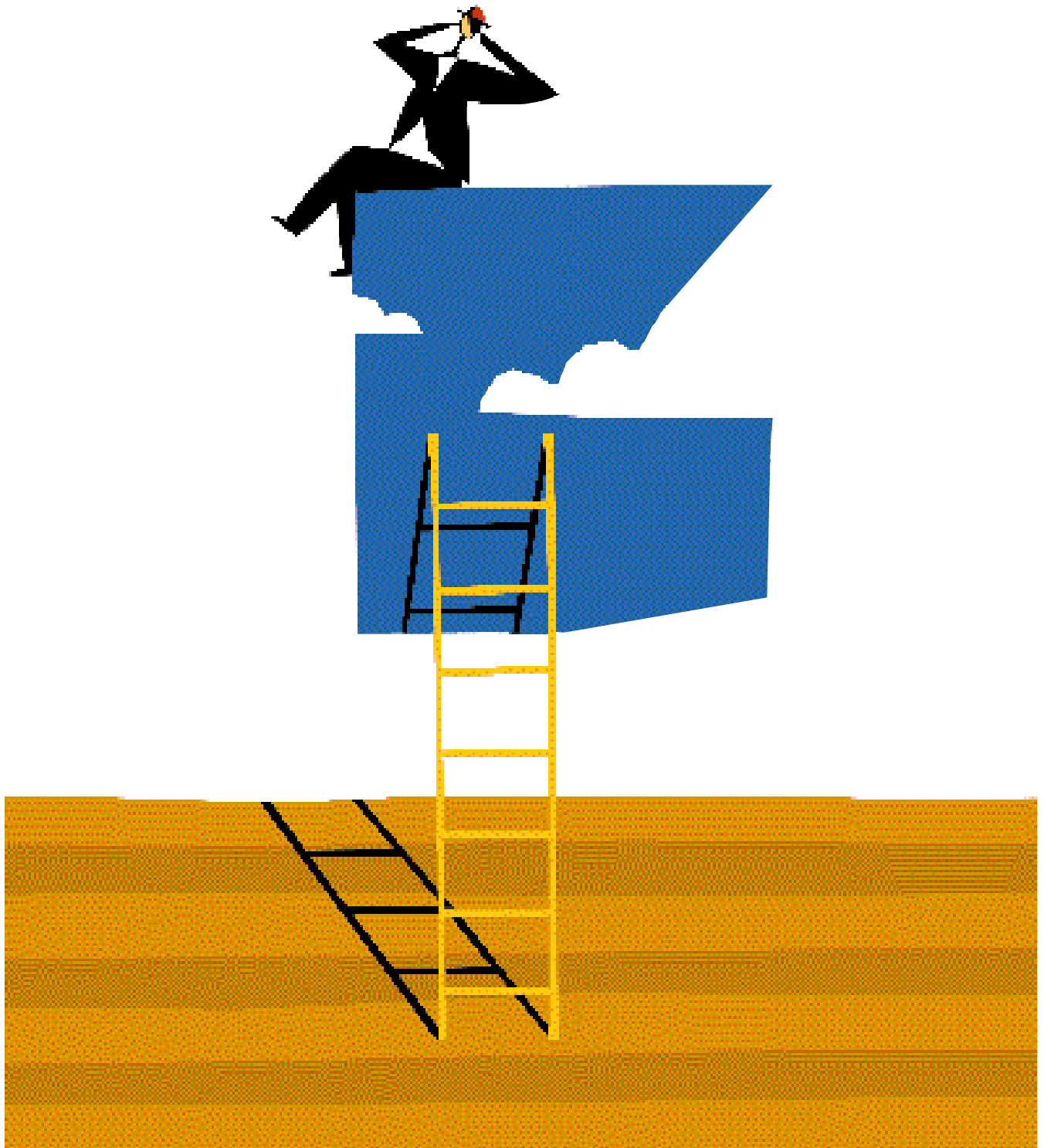
absence of a virus-protection component in the new operating system, Symantec's *Norton AntiVirus* provided complete, 32-bit detection and removal. Later in the year, the Company introduced versions of other Symantec products for Windows 95, including *pcANYWHERE*, and will continue to do so to enhance this new platform's environment.

For many corporate users, a more logical choice for departmental or enterprise-wide PC operating systems was Windows NT. These users, however, still had the same need for tools that would offer the security and management features they were used to on their larger systems. Symantec's highly successful *Norton NT Tools* fulfilled this role, furnishing an essential set of proven utilities to detect and remove viruses, manage files, and continuously monitor and view key system information.

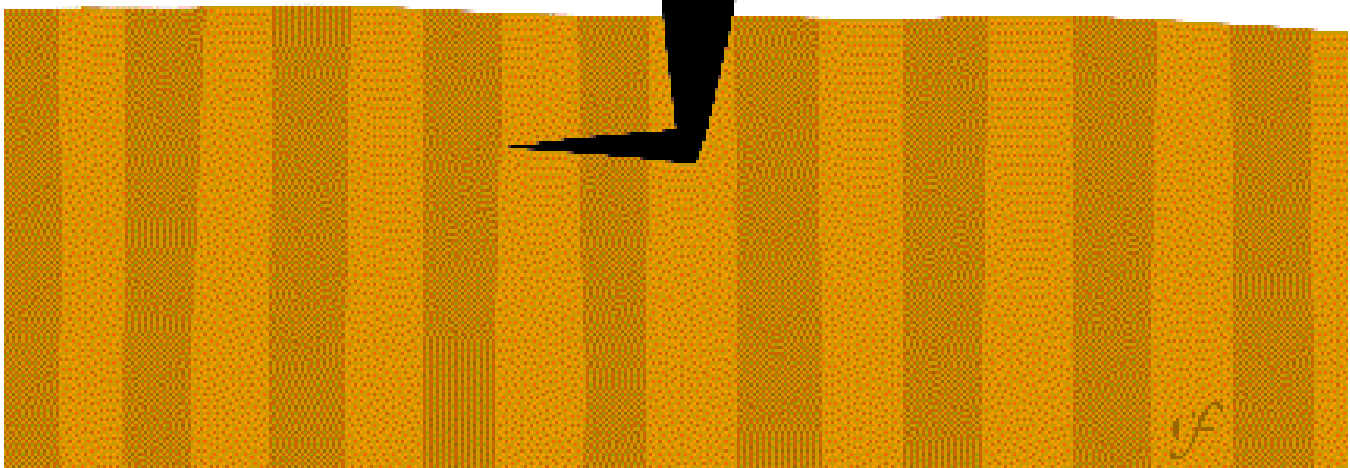
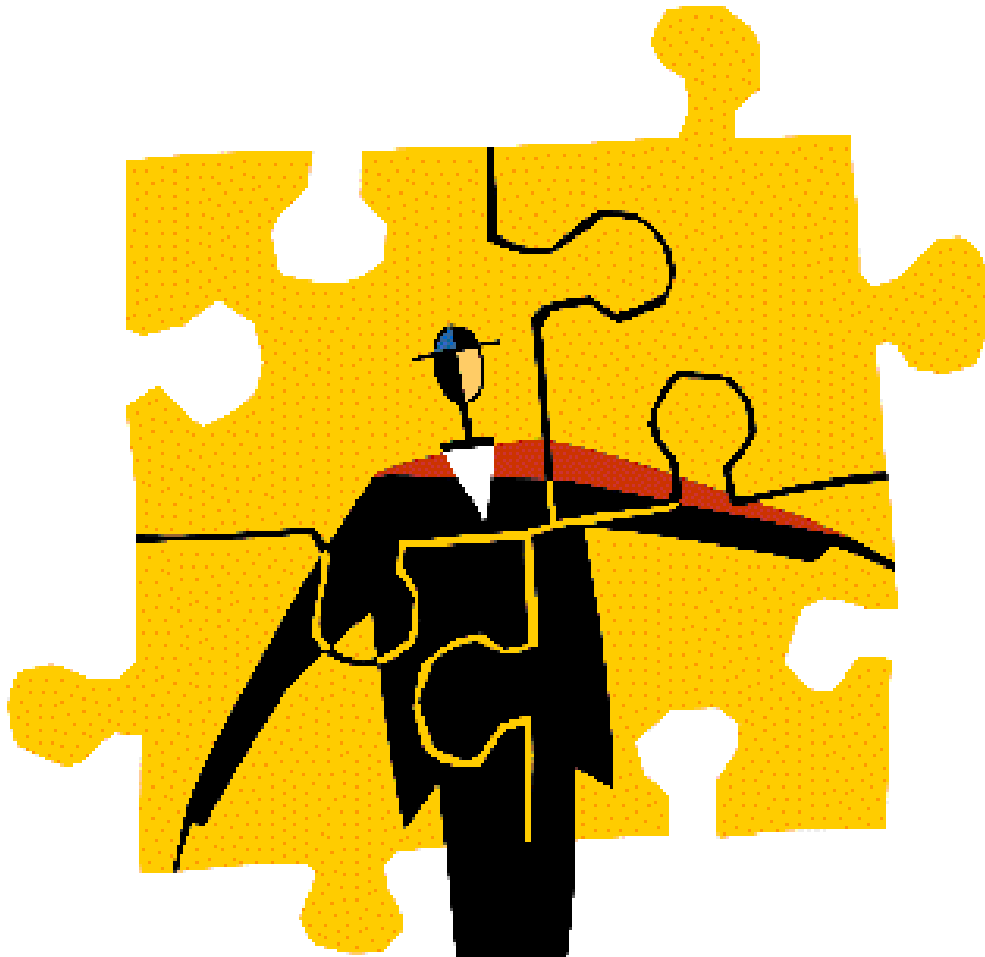
With the growing acceptance of the NT operating system, and the considerable trust and reputation provided by the Norton name, Symantec's *Norton NT Tools* promises a significant entry for the Company into what is expected to be a \$28 billion Windows NT market by 1998.

But whatever the size of the market, Symantec is committed to keeping the user experience easy, even as operating systems become more complex.

In 1996, we helped users as they moved up to the new,
more powerful 32-bit operating systems.



In the past 12 months, we put network administrators
in their proper place: at the center of things.



One way to look at many ways to connect.

The tide has finally begun to turn. The decentralization of corporate and departmental computing that resulted from the virtually unfettered growth of PCs has now slowly begun to yield administrative power back to its proper stewards: the network administrators.

There was only one way that this could happen: through the framework of a dedicated architecture that supported a distributed, heterogeneous computing environment, with an underlying mechanism for centralized control. At Symantec, fiscal 1996 saw the implementation of the final phase of our Norton Enterprise Framework, a comprehensive, five-year effort to deliver just such an architecture for providing integrated, platform-independent, centralized network administration solutions.

The resulting benefits for users during the year were many. Not the least of these was the introduction of a range of network management products, including our new, low-cost *Norton Administrator Suite-Essential Edition*. *Norton Administrator Suite* provides a single, integrated interface for a variety of network management components in smaller LAN environments, such as hardware and software inventory, software distribution, software-license metering, and more. A premier edition of the program, for managing larger LANs and WANs, is in development and expected to be released in fiscal 1997.

Common user interface elements and a common applications database are also the foundation for our new *Norton Administrator for Networks (NAN)*, a highly popular program that provides a scalable LAN-to-WAN solution for larger networks. Additionally, the Company announced plans to integrate NAN with Hewlett-Packard's HP OpenView for Windows, the leading network management platform, and HP OpenView for UNIX. Together, these solutions account for the industry's largest base of network administration environments.

In fiscal 1996, the Company pursued other, similar types of strategic relationships and acquisitions in the area of network control where the offerings of those companies complemented our own. In February 1996, for example, we announced our intent to integrate Cheyenne Software's backup product ARCserve into our *Norton Administrator Suite*. And in May 1996, we acquired Fast Track, Inc., to integrate its Exposé server management product with our product offerings.

All of these actions have helped to further coalesce Symantec's network solutions into a single, unified structure within the foundation of the Norton Enterprise Framework. Scalable, open, and compatible, these products are the result of years of investment in better understanding our network customers—and then connecting with them.

www.growth.explosive

Ten years ago, the typical information repository was a small drive on a user's desk. Today, thanks to the Internet, it is virtually the entire universe.

Unlike companies that are merely riding the current Internet wave, Symantec continues to be an integral part of it. In fiscal 1996, we were active on several online fronts, perhaps none more significant than our efforts to bring forth *Symantec Café*, the first Windows-based integrated development environment devoted exclusively to Sun Microsystem's Java programming language.

Based on our award-winning *Symantec C++* development environment, *Symantec Café*—our visual Java development and debugging tools—provides substantial enhancements to Sun's Java Development Kit. With *Café*, programmers can create programs that add interactivity to their Web pages. Or, they can create standalone applications such as corporate Intranet pages that can then be delivered to any Java-supported environment without recompilation.

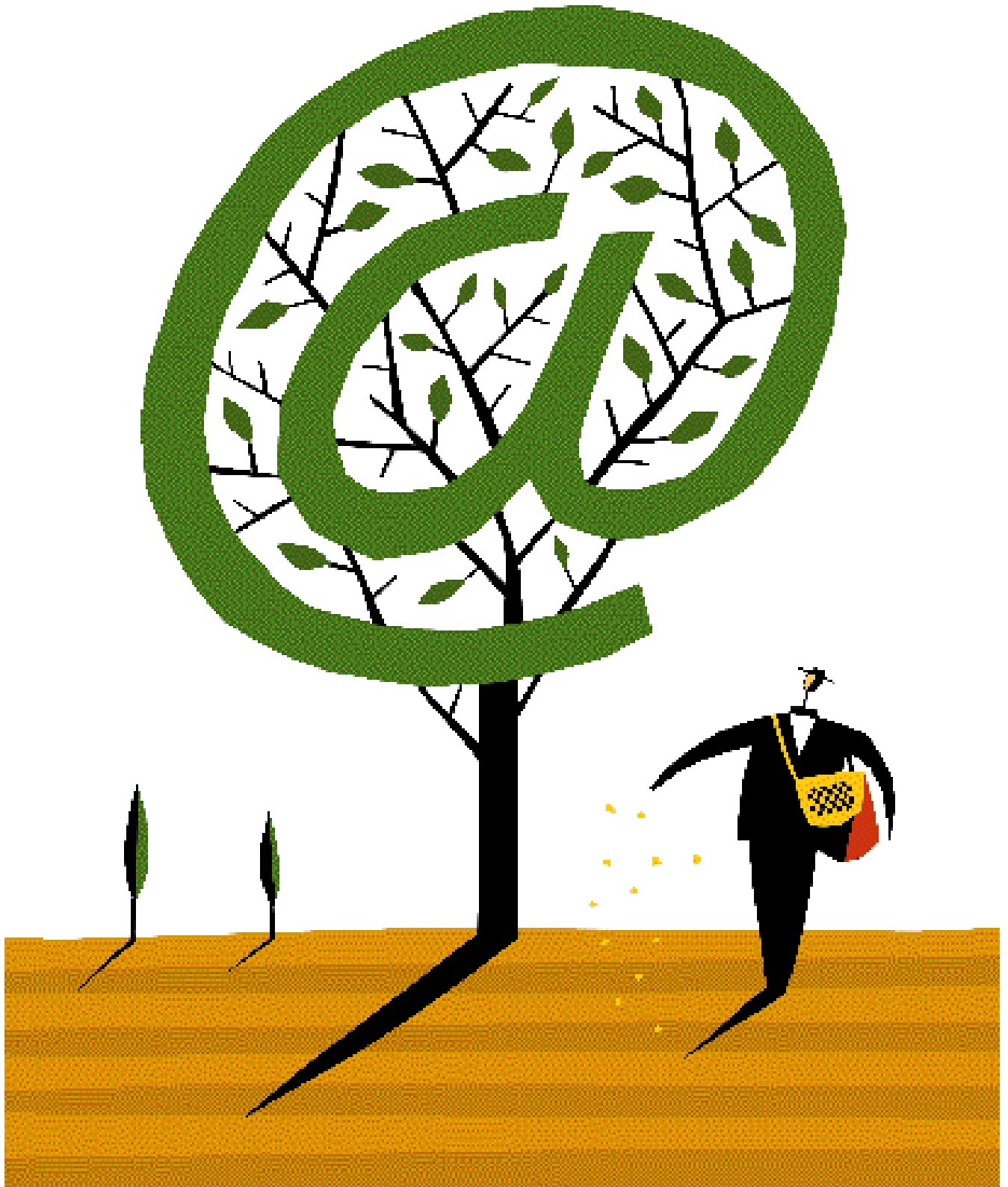
Café's platform independence, along with the ability of Java applications to communicate over the Internet, has created an explosion of interest on the part of active developers on all platforms. In recognition of the huge proportion of Web development performed on the Macintosh, the Company in April 1996 introduced *Symantec Café* for Macintosh.

The growing popularity of the World Wide Web has, however, been accompanied by an increase in the infection rate of client systems from viruses traveling over the Internet. To address this, the latest version of our Norton AntiVirus software will offer free, automatic virus updates over the Internet. Additionally, our Symantec AntiVirus Research Center has developed the first native-Java virus scanner for Java applets sent over the Internet, as well as an in-house automation technology that can be used to analyze, replicate, detect, and define a large subset of the most common computer viruses.

The new Web platform also represents a significant opportunity for Symantec in the emerging area of online software distribution. Although we will not see the end of the retail package anytime soon, more and more customers are demanding the ability to purchase software directly over the Internet. With our expertise in distributing utilities over networks, we are well positioned to provide the products and services, such as automatic updating, that will enable and enhance this new capability.

In the near future, we expect most Symantec products to have a Web-based component to facilitate their smooth integration into this new medium. Until then, we will continue to set the pace not only in online development, but also in helping to define the new dynamics of personal computing.

The message is the medium,
and Symantec is helping people write it.



SYMANTEC PRODUCTS

ADVANCED UTILITIES

- The Norton Utilities®
- The Norton Utilities® for Windows 95
- The Norton Utilities® Administrator
- The Norton Navigator™ for Windows 95
- The Norton Commander®
- The Norton Commander® for Windows 95
- The Norton Desktop™
- The Norton Desktop™ Administrator
- PC Tools®
- MacTools® Pro
- The Norton NT Tools™
- SuperDoubler™
- Suitcase™
- XTreeGold™

SECURITY UTILITIES

- The Norton AntiVirus®
- The Norton AntiVirus® for NetWare
- The Norton AntiVirus® for Windows 95
- Central Point Antivirus™
- Central Point Antivirus™ NLM
- Symantec AntiVirus for Macintosh (SAM®)
- Symantec AntiVirus for Macintosh (SAM®) Administrator
- The Norton Backup®
- The Norton DiskLock®
- The Norton DiskLock® Administrator
- Norton Your Eyes Only™
- Norton Your Eyes Only™ Administrator

FAX

- WinFax® PRO
- WinFax® PRO for Windows 95
- WinFax® PRO for Networks
- WinFax® Lite
- DosFax® Lite
- DosFax® PRO
- Delrina FaxPRO™ for Macintosh
- Delrina NET SatisFAXtion™

NETWORK/COMMUNICATIONS

UTILITIES

- The Norton pcANYWHERE®
- The Norton pcANYWHERE32®
- The Norton pcANYWHERE® Access Server
- The Norton Administrator™ for Networks
- The Norton Administrator™ Suite—Essential Edition
- WinComm® PRO
- WinComm® for Windows 95
- Delrina® CommSuite™
- Delrina® CommSuite™ for Windows 95
- Delrina® CommSuite™ for Networks
- Expose™
- Open Agent for Windows NT™

CONTACT MANAGEMENT

- ACT!® for Lotus Notes
- ACT! Mobile Link™

DEVELOPMENT TOOLS

- Symantec® C++
- Symantec® C++ for Windows 95 & NT
- Symantec Café™ for Macintosh
- Symantec Café™ for Windows 95
- FormFlow®
- THINK C™

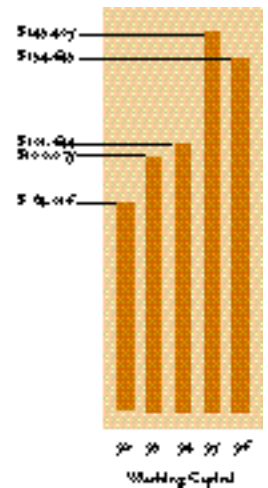
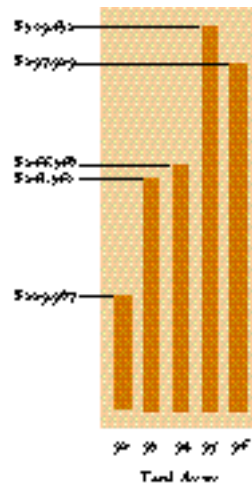
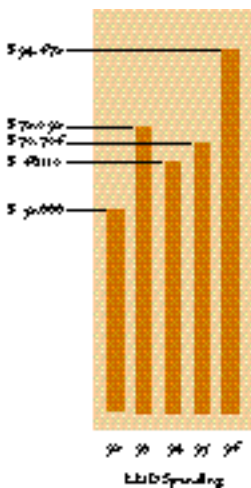
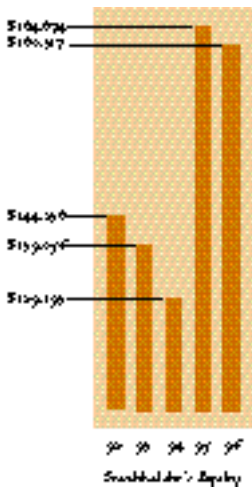
CONSUMER/PRODUCTIVITY

APPLICATIONS

- Q&A®
- CyberJack™

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Selected Financial Data

The following selected financial data is qualified in its entirety by and should be read in conjunction with the more detailed consolidated financial statements and related notes included elsewhere herein. During fiscal 1996, Symantec acquired Delrina Corporation ("Delrina") in a transaction accounted for as a pooling of interests. All financial information has been restated to reflect the combined operations of Symantec and Delrina. Additional acquisitions accounted for as poolings of interest include Intec Systems Corporation, Central Point

Software, Inc. and SLR Systems, Inc. in fiscal 1995, Fifth Generation Systems, Inc. and Contact Software International, Inc. during fiscal 1994, Certus International Corporation, MultiScope, Inc., The Whitewater Group, Inc. and Symantec (UK) Ltd. during fiscal 1993, and Zortech Ltd., Dynamic Microprocessor Associates, Inc. and Leonard Development Group in fiscal 1992. The Company has never paid cash dividends on its stock with the exception of distributions to stockholders of acquired companies.

Five Year Summary

<i>(In thousands, except net income (loss) per share)</i>	Year Ended March 31,				
	1996	1995	1994	1993	1992
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$ 445,432	\$ 431,268	\$ 403,206	\$ 382,911	\$ 381,573
Acquisition, restructuring and other expenses	27,617	9,545	56,094	23,836	9,994
Operating income (loss)	(48,279)	40,286	(47,290)	(59,792)	37,695
Net income (loss)	(39,783)	33,409	(44,421)	(46,304)	24,543
Distributions to stockholders					
of acquired companies	—	—	—	162	1,986
Net income (loss) per share - primary	\$ (0.76)	\$ 0.65	\$ (0.96)	\$ (1.09)	\$ 0.58
Net income (loss) per share - fully diluted	\$ (0.76)	\$ 0.61	\$ (0.96)	\$ (1.09)	\$ 0.58
Shares used to compute net					
income (loss) per share - primary	52,664	52,181	46,270	42,624	42,242
Shares used to compute net					
income (loss) per share - fully diluted	52,664	56,491	46,270	42,624	42,432

<i>(In thousands)</i>	March 31,				
	1996	1995	1994	1993	1992
BALANCE SHEET DATA:					
Working capital	\$ 134,643	\$ 143,405	\$ 101,644	\$ 100,075	\$ 84,016
Total assets	297,929	309,632	266,368	261,360	229,987
Long-term obligations, less current portion	15,393	25,413	25,967	28,152	4,866
Stockholders' equity	180,317	184,874	129,193	139,056	144,238

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Factors that may Effect Future Results

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements contained in the following discussion. Such factors and risks include, but are not limited to, competition in the application and enterprise software industry, including price and product feature competition, the introduction of new products by existing or new competitors, the economic environment, including government and corporate spending patterns, dependence on distributors and the emergence of new distribution channels, including the Internet, consumer acceptance of operating systems and the positioning of the Company's products in these markets, the timing and consumer acceptance of new or upgraded products, the ability to develop, market, support and acquire new products in an environment of rapidly changing technology and operating systems and the cost of such activities, acquisition risks, including increased costs and uncertain benefits and the ability to effectively integrate operations of acquired companies and manage growth, seasonality in the retail software market in Europe and risks associated with international operations, including currency conversion, taxes and other legal restrictions. The release and subsequent customer acceptance of current or upgraded versions of Windows 95 and Windows NT are particularly important events that increase the uncertainty and will likely increase the volatility of Symantec's results over the next twelve months. In addition, the Company operates in a complex legal environment where, for example, an increasing number of patents are being issued that are potentially applicable to software, and allegations of patent infringement are becoming increasingly common in the software industry. Readers should carefully review the risk factors described in the other documents the Company files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K as filed by Symantec Corporation on June 26, 1996.

Overview

Symantec develops, markets and supports a diversified line of application and system software products designed to enhance individual and workgroup productivity as well as manage networked computing environments. Founded in 1982, the Company has offices in the United States, Canada, Asia, Australia, Europe and Latin America.

The Company's earnings and stock price have been and may continue to be subject to significant volatility, particularly on a quarterly basis. Symantec has previously experienced shortfalls in

revenue and earnings from levels expected by securities analysts, which has had an immediate and significant adverse effect on the trading price of the Company's common stock. This may occur again in the future. Additionally, as a growing percentage of the Company's revenues are generated from network software products, which are frequently sold through site licenses that often occur late in the quarter, the Company may not learn of revenue shortfalls until late in the fiscal quarter, which could result in an even more immediate and adverse effect on the trading price of the Company's common stock.

Furthermore, the Company participates in a highly dynamic industry, which often results in significant volatility of the Company's common stock price. In particular, the impact of, and investors' assessment of the impact of, the market's acceptance and adoption rate of Microsoft's operating systems, Windows 95 and Windows NT, on Symantec's business may result in significant increases in the volatility of Symantec's stock price. In addition, the trend towards server-based applications in networks and over the Internet could have a material adverse effect on sales of the Company's desktop-based products which may not be offset by sales of the Company's network-based products.

During the last three fiscal years, Symantec has acquired the following companies:

Companies Acquired	Date Acquired	Shares of Symantec Common Stock Issued	Acquired Company Stock Options Assumed
Delrina Corporation ("Delrina")	Nov. 22, 1995	13,684,174*	1,271,677
Intec Systems Corporation ("Intec")	August 31, 1994	133,332	—
Central Point Software, Inc. ("Central Point")	June 1, 1994	4,029,429	707,452
SLR Systems, Inc. ("SLR")	May 31, 1994	170,093	—
Fifth Generation Systems, Inc. ("Fifth Generation")	Oct. 4, 1993	2,769,010	—
Contact Software International, Inc. ("Contact")	June 2, 1993	2,404,019	232,589

* Includes Delrina exchangeable stock that is traded on the Toronto Stock Exchange. Delrina stockholders received Delrina exchangeable stock in exchange for Delrina common stock at a rate of 0.61 per share. Delrina exchangeable stock may be converted into Symantec common stock on a one-for-one basis at each stockholder's option.

All of these acquisitions were accounted for as poolings of interest. Accordingly, all financial information has been restated to reflect the combined operations of these companies and Symantec with the exception of Intec and SLR, which had results of operations that were not material to Symantec's consolidated financial statements.

Symantec has completed a number of acquisitions and expects to acquire other companies in the future. While the Company

believes that previous acquisitions were in the best interest of the Company and its stockholders, acquisitions involve a number of special risks, including the diversion of management's attention to assimilation of the operations and personnel of the acquired companies in an efficient and timely manner, the retention of key employees, the difficulty of presenting a unified corporate image, the coordination of research and development and sales efforts and the integration of the acquired products.

The Company has lost certain employees of acquired companies whom it desired to retain, and, in some cases, the assimilation of the operations of acquired companies took longer than initially had been anticipated by the Company. In addition, because the employees of acquired companies have frequently remained in their existing, geographically diverse facilities, the Company has not realized certain economies of scale that might otherwise have been achieved.

Symantec typically incurs significant acquisition expenses for legal, accounting and financial advisory services, the write-off of duplicative technology and other expenses related to the combination of the companies. These expenses may have a significant adverse impact on the Company's future profitability and financial resources.

Results of Operations

The following table sets forth each item from the consolidated statements of operations as a percentage of net revenues and the percentage change in the total amount of each item for the periods indicated.

	Year Ended March 31,			Period-to-Period Percentage Increase (Decrease)	
	1996	1995	1994	1996 Compared to 1995	1995 Compared to 1994
	100%	100%	100%		
Net revenues	100%	100%	100%	3%	7%
Cost of revenues	25	21	25	20	(11)
Gross margin	75	79	75	(1)	13
Operating expenses:					
Research and development	21	17	17	34	4
Sales and marketing	52	44	47	21	0
General and administrative	7	7	9	12	(14)
Acquisition, restructuring and other non-recurring expenses	6	2	14	189	(83)
Total operating expenses	86	70	87	28	(14)
Operating income (loss)	(11)	9	(12)	*	*
Interest income	2	1	1	33	132
Interest expense	—	—	—	(38)	(4)
Other income (expense), net	(1)	—	—	*	(39)
Income (loss) before income taxes	(10)	10	(11)	*	*
Provision (benefit) for income taxes	(1)	2	—	*	*
Net income (loss)	(9)%	8%	(11)%	*	*

* Percentage change is not meaningful.

Net Revenues

Net revenues increased 3% from \$431.3 million in fiscal 1995

to \$445.4 million in fiscal 1996. During fiscal 1996, the Company experienced increased net revenues from its Network/Communications Utilities and Security Utilities products, offset in part by decreased revenues from its Fax and Consumer/Productivity Application products. In addition, Symantec experienced an increase in net revenue from the introduction of several Windows 95 products; however, this increase was substantially offset by a decrease in net revenues related to Windows 3.1 and DOS products.

Net revenues for fiscal 1996 also include \$7.2 million of international net revenue previously deferred by Central Point. In March 1994, due to concerns regarding Central Point's long-term viability and the announced acquisition of Central Point by Symantec, Central Point was unable to reasonably estimate future product returns from its distributors and resellers. In addition, there were high levels of inventory in the distribution channel that had been shipped into the channel prior to the acquisition. Central Point believed that there was a high risk of this inventory being returned. In accordance with Statement of Financial Accounting Standards No. 48, Central Point revenue and the related cost of revenue for fiscal 1994 for software shipments to Central Point's distributors and resellers was deferred until sold by the distributors or resellers to end users. Since the acquisition, Symantec analyzed sell-through and product return information related to the Central Point products to determine when such products were sold-through. Symantec believes its sales and marketing programs were successful in selling the remaining deferred inventory to end users. Accordingly, in the quarter ended June 30, 1995, Symantec was able to estimate the remaining Central Point product returns in the international distribution channel and, as a result, recognized approximately \$7.2 million of international net revenues and \$1.7 million of international cost of revenues previously deferred by Central Point.

Net revenues increased 7% from \$403.2 million in fiscal 1994 to \$431.3 million in fiscal 1995. The increase in fiscal 1995 net revenues from the prior year was principally due to an increase in unit sales of Fax and Communications software products resulting from the release of new and upgraded products in these categories, as well as an increase in site license and distribution revenues, which was partially offset by a decrease in upgrade and OEM revenues. The increase in site license revenues during fiscal 1995 was primarily due to the release of several new network products which were generally sold through site licenses. The decrease in upgrade revenues was primarily due to several products which were intentionally not upgraded in anticipation of the release of products designed for the Windows 95 operating systems.

In fiscal 1994, the deferral of Central Point revenue discussed above resulted in a decrease in North American net revenues of approximately \$5.0 million and international net revenues of approximately \$10.0 million and an increase in the fiscal 1994 loss before provision for income taxes of approximately \$12.3 million. As a result of Symantec's further analysis of returns related to

the Central Point products during fiscal 1995, in the March 1995 quarter Symantec was able to assess the remaining Central Point product returns in the North American distribution channel and, as a result, recognized approximately \$3.0 million of North American net revenues previously deferred by Central Point.

Net revenues from international sales grew from approximately \$116.4 million in fiscal 1994 to \$134.6 million in fiscal 1995 and to \$142.2 million in fiscal 1996 and represented 29%, 31% and 32% of net revenues, respectively. The increase in international net revenues from fiscal 1995 to fiscal 1996 resulted primarily from increased Delrina international net revenues and growth in Symantec's Asia/Pacific region, product upgrade sales of international versions of Symantec's Windows 95 products and recognition of the Central Point deferred revenue discussed above. The increase in international net revenues from fiscal 1994 to fiscal 1995 was largely due to the favorable impact of the change in foreign currency exchange rates during fiscal 1995.

Enhanced product releases typically result in an increase in net revenues during the first three to six months following their introduction due to purchases by existing users, usually at discounted prices, and initial inventory purchases by Symantec's distributors. In addition, between the date Symantec announces a new version or new product and the date of release, distributors, dealers and end users often delay purchases, cancel orders or return products in anticipation of the availability of the new version or new product.

The Company's pattern of revenues and earnings may also be affected by a phenomenon known as "channel fill." Channel fill occurs following the introduction of a new product or a new version of a product as distributors buy significant quantities of the new product or version in anticipation of sales of such product or version. Following such purchases, the rate of distributors' purchases often declines in a material amount, depending on the rates of purchases by end users or "sell-through." The phenomenon of channel fill may also occur in anticipation of price increases or in response to sales promotions or incentives, some of which may be designed to encourage customers to accelerate purchases that might otherwise occur in later periods. Channels may also become filled simply because the distributors are unable to, or do not, sell their inventories to retail distribution or end users as anticipated. If sell-through does not occur at a sufficient rate, distributors will delay purchases or cancel orders in later periods or return prior purchases in order to reduce their inventories. Such order delays or cancellations can cause material fluctuations in revenues from one quarter to the next. The impact is somewhat mitigated by the Company's deferral of revenue associated with inventories estimated to be in excess of levels deemed appropriate in the distribution channel; however, net revenues may still be materially affected favorably or adversely by the effects of channel fill. Channel fill did not have a material impact on the Company's revenues in fiscal 1996, 1995 or 1994 but may have a material impact in future periods, especially in periods where a large number of new products are introduced.

Symantec believes that many of its customers are moving toward an enterprise-wide computing environment where more desktop personal computers will be interconnected into large local-area and wide-area networks administered by corporate MIS departments as well as the Internet. Symantec's entry into the enterprise software market is relatively new and, as a result, Symantec is beginning to compete with companies with which it has not previously competed. As a result, there is uncertainty regarding customer acceptance of the Company's products as Symantec has not been a major supplier in the enterprise market. These factors increase the uncertainty of forecasting financial results. While the Company expects the market's shift toward enterprise and Internet products to continue, there can be no assurance that the Company's enterprise products will be successful or will gain customer acceptance.

With the expansion to enterprise-wide computing systems markets, Symantec believes that it must continue to develop relationships with systems integrators and other third-party vendors that provide consulting and integration services to customers and deliver products developed for this market segment. Furthermore, the sales cycle with respect to enterprise products is lengthy and may be subject to integration and acceptance by the customer. In addition, a very high proportion of enterprise product sales are completed in the last few days of each quarter, in part because customers are able, or believe that they are able, to negotiate lower prices and more favorable terms. Each of these factors increases the risk that forecasts of quarterly financial results will not be achieved.

Enterprise products are frequently sold through site licenses where a license for multiple workstations is sold to a customer at a negotiated price. Desktop software products are generally sold through the distribution channel or directly to end-users. Enterprise product revenues are typically comprised of lower volume, high dollar site license transactions compared to desktop product revenues which are typically comprised of higher volume, low dollar pre-packaged product transactions. The prices of site licenses tend to vary based upon the individual products purchased, the number of units licensed and the number of workstations at the customer's site.

Price competition is significant in the microcomputer business software market and may continue to increase and become even more significant in the future, resulting in reduced profit margins. Should competitive pressures in the industry continue to increase, Symantec may be required to reduce software prices and/or increase its spending on sales, marketing and research and development as a percentage of net revenues, resulting in lower profit margins. In addition, aggressive pricing strategies of competitors in other software markets, some of whom have significantly more financial resources than Symantec, may cause the Company to further reduce software prices and/or increase sales and marketing expenses on a number of the Company's products. There was no material impact to net revenues resulting from changes in product pricing in fiscal 1996, 1995 or 1994.

Approximately 37% of the Company's net revenues in fiscal

1996 were from sales to two large distributors. These customers tend to make the majority of their purchases at the end of the fiscal quarter, in part because they are able, or believe that they are able, to negotiate lower prices and more favorable terms. This end-of-period buying pattern means that forecasts of quarterly and annual financial results are particularly vulnerable to the risk that they will not be achieved, either because expected sales do not occur or because they occur at lower prices or on less favorable terms to the Company. The Company's distribution customers also carry the products of Symantec's competitors, some of which have greater financial resources than the Company. The distributors have limited capital to invest in inventory, and their decisions to purchase the Company's products is partly a function of pricing, terms and special promotions offered by Symantec as well as by its competitors over which the Company has no control and which it cannot predict.

While Symantec's diverse product line has tended to lessen fluctuations in quarterly net revenues, these fluctuations have occurred recently and are likely to occur in the future. These fluctuations may be caused by a number of factors, including the timing of announcements and releases of new or enhanced versions of its products and product upgrades, the introduction of competitive products by existing or new competitors, reduced demand for any given product, seasonality in the retail software market in Europe, the market's transition between operating systems and the transition from a desktop PC environment to an enterprise-wide environment. These factors may cause significant fluctuations in net revenues and, accordingly, operating results.

The Company is devoting substantial efforts to the development of software products that are designed to operate on Microsoft's Windows 95 and/or Windows NT operating systems. Microsoft has incorporated advanced utilities including telecommunications, facsimile and data recovery utilities in Windows 95 and may include additional product features in future releases of Windows 95 or Windows NT that may decrease the demand for certain of the Company's products, including those currently under development. Should Windows 95 or Windows NT not achieve timely market acceptance, or should the Company be unable to successfully or timely develop products that operate under these operating systems, the Company's future net revenues and operating results would be immediately and significantly adversely affected. In addition, as the timing of delivery and adoption of many of Symantec's products is dependent on the adoption rate of these operating systems, which the Company and securities analysts are unable to predict, the ability of Symantec and securities analysts to forecast the Company's net revenues has been and will continue to be adversely impacted. As a result, there is a heightened risk that net revenues and profits will not be in line with analysts' expectations in the periods following the introduction of or upgrades to Windows 95 and Windows NT.

The length of Symantec's product development cycle has generally been greater than Symantec originally expected.

Although such delays have undoubtedly had a material adverse effect on Symantec's business, Symantec is not able to quantify the magnitude of net revenues that were deferred or lost as a result of any particular delay because Symantec is not able to predict the amount of net revenues that would have been obtained had the original development expectations been met. Delays in product development, including products being developed for Windows 95 or Windows NT, are likely to occur in the future and could have a material adverse effect on the amount and timing of future revenues. Due to the inherent uncertainties of software development projects, Symantec does not generally disclose or announce the specific expected shipment date of the Company's product introductions. In addition, there can be no assurance that any products currently being developed by Symantec, including products being developed for Windows 95 or Windows NT, will be technologically successful, that any resulting products will achieve market acceptance or that the Company's products will be effective in competing with products either currently in the market or introduced in the future.

During fiscal 1993, Symantec believes net revenues were adversely affected by an unexpected substantial price reduction in 486-based personal computers that caused a shift in customer spending from software to personal computer hardware. Symantec also believes that the shift was caused by the introduction of Windows 3.1, which required more computing capability. If the next class of personal computers, including those based on Intel's P6/Pentium Pro microprocessor or Motorola, Inc.'s Power PC, are also rapidly reduced in price, there may be another unexpected shift in customer buying away from software and Symantec's products, which could result in significantly reduced revenues and a material adverse effect on operating results. In addition, Windows 95 and Windows NT requires significantly more computer memory and hard disk space than Windows 3.1, and if there is a shift from software to hardware spending, there could be an adverse effect on the sales of computer hardware and software. Either of these events could result in significantly reduced net revenues and have a material adverse effect on Symantec's operating results. Symantec has noted that P6/Pentium Pro microprocessors have been reduced in price and are being marketed aggressively by Intel.

The Company estimates and maintains reserves for product returns. Symantec's return policy allows its distributors, subject to certain limitations, to return purchased products in exchange for new products or for credit towards future purchases. End users may return products through dealers and distributors within a reasonable period from the date of purchase for a full refund, and retailers may return older versions of products. Various distributors and resellers may have different return policies that may negatively impact the level of products which are returned to Symantec. Product returns occur when the Company introduces upgrades and new versions of products or when distributors order too much product. In addition, competitive factors often require the Company to offer rights of return for products that distributors

or retail stores are unable to sell. Symantec has experienced, and may experience in the future, significant increases in product returns above historical levels from customers of acquired companies after an acquisition is completed. Symantec prepares detailed analyses of historical return rates when estimating anticipated returns and maintains reserves for product returns. In addition to detailed historical return rates, the Company's estimation of return reserves takes into consideration upcoming product upgrades, current market conditions, customer inventory balances and any other known factors that could impact anticipated returns. Based upon returns experienced, the Company's estimates have been materially accurate. The impact of actual returns on net revenues, net of such provisions, has not had a material effect on the Company's liquidity as the returns typically result in the issuance of credit towards future purchases as opposed to cash payments to the distributors. However, there can be no assurance that future returns will not exceed the reserves established by the Company or that future returns will not have a material adverse effect on the operating results of the Company.

The Company's product return reserve balances typically fluctuate from period to period based upon the level and timing of product upgrade releases. Product return reserve balances at March 31, 1996 were higher than reserve balances at March 31, 1995. The increase was primarily related to the introduction of Symantec's Windows 95 products during the last three quarters of fiscal 1996, which had high sell-in volumes. The level of actual product returns and related product return reserves is largely a factor of the level of product sell-in (gross revenue) from normal sales activity and the replacement of obsolete quantities with the current version of the Company's product. As a result, gross revenues generally move in the same direction as product returns. Changes in the levels of product returns and related product return reserves are generally offset by changing levels of gross revenue and, therefore, do not typically have a material impact on reported net revenues.

The Company operates with relatively little backlog; therefore, if near-term demand for the Company's products weakens in a given quarter, there could be an immediate, material adverse effect on net revenues and on the Company's operating results.

Symantec maintains a research and development facility in Santa Monica, California that was damaged during the January 1994 earthquake in Southern California. Much of the Company's administration, sales and marketing, manufacturing and research and development facilities are located on the west coast of the United States. Future earthquakes or other natural disasters could cause a significant disruption to the Company's operations and may cause delays in product development that could adversely impact future revenues of the Company.

Also, Symantec's order entry department is located in Oregon, with shipments being made from a warehouse in California. Order entry and shipping is similarly separated in Europe. A disruption in communications between these facilities, particularly at the end of a fiscal quarter, would likely result in an unexpected

shortfall in net revenues and could result in an adverse impact on operating results.

During the March 1994 quarter, Symantec introduced a new product support program that provides a wide variety of free and fee-based technical support services to its customers. Symantec provides its customers with free support via electronic and automated services as well as 90 days complimentary free telephone support for certain of the Company's products. In addition, Symantec offers both individual users and corporate customers a variety of fee-based support options for certain of the Company's products, designed to meet their individual technical support requirements. Fee-based technical support services did not generate significant revenues in fiscal 1996, 1995 and 1994, and are not expected to generate material revenues in the near future.

Gross Margin

Gross margin represents net revenues less cost of revenues. Cost of revenues consists primarily of manufacturing expenses, costs for producing manuals, packaging costs, royalties paid to third parties under publishing contracts and amortization and write-off of capitalized software. Amortization of capitalized software, including amortization and the write-off of both purchased product rights and capitalized software development expenses, totaled \$19.1 million, \$13.4 million and \$20.5 million for fiscal 1996, 1995 and 1994, respectively. The significant increase in amortization and write-off of purchased product rights and capitalized software development expenses in fiscal 1996 over fiscal 1995 was the result of Symantec's decision to de-emphasize its continued development and marketing efforts related to certain products as well as Delrina's write-off of previously capitalized software development costs of software designed to operate on Windows 3.1. The decrease in such costs in fiscal 1995 from fiscal 1994 was due to the write-off of certain previously capitalized software costs by Central Point during fiscal 1994.

Gross margins decreased to 75% of net revenues in fiscal 1996 from 79% in fiscal 1995 and remained level with 75% in fiscal 1994. The decline in the gross margin percentage in fiscal 1996 compared to fiscal 1995 was due to an increase in the amortization and write-off of purchased product rights and capitalized software development expenses noted above and increased reserves related to Delrina products designed to operate on Windows 3.1, as well as other products de-emphasized by Symantec during fiscal 1996. The increase in the gross margin percentage in fiscal 1995 compared to fiscal 1994 was largely due to the growth in higher margin enterprise products, which are typically sold through site licenses, as well as Symantec's ability to manufacture Central Point products with a lower cost structure than Central Point. Due to reduced amortization and write-off of purchased product rights, Symantec believes that the gross margin percentage will increase to approximately 80% to 83% in Fiscal 1997 unless there is a significant change in Symantec's net revenues.

The microcomputer business software market has been subject

to rapid changes that can be expected to continue. Future technology or market changes may cause certain products to become obsolete more quickly than expected and thus may result in capitalized software write-offs and an increase in required inventory reserves and, therefore, reduced gross margins and net income. In addition, the modifications to computer software, including the correction of software bugs, may result in significant inventory rework costs, including the cost of replacing inventory in the distribution channel.

Research and Development Expenses

Research and development expenses increased 34% to \$94.7 million or 21% of net revenues in fiscal 1996 from \$70.7 million or 16% of net revenues in fiscal 1995 and was \$68.1 million or 17% of net revenues in fiscal 1994. The increase in research and development expenses in fiscal 1996 as compared to fiscal 1995 was primarily the result of increased product development efforts associated with Symantec's and Delrina's development of new Windows 95 products. The increase in research and development expenses in fiscal 1995 in absolute dollars as compared to fiscal 1994 was principally due to an increase in the number and scope of development projects undertaken by Delrina, including localization of products for international markets and new product development in anticipation of the launch of Windows 95, offset in part by savings from the consolidation of product development efforts resulting from the acquisition of Central Point.

Symantec believes increased research and development expenditures will be necessary in order to remain competitive. The Company expects research and development expenses to increase in dollar amount but may decline as a percentage of net revenues should net revenues increase more quickly than research and development expenses. While the Company believes its research and development expenditures will result in successful product introductions, including products being developed for Windows 95 and Windows NT, the uncertain outcome of software development projects means that increased research and development efforts will not necessarily result in successful product introductions due to technical difficulties, market conditions, competitive products and other factors, such as customer acceptance of new operating systems.

Research and development expenditures are charged to operations as incurred. Financial accounting rules requiring capitalization of certain software development costs have not materially affected the Company, except for amounts capitalized by Delrina prior to its acquisition by Symantec. Delrina did not capitalize any software development costs in fiscal 1996 and capitalized \$6.3 million and \$2.6 million in software development costs in fiscal years 1995 and 1994, respectively. The related amortization expense was \$5.6 million, \$4.0 million and \$1.9 million in fiscal 1996, 1995 and 1994, respectively.

Sales and Marketing Expenses

Sales and marketing expenses increased 21% to \$229.7 million

or 52% of net revenues in fiscal 1996 from \$190.4 million or 44% of net revenues in fiscal 1995 and from \$190.0 million or 47% of net revenues in fiscal 1994. The increase in sales and marketing expenses in fiscal 1996 as compared to fiscal 1995 was principally due to an increase in marketing development expenses and an increase in sales and marketing expenses primarily associated with the release of Symantec's Windows 95 products. The decrease in fiscal 1995 as a percent of net revenues as compared to fiscal 1994 was principally due to the elimination of duplicative sales organizations subsequent to the acquisition of Central Point, offset in part by increased sales and marketing expenses associated with Delrina's expansion in Europe.

Symantec believes substantial sales and marketing efforts are essential to achieve revenue growth and to maintain and enhance Symantec's competitive position. Accordingly, with the introduction of new and upgraded products, including products currently being developed for Windows 95 and Windows NT, Symantec expects the expenses associated with these efforts to increase in dollar amount and to continue to constitute its most significant operating expense. There can be no assurance that these increased sales and marketing efforts will be successful. Symantec believes that the Company's sales and marketing expenses may decrease as a percentage of net revenues in the near term following the high expenses associated with the launch of Windows 95 products but may increase as a percentage of net revenues should net revenues not increase.

General and Administrative Expenses

In fiscal 1996, general and administrative expenses increased in absolute dollars by 12% to \$32.7 million or 7% of net revenues from \$29.4 million or 7% of net revenues in fiscal 1995, and decreased from \$34.3 million or 9% of net revenues in fiscal 1994. The increase in general and administrative expenses in absolute dollars in fiscal 1996 as compared to fiscal 1995 was principally due to significant general and administrative expenses incurred by Delrina in the three month period ended September 30, 1995, as well as certain legal fees incurred by Delrina. In the fourth quarter of fiscal 1996, general and administrative expenses decreased to 5% of net revenues from 8% in the fourth quarter of fiscal 1995. This decrease resulted primarily from the elimination of duplicative general and administrative functions subsequent to the acquisition of Delrina. The decrease in fiscal 1995 as compared to fiscal 1994 was principally due to benefits resulting from the consolidation of the general and administrative functions of Symantec and Central Point. Subsequent to the acquisition of Central Point by Symantec in fiscal 1995, various duplicative general and administrative functions were eliminated as a result of the combination of the companies. In addition, general and administrative expenses decreased due to the settlement of two class action lawsuits in fiscal 1994 resulting in a decrease in legal expenses during fiscal 1995.

While future growth of the Company is expected to result in an increase in the dollar amount of general and administrative spending from current levels, the Company expects general and administrative expenses to decrease as a percent of net revenues

in fiscal 1997 as compared to fiscal 1996 as benefits are achieved from the elimination of duplicative functions subsequent to the acquisition of Delrina.

Acquisition, Restructuring and Other Expenses

Acquisition Expenses. In connection with the various acquisitions completed in fiscal 1996, 1995 and 1994 (see Summary of Significant Accounting Policies and Note 10 of Notes to Consolidated Financial Statements), significant acquisition expenses were incurred. These acquisition expenses principally included fees for legal, accounting and financial advisory services, the write-off of duplicative capitalized technology, the modification of certain development contracts and expenses related to the combination of the companies, including the elimination of duplicative and excess facilities and personnel. These charges approximated \$19.7 million, \$9.5 million and \$25.9 million in fiscal 1996, 1995 and 1994, respectively.

In connection with the acquisition of Delrina in fiscal 1996, Symantec recorded total acquisition charges of \$22.0 million, which included \$8.8 million for legal, accounting and financial advisory services, \$6.4 million for the elimination of duplicative and excess facilities and equipment, \$3.7 million for personnel severance and outplacement expenses and \$3.1 million for the consolidation and discontinuance of certain operational activities and other acquisition-related expenses.

In connection with the acquisitions of Central Point and SLR, Symantec recorded total acquisition charges of \$9.5 million in fiscal 1995. The charges included \$3.2 million for legal, accounting and financial advisory services, \$1.0 million for the write-off of duplicative product-related expenses and modification of certain development contracts, \$0.9 million for the elimination of duplicative and excess facilities, \$3.1 million for personnel severance and outplacement expenses and \$1.3 million for the consolidation and discontinuance of certain operational activities and other acquisition-related expenses. During fiscal 1996, the Company recognized a reduction in accrued acquisition, restructuring and other expenses of \$2.3 million as actual costs incurred were less than costs previously accrued by the Company.

Symantec has completed a number of acquisitions and expects to acquire other companies in the future. While the Company believes that previous acquisitions were in the best interest of the Company and its stockholders, acquisitions involve a number of special risks, including the diversion of management's attention to assimilation of the operations and personnel of the acquired companies in an efficient and timely manner, the retention of key employees, the difficulty of presenting a unified corporate image, the coordination of research and development and sales efforts and the integration of the acquired products.

The Company has lost certain employees of acquired companies whom it desired to retain, and, in some cases, the assimilation of the operations of acquired companies took longer than initially had been anticipated by the Company. In addition, because the employees of acquired companies have frequently

remained in their existing, geographically diverse facilities, the Company has not realized certain economies of scale that might otherwise have been achieved.

Symantec typically incurs significant acquisition expenses for legal, accounting and financial advisory services, the write-off of duplicative technology and other expenses related to the combination of the companies. These expenses may have a significant adverse impact on the Company's future profitability and financial resources.

Restructuring Expenses. In February 1995, Symantec announced a plan to consolidate certain research and development activities. This plan was designed to gain greater synergy between the Company's Third Generation Language and Fourth Generation Language development groups. During fiscal 1996, the Company completed the combination and incurred \$2.2 million for the relocation costs of moving equipment and personnel.

During fiscal 1994, Symantec implemented a plan to consolidate and centralize certain operational activities (See Note 10 of Notes to Consolidated Financial Statements). This plan was designed to reduce operating expenses and enhance operational efficiencies by centralizing certain order administration, technical support and customer service activities in Eugene, Oregon. In fiscal 1994, the Company recorded a charge of \$4.7 million, which included \$1.1 million for the elimination of duplicative and excess facilities, \$1.5 million for the relocation of the Company's existing operations and equipment, \$1.1 million for employee relocation expenses and \$1.0 million for employee severance payments. This centralization has been completed.

During fiscal 1994, Central Point incurred \$16.0 million of expenses related to the restructuring of its operations in order to reduce its overall cost structure and to redirect its software development and marketing efforts away from the personal desktop computer market toward personal computer network markets. The charge included \$6.2 million for employee severance, outplacement and relocation expenses, \$5.6 million for the write-off of certain excess fixed and intangible assets, \$1.8 million for lease abandonments and facility relocation and \$2.4 million for the consolidation and discontinuance of certain operational activities and other related expenses. This restructuring has been completed.

Other Expenses. In fiscal 1996, Symantec sold the assets of Time Line Solutions Corporation, a wholly-owned subsidiary, to a group comprised of Time Line Solutions Corporation's management and incurred a \$2.7 million loss on the sale. In the fourth quarter of fiscal 1996, the Company recorded \$2.0 million in estimated legal fees expected to be incurred in connection with a securities class action complaint filed in March 1996 and other legal expenses (See Note 11 of Notes to Consolidated Financial Statements).

During fiscal 1994, Symantec reached an agreement with the plaintiffs and Symantec's insurance carriers to settle two securities class actions and a related derivative lawsuit brought by stockholders of Symantec (See Note 10 of Notes to Consolidated

Financial Statements). The combined settlement amount of the cases was \$19.0 million, approximately \$12.5 million of which was paid by Symantec's insurance carriers. Symantec recorded a charge in fiscal 1994 of \$6.5 million, representing Symantec's portion of the settlement.

In fiscal 1994, Central Point purchased from unrelated parties certain in-process software technologies for \$3.0 million which was immediately expensed. (See Note 10 of Notes to Consolidated Financial Statements).

Symantec is involved in a number of other judicial and administrative proceedings incidental to its business (See Note 11 of Notes to Consolidated Financial Statements). The Company intends to defend all of these lawsuits vigorously and, although an unfavorable outcome could occur in one or more of the cases, the final resolution of these lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the financial position of the Company. However, depending on the amount and timing of an unfavorable resolution of these lawsuits, it is possible that the Company's future results of operations or cash flows could be materially adversely effected in a particular period.

As of March 31, 1996, total accrued cash related acquisition and restructuring expenses were \$7.8 million and included \$2.0 million for legal fees, \$3.5 million for the elimination of duplicative and excess facilities and \$2.3 million for the consolidation and discontinuance of certain operational activities and other acquisition-related expenses.

Interest Income, Interest Expense and Other Income (Expense)

Interest income was \$7.5 million, \$5.6 million and \$2.4 million in fiscal 1996, 1995 and 1994, respectively. The increase in interest income in fiscal 1996 over fiscal 1995, and in fiscal 1995 over fiscal 1994 was due to higher average invested cash balances. Interest expense was \$1.5 million, \$2.4 million and \$2.5 million in fiscal 1996, 1995 and 1994, respectively. The decrease in interest expense in fiscal 1996 from fiscal 1995 and 1994 was principally due to reduced interest expense on convertible subordinated debentures that were issued on April 2, 1993. On April 26, 1995, convertible subordinated debentures totaling \$10.0 million were converted into 833,333 shares of Symantec common stock, resulting in the decrease in fiscal 1996 interest expense. Other income (expense) is primarily comprised of foreign currency exchange gains and losses from fluctuations in currency exchange rates.

The Company conducts business in various foreign currencies and is therefore subject to the transaction exposures that arise from foreign exchange rate movements between the dates that foreign currency transactions are recorded and the dates that they are settled. Symantec utilizes some natural hedging to mitigate the Company's transaction exposures and, effective December 31, 1993, the Company commenced hedging some residual transaction exposures through the use of one-month forward contracts. At March 31, 1996, there was a total of

approximately \$96.5 million of outstanding forward exchange contracts. The net liability of forward contracts was approximately \$85.5 million at March 31, 1996. There have been no significant gains or losses to date with respect to these activities. Gains or losses would occur on forward contracts held by the Company when changes in foreign currency exchange rates occur. These gains and losses should be largely offset by the transaction gains and losses resulting from foreign currency denominated cash, accounts receivable, intercompany balances and trade payables. There can be no assurance that these strategies will continue to be effective or that transaction gains or losses can be minimized or forecasted accurately. The Company does not hedge its translation risk.

Income Taxes

The effective income tax benefit for fiscal 1996 was 10%, which compares to an effective income tax provision of 25% in fiscal 1995 and an effective tax benefit of 3% in fiscal 1994. The 1996 income tax benefit of 10% is lower than the statutory rate primarily due to the unbenefitted losses related to the Delrina acquisition.

A net deferred tax asset of approximately \$12.8 million is reflected in the financial statements. Approximately \$35.0 million of future U.S. taxable income will be necessary to realize this deferred tax asset. While there can be no assurance that future income will be sufficient to realize this benefit, management is of the opinion that this benefit will be realized in the near future based on projected income from new and existing products. A valuation allowance of \$45.7 million was provided in the financial statements. Approximately \$19.7 million of the valuation allowance for deferred tax assets is attributable to stock option deductions, the benefit of which will be credited to equity when realized. Approximately \$18.1 million of the valuation allowance relates to losses and temporary differences associated with Delrina and the remaining \$7.9 million of the valuation allowance represents net operating loss and tax credit carryforwards of other acquired companies that are limited by separate return limitations and under the "change of ownership" rules of Internal Revenue Code Section 382.

Liquidity and Capital Resources

Cash and short-term investments decreased \$2.6 million from \$131.8 million at March 31, 1995 to \$129.2 million at March 31, 1996. This decrease was largely due to cash expenditures for capital equipment, which was partially offset by cash provided from operating activities and proceeds from the exercise of stock options. Net cash provided by operating activities was \$11.0 million and was primarily due to the change in net assets and liabilities and non-cash related expenses, offset in part by the Company's net loss of \$39.8 million.

Trade accounts receivable decreased \$9.0 million from \$81.3 million at March 31, 1995 to \$72.3 million at March 31, 1996 primarily due to an increase in reserves for product returns at March 31, 1996.

The Company has a \$10.0 million line of credit that expires in March 1998. The line of credit is available for general corporate purposes and bears interest at the bank's reference (prime) interest rate (8.25% at March 31, 1996), the U.S. offshore rate plus 1.25%, a CD rate plus 1.25% or LIBOR plus 1.25%, at the Company's discretion. The line of credit requires bank approval for the payment of cash dividends. Borrowings under this line are unsecured and are subject to the Company maintaining certain financial ratios and profits. At March 31, 1996, there was approximately \$0.4 million of outstanding standby letters of credit under this line of credit. There were no borrowings outstanding under this line at March 31, 1996. The Company was in compliance with the debt covenants at March 31, 1996. Future acquisitions by the Company may cause the Company to be in violation of the line of credit covenants; however, the Company believes that if the line of credit were canceled or amounts were not available under the line, there would not be a material adverse impact on the financial results, liquidity or capital resources of the Company.

The Company may utilize significant amounts of cash in connection with the potential acquisition of additional companies, capital equipment and software product rights in the future. However, if the Company were to sustain significant losses, there can be no assurance that the bank line of credit, which is available through March 1998, would remain available. Additionally, the Company could be required to reduce operating expenses, which could result in further product delays, reassess acquisition opportunities, which could negatively impact the Company's growth objectives, and/or pursue further financing options. The Company believes existing cash and short-term investments will be sufficient to fund operations for the next year.

Selected Quarterly Data

During fiscal 1996, Symantec acquired Delrina in a transaction accounted for as a pooling of interest. All financial information has been restated to reflect the combined operations of Symantec and Delrina.

	Fiscal 1996			
	Mar. 31, 1996	Dec. 31, 1995	Sep. 30, 1995	Jun. 30, 1995
Net revenues	\$ 115,960	\$ 111,097	\$ 108,510	\$ 109,865
Gross margin	95,363	80,027	73,420	87,647
Acquisition, restructuring and other expenses *	2,000	25,688	—	(71)
Net income (loss)	7,943	(36,806)	(17,786)	6,866
Net income (loss) per share - primary	\$ 0.15	\$ (0.69)	\$ (0.34)	\$ 0.13
- fully diluted	\$ 0.15	\$ (0.69)	\$ (0.34)	\$ 0.12

(In thousands, except net income (loss) per share; unaudited)

	Fiscal 1995			
	Mar. 31, 1995	Dec. 31, 1994	Sep. 30, 1994	Jun. 30, 1994
Net revenues	\$ 108,304	\$ 110,561	\$ 106,841	\$ 105,562
Gross margin	86,318	87,544	84,156	82,315
Acquisition, restructuring and other expenses *	—	—	—	9,545
Net income (loss)	5,585	11,767	12,938	3,119
Net income (loss) per share - primary	\$ 0.10	\$ 0.23	\$ 0.26	\$ 0.06
- fully diluted	\$ 0.10	\$ 0.21	\$ 0.23	\$ 0.06

* See Note 10 of Notes to Consolidated Financial Statements.

Market for Registrant's Common Equity and Related Stockholder Matters

Symantec's common stock has been traded on the Nasdaq National Market under the Nasdaq symbol SYMC since the Company's initial public offering on June 23, 1989. The high and low closing sales prices set forth below are as reported on the Nasdaq National Market.

	Fiscal 1996			
	Mar. 31, 1996	Dec. 31, 1995	Sep. 30, 1995	Jun. 30, 1995
High	\$ 22.63	\$ 29.38	\$ 33.00	\$ 29.50
Low	10.31	21.50	23.75	20.63

	Fiscal 1995			
	Mar. 31, 1995	Dec. 31, 1994	Sep. 30, 1994	Jun. 30, 1994
High	\$ 23.75	\$ 19.00	\$ 16.13	\$ 16.88
Low	16.13	14.88	10.75	10.06

Delrina exchangeable stock has been traded on the Toronto Stock Exchange under the symbol DE since the acquisition of Delrina by Symantec on November 22, 1995. The high and low closing sales prices set forth below are in Canadian dollars as reported on the Toronto Stock Exchange. Delrina exchangeable stock is exchangeable at the option of the stockholders on a one-for-one basis into Symantec common stock.

	Fiscal 1996	
	Mar. 31, 1996	Dec. 31, 1995
(In Canadian dollars)		
High	\$ 31.00	\$ 37.25
Low	16.50	29.38

As of March 31, 1996, there were approximately 950 stockholders of record, including approximately 50 holders of record of Delrina exchangeable shares. The Company has never paid cash dividends on its stock with the exception of cash distributions to stockholders of acquired companies. Symantec anticipates that it will continue to retain its earnings to finance the growth of its business. In addition, the Company's bank line of credit and outstanding convertible subordinated debentures limit the payment of cash dividends on common stock (See Notes 4 and 5 of Notes to Consolidated Financial Statements).

Consolidated Balance Sheets

(In thousands)

	March 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and short-term investments	\$ 129,199	\$ 131,795
Trade accounts receivable	72,256	81,261
Inventories	7,893	9,433
Deferred income taxes	12,875	11,869
Other	14,639	8,392
Total current assets	236,862	242,750
Equipment and leasehold improvements	51,698	39,379
Purchased intangibles	518	11,122
Other	8,851	16,381
	<u>\$ 297,929</u>	<u>\$ 309,632</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,368	\$ 25,394
Accrued compensation and benefits	14,888	13,482
Other accrued expenses	60,566	57,939
Income taxes payable	3,329	2,006
Current portion of long-term obligations	68	524
Total current liabilities	102,219	99,345
Convertible subordinated debentures	15,000	25,000
Long-term obligations	393	413
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (authorized: 1,000; issued and outstanding: none)	—	—
Common stock (authorized: 100,000; issued and outstanding: 53,636 and 50,782 shares)	536	508
Capital in excess of par value	279,508	248,766
Notes receivable from stockholders	(144)	(144)
Cumulative translation adjustment	(7,591)	(7,213)
Accumulated deficit	(91,992)	(57,043)
Total stockholders' equity	180,317	184,874
	<u>\$ 297,929</u>	<u>\$ 309,632</u>

The accompanying summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Operations

(In thousands, except net income (loss) per share)

Year Ended March 31,

	1996	1995	1994
Net revenues	\$ 445,432	\$ 431,268	\$ 403,206
Cost of revenues	108,975	90,935	102,018
Gross margin	336,457	340,333	301,188
Operating expenses:			
Research and development	94,672	70,706	68,110
Sales and marketing	229,703	190,439	189,962
General and administrative	32,744	29,357	34,312
Acquisition, restructuring and other expenses	27,617	9,545	56,094
Total operating expenses	384,736	300,047	348,478
Operating income (loss)	(48,279)	40,286	(47,290)
Interest income	7,512	5,648	2,436
Interest expense	(1,495)	(2,419)	(2,517)
Other income (expense), net	(2,130)	1,041	1,697
Income (loss) before income taxes	(44,392)	44,556	(45,674)
Provision (benefit) for income taxes	(4,609)	11,147	(1,253)
Net income (loss)	\$ (39,783)	\$ 33,409	\$ (44,421)
Net income (loss) per share - primary	\$ (0.76)	\$ 0.65	\$ (0.96)
Net income (loss) per share - fully diluted	\$ (0.76)	\$ 0.61	\$ (0.96)
Shares used to compute net income (loss) per share - primary	52,664	52,181	46,270
Shares used to compute net income (loss) per share - fully diluted	52,664	56,491	46,270

The accompanying summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

<i>(In thousands)</i>	Common Stock	Capital in Excess of Par Value	Notes Receivable from Stockholders	Cumulative Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
Balances, March 31, 1993	\$ 449	\$ 170,783	\$ (350)	\$ (3,587)	\$ (28,238)	\$ 139,057
Net loss	—	—	—	—	(44,421)	(44,421)
Fifth Generation net loss for the quarter ended March 31, 1993	—	—	—	—	(16,390)	(16,390)
XTree net loss for the six months ended March 31, 1993	—	—	—	—	(1,040)	(1,040)
Issued 915 shares in connection with Delrina's initial public offering	9	30,035	—	—	—	30,044
Issued common stock:						
2,235 shares under stock plans and other	22	15,646	—	—	—	15,668
391 shares for acquisition of product rights	4	6,496	—	—	—	6,500
Repayments on notes	—	—	201	—	—	201
Other equity transactions of acquired companies	—	3,041	—	—	—	3,041
Translation adjustment	—	—	—	(3,467)	—	(3,467)
Balances, March 31, 1994	484	226,001	(149)	(7,054)	(90,089)	129,193
Net income	—	—	—	—	33,409	33,409
Acquisition of Intec and SLR:						
Issued 303 shares of common stock	3	38	—	—	—	41
Accumulated deficit	—	—	—	—	(363)	(363)
Issued common stock:						
2,147 shares under stock plans and other	21	21,351	—	—	—	21,372
Repayments on notes	—	—	5	—	—	5
Issued 57 shares to acquire subsidiary	—	1,376	—	—	—	1,376
Translation adjustment	—	—	—	(159)	—	(159)
Balances, March 31, 1995	508	248,766	(144)	(7,213)	(57,043)	184,874
Net loss	—	—	—	—	(39,783)	(39,783)
Delrina net loss for the quarter ended June 30, 1995	—	—	—	—	4,834	4,834
Issued common stock:						
2,021 shares under stock plans and other	20	21,101	—	—	—	21,121
833 shares from conversion of convertible debentures	8	9,641	—	—	—	9,649
Translation adjustment	—	—	—	(378)	—	(378)
Balances, March 31, 1996	\$ 536	\$ 279,508	\$ (144)	\$ (7,591)	\$ (91,992)	\$ 180,317

The accompanying summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(In thousands)

Year Ended March 31,

	1996	1995	1994
OPERATING ACTIVITIES:			
Net income (loss)	\$ (39,783)	\$ 33,409	\$ (44,421)
Delrina net loss for the quarter ended June 30, 1995	4,834	—	—
Fifth Generation net loss for the quarter ended March 31, 1993	—	—	(16,390)
X'Tree net loss for the six months ended March 31, 1993	—	—	(1,040)
Acquired companies' net assets	—	(1,677)	—
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of equipment and leasehold improvements	19,717	15,689	16,293
Amortization and write-off of capitalized software costs	19,141	13,360	20,539
Write-off of equipment and leasehold improvements	3,403	1,539	4,403
Deferred income taxes	(989)	7,267	832
Net change in assets and liabilities:			
Trade accounts receivable	8,053	(14,686)	(6,605)
Inventories	1,450	1,308	(3,155)
Other current assets	(6,419)	3,980	10,201
Other assets	(821)	(7,698)	(3,345)
Accounts payable	(2,368)	(11,224)	(663)
Accrued compensation and benefits	1,313	(1,042)	3,649
Accrued other expenses	2,256	(2,098)	28,700
Income taxes payable	1,211	78	(2,089)
Net cash provided by operating activities	10,998	38,205	6,909
INVESTING ACTIVITIES:			
Capital expenditures	(35,767)	(24,749)	(13,700)
Purchased intangibles	(461)	(4,293)	(4,419)
Purchases of short-term, available-for-sale investments	(154,500)	(166,524)	(102,045)
Maturities of short-term, available-for-sale investments	168,681	122,736	46,732
Sales of fixed assets and other	—	(1,505)	125
Net cash used in investing activities	(22,047)	(74,335)	(73,307)
FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(475)	(889)	(12,459)
Net proceeds from sales of common stock and other	20,770	21,395	47,969
Net cash provided by financing activities	20,295	20,506	35,510
Effect of exchange rate fluctuations on cash and cash equivalents	2,339	(2,263)	(2,094)
Increase (decrease) in cash and cash equivalents	11,585	(17,887)	(32,982)
Beginning cash and cash equivalents	30,192	48,079	81,061
Ending cash and cash equivalents	\$ 41,777	\$ 30,192	\$ 48,079
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid (net of refunds) during the year	\$ 906	\$ (759)	\$ (3,612)
Interest paid on convertible subordinated debentures and long-term obligations	\$ 1,299	\$ 2,070	\$ 1,891

The accompanying summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these statements

Summary of Significant Accounting Policies

Business Symantec develops, markets and supports a diversified line of application and system software products designed to enhance individual and workgroup productivity as well as manage networked computing environments. Principal products include advanced utilities, security utilities, network/communications utilities, fax, contact management, development tools and consumer/productivity applications. Customers consist primarily of corporations, higher education institutions, government agencies and individual users, which are mainly located in North America, Europe, Asia/Pacific and Latin America.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Symantec Corporation and its wholly-owned subsidiaries ("Symantec" or the "Company"). All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation During fiscal 1996, 1995 and 1994, Symantec acquired various companies in transactions accounted for as poolings of interest. Accordingly, all financial information has been restated to reflect the combined operations of Symantec and the acquired companies with the exception of Intec Systems Corporation and SLR Systems, Inc. The results of operations of Intec and SLR were not material to Symantec's consolidated financial statements, and therefore, amounts prior to the year of acquisition were not combined with Symantec's financial statements.

Symantec has a 52/53-week fiscal accounting year. Accordingly, all references as of and for the periods ended March 31, 1996, 1995 and 1994 reflect amounts as of and for the periods ended March 29, 1996, March 31, 1995 and April 1, 1994, respectively.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation In general, the functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet dates. The cumulative translation adjustments resulting from this process are shown separately as a component of stockholders' equity. Revenues and expenses are translated using average exchange rates prevailing during the year. Foreign currency transaction gains and losses are not material and are included in the determination of net income (loss).

Revenue Recognition Symantec recognizes revenue upon shipment when no significant vendor obligations remain and collection of the receivable, net of provisions for estimated future returns, is probable. Prior to fiscal 1994, Central Point

generally recognized revenue upon shipment, along with a provision for estimated returns. Due to significant changes in the market's perception of Central Point's long-term viability and the Agreement and Plan of Reorganization signed by Symantec and Central Point in fiscal 1994, Central Point was no longer able to reasonably estimate future returns from distributors and resellers. In accordance with Statement of Financial Accounting Standards No. 48, revenue and the related cost of revenue for 1994 for software shipments to these distributors and resellers was deferred until sold by the distributor or reseller to the end user. This revenue and cost of revenue deferral resulted in a decrease in North American net revenues of approximately \$5.0 million and international net revenues of approximately \$10.0 million and an increase in the fiscal 1994 loss before provision for income taxes of approximately \$12.3 million. Symantec later analyzed returns related to the Central Point products for the prior eight quarters to determine when such products were being sold through to end users. As the result of this analysis of the remaining Central Point products in the distribution channel, Symantec recognized approximately \$3.0 million of North American net revenues in the March 1995 quarter and \$7.2 million of international net revenues in the June 1995 quarter that had been previously deferred by Central Point.

Revenues related to significant post-contract support agreements (generally product maintenance agreements) are deferred and recognized over the period of the agreements. The estimated cost of providing insignificant post-contract support (generally telephone support) is accrued at the time of the sale and is included in sales and marketing expense. Technical support costs included in sales and marketing expense were \$34.5 million, \$28.0 million and \$26.8 million in fiscal 1996, 1995 and 1994, respectively.

Cash Equivalents and Short-Term Investments Symantec considers investments in highly liquid instruments purchased with an original maturity of 90 days or less to be cash equivalents. All of the Company's cash equivalents and short-term investments, consisting principally of commercial paper, corporate notes and certificates of deposit, are classified as available-for-sale as of the balance sheet date. These securities are reported at amortized cost, which approximates fair value, and therefore, there are no unrealized gains and losses included in stockholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary are included in interest income. The cost of securities sold is based upon the specific identification method.

Inventories Inventories are valued at the lower of cost or market. Cost is principally determined using currently adjusted standards, which approximate actual cost on a first-in, first-out basis.

Equipment and Leasehold Improvements Equipment and leasehold improvements are stated at cost, net of accumulated

depreciation and amortization. Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of the respective assets, generally the shorter of the lease term or three to seven years.

Purchased Intangibles Purchased intangibles are comprised of acquired software (“product rights”) and are stated at cost less accumulated amortization. Amortization is provided on the greater of the straight-line basis over the estimated useful lives of the respective assets, generally three to five years, or on the basis of the ratio of current revenues to current revenues plus anticipated future revenues.

Research and Development Expenses Research and development expenditures are charged to operations as incurred. Financial accounting rules requiring capitalization of certain software development costs have not materially affected the Company, except for amounts capitalized by Delrina prior to its acquisition by Symantec. Delrina did not capitalize any software development costs in fiscal 1996 and capitalized \$6.3 million and \$2.6 million in software development costs in fiscal years 1995 and 1994, respectively. The related amortization expense was \$5.6 million, \$4.0 million and \$1.9 million in fiscal 1996, 1995 and 1994, respectively.

Income Taxes Income taxes are computed in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.”

Net Income (Loss) Per Share Net income (loss) per share is calculated using the treasury stock or the modified treasury stock method, as applicable, if dilutive. Common stock equivalents are attributable to outstanding stock options. Fully diluted earnings per share includes the assumed conversion of all of the outstanding convertible subordinated debentures.

Concentrations of Credit Risk The Company’s product revenues are concentrated in the personal computer software industry, which is highly competitive and rapidly changing. Significant technological changes in the industry or customer requirements, or the emergence of competitive products with new capabilities or technologies, could adversely affect operating results. In addition, a significant portion of the Company’s revenue and net income is derived from international sales and independent agents and distributors. Fluctuations of the U.S. dollar against foreign currencies, changes in local regulatory or economic conditions, piracy or nonperformance by independent agents or distributors could adversely affect operating results.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of short-term investments and trade accounts receivable. The Company’s investment portfolio is diversified and consists of investment grade A-1/P-1 securities. The credit risk in the Company’s trade accounts receivable is substantially mitigated by the Company’s credit evaluation process, reasonably short collection terms and the geographical dispersion of sales transactions.

Advertising Advertising expenditures are charged to operations as incurred except for certain direct mail campaigns which are capitalized and amortized over the expected period of benefit or twelve months, whichever is shorter. Capitalized advertising costs have not been material in all periods presented. Advertising expense for fiscal 1996, 1995 and 1994 was approximately \$43.0 million, \$41.0 million and \$38.6 million, respectively.

Recent Pronouncements During March 1995, the Financial Accounting Standards Board issued Statement No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” (“SFAS No. 121”), which requires the review for impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In certain situations, an impairment loss would be recognized. The Company does not believe that adoption of SFAS No. 121, which will become effective for the Company’s 1997 fiscal year, will have a material impact on its financial condition or operating results.

During October 1995, the Financial Accounting Standards Board issued Statement No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”). This standard, which establishes a fair value-based method for stock-based compensation plans, also permits an election to continue following the requirements of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” with disclosures of pro-forma net income and earnings per share under the new method. The Company will continue following the requirements of APB Opinion No. 25, with disclosure of pro-forma information. The disclosure requirements of SFAS No. 123 will be effective for the Company’s 1997 fiscal year.

Reclassifications Certain previously reported amounts have been reclassified to conform to the current presentation format.

Notes to Consolidated Financial Statements

Note 1. Balance Sheet Information

<i>(In thousands)</i>	March 31,	
	1996	1995
Cash, cash equivalents and short-term investments:		
Cash	\$ 20,176	\$ 19,745
Cash equivalents	21,601	10,447
Short-term investments	87,422	101,603
	<u>\$ 129,199</u>	<u>\$ 131,795</u>
Trade accounts receivable:		
Receivables	\$ 77,272	\$ 86,113
Less: allowance for doubtful accounts	(5,016)	(4,852)
	<u>\$ 72,256</u>	<u>\$ 81,261</u>
Inventories:		
Raw materials	\$ 1,969	\$ 3,715
Finished goods	5,924	5,718
	<u>\$ 7,893</u>	<u>\$ 9,433</u>
Equipment and leasehold improvements:		
Computer equipment	\$ 79,153	\$ 59,818
Office furniture and equipment	25,753	23,614
Leasehold improvements	12,603	9,609
	<u>117,509</u>	<u>93,041</u>
Less: accumulated depreciation and amortization	(65,811)	(53,662)
	<u>\$ 51,698</u>	<u>\$ 39,379</u>
Purchased intangibles:		
Product rights	\$ 8,680	\$ 49,439
Less: accumulated amortization	(8,162)	(38,317)
	<u>\$ 518</u>	<u>\$ 11,122</u>
Other accrued expenses:		
Acquisition and restructuring expenses	\$ 7,833	\$ 8,614
Deferred revenue	26,266	22,892
Marketing development funds	11,412	8,719
Other	15,055	17,714
	<u>\$ 60,566</u>	<u>\$ 57,939</u>

Note 2. Business Combinations and Purchased Product Rights

During the three fiscal years ended March 31, 1996, Symantec completed acquisitions of the following companies:

Companies Acquired	Date Acquired	Shares of Symantec Common Stock Issued	Acquired Company Stock Options Assumed
Delrina Corporation ("Delrina")	Nov. 22, 1995	13,684,174*	1,271,677
Intec Systems Corporation ("Intec")	Aug. 31, 1994	133,332	—
Central Point Software, Inc. ("Central Point")	June 1, 1994	4,029,429	707,452
SLR Systems, Inc. ("SLR")	May 31, 1994	170,093	—
Fifth Generation Systems, Inc. ("Fifth Generation")	Oct. 4, 1993	2,769,010	—
Contact Software International, Inc. ("Contact")	June 2, 1993	2,404,019	232,589

* Includes Delrina exchangeable stock that is traded on the Toronto Stock Exchange. Delrina stockholders received Delrina exchangeable stock in exchange for Delrina common shares at a rate of 0.61 per share. Delrina exchangeable stock may be converted at any time into Symantec common stock on a one-for-one basis at each stockholder's option.

All of these acquisitions were accounted for as poolings of interest. In connection with the acquisitions of the companies listed above, Symantec incurred significant acquisition expenses (See Note 10). Due to differing year ends of Symantec, Delrina and Fifth Generation, financial information for dissimilar fiscal year ends was combined. Delrina's fiscal years ended June 30, 1995 and 1994 were combined with Symantec's fiscal years ended March 31, 1995 and 1994, respectively. Accordingly, Delrina's results of operations for the quarter ended June 30, 1995 were duplicated in the combined statements of operations for fiscal 1996 and 1995 and Delrina's net loss for the quarter ended June 30, 1995 was credited to stockholder's equity. Delrina reported net revenues of \$19.8 million and net loss of \$4.8 million in the quarter ended June 30, 1995. Fifth Generation's fiscal year ended December 31, 1992 was combined with Symantec's fiscal year ended March 31, 1993. Accordingly, Fifth Generation's results of operations for the quarter ended March 31, 1993 were charged to stockholders' equity. Fifth Generation's net loss of \$16.4 million for the quarter ended March 31, 1993 was largely due to the decline in net revenues to \$1.9 million and the write-off of previously capitalized software costs.

The table below sets forth the composition of combined net revenues and net income (loss) for the pre-acquisition periods indicated. Information for the year ended March 31, 1996 with respect to Delrina reflects the period ended November 22, 1995, the date Delrina was acquired.

<i>(In thousands)</i>	Year Ended March 31,		
	1996	1995	1994
Net revenues:			
Symantec	\$ 420,013	\$ 334,867	\$ 328,299
Delrina	25,419	96,401	74,907
	<u>\$ 445,432</u>	<u>\$ 431,268</u>	<u>\$ 403,206</u>
Net income (loss):			
Symantec	\$ (4,291)	\$ 28,500	\$ (56,967)
Delrina	(35,492)	4,909	12,546
	<u>\$ (39,783)</u>	<u>\$ 33,409</u>	<u>\$ (44,421)</u>

On December 31, 1993, Symantec acquired certain technology for developing an architecture and tools to build client-server applications from DataEase International, Inc. in exchange for 391,456 shares of Symantec common stock and cancellation of the principal and accrued interest on a \$1.0 million outstanding note receivable. The Company capitalized approximately \$7.7 million of purchased product rights as a result of this transaction. During fiscal 1996 the Company wrote off the remaining unamortized cost and licensed the product rights for an immaterial amount.

Note 3. Cash Equivalents, Short-Term Investments and Fair Value of Financial Instruments

All cash equivalents and short-term investments have been classified as available-for-sale securities and are reported at amortized cost, which approximates fair value, and therefore, no material unrealized gains and losses have been included in stockholders' equity. As of March 31, 1996 and 1995, the estimated fair value of these securities consisted of the following:

<i>(In thousands)</i>	1996	1995
Taxable commercial paper	\$ 77,392	\$ 99,566
Money market funds	21,601	7,452
Taxable corporate notes	5,022	—
Taxable certificates of deposit	5,008	—
Auction-rate preferred securities	—	5,032
	<u>\$ 109,023</u>	<u>\$ 112,050</u>

All of the Company's available-for-sale securities as of March 31, 1996 have a contractual maturity of one year or less. For the year ended March 31, 1996, there were no material sales of available-for-sale securities. Fair values of cash, cash equivalents and short-term investments approximate cost due to the short period to maturity.

Symantec utilizes some natural hedging to mitigate the Company's transaction exposures, and effective December 31, 1993, the Company commenced hedging some residual transaction exposures through the use of one-month foreign exchange forward contracts. The Company enters into foreign exchange forward contracts with financial institutions primarily to protect against currency exchange risks associated with certain firmly committed transactions. Fair value of foreign exchange forward contracts are based on quoted market prices. At March 31, 1996, there was a total notional amount of approximately \$96.5 million of outstanding foreign exchange forward contracts all of which mature in 35 days or less. The net liability of forward contracts was a notional amount of approximately \$85.5 million at March 31, 1996. The fair value of foreign currency exchange forward contracts approximates cost due to the short maturity periods and the minimal fluctuations in foreign currency exchange rate. The Company does not hedge its translation risk.

Note 4. Convertible Subordinated Debentures

On April 2, 1993, the Company issued convertible subordinated debentures totaling \$25.0 million. The debentures bear interest at 7.75% payable semiannually and are convertible into Symantec common stock at \$12 per share at the option of the investor. The debentures are due in three equal annual installments beginning in 1999 and are redeemable at the option of the investors in the event of a change in control of Symantec or the sale of all or substantially all of the assets of the Company. Symantec, at its option, may redeem the notes at any time on 30 to 60 days notice. The holders are entitled to certain registration rights relating to the shares of common stock resulting from the conversion of the debentures. The Company reserved 2,083,333 shares of common stock to be issued upon conversion of these

debentures. The debentures limit the payment of cash dividends and the repurchase of capital stock to a total of \$10.0 million plus 25% of cumulative net income subsequent to April 2, 1993.

On April 26, 1995, convertible subordinated debentures totaling \$10.0 million were converted into 833,333 shares of Symantec common stock, leaving 1,250,000 shares of common stock reserved for future conversion as of March 31, 1996.

The estimated fair value of the \$15.0 million convertible subordinated debentures was approximately \$16.1 million at March 31, 1996. The estimated fair value was based on the total shares of common stock reserved for issuance upon conversion of the debentures at the closing price of the Company's common stock at March 31, 1996, which exceeded the conversion price of \$12 per share.

Note 5. Line of Credit

The Company has a \$10.0 million bank line of credit that expires in March 1998. The line of credit is available for general corporate purposes and bears interest at the banks' reference (prime) interest rate (8.25% at March 31, 1996), the U.S. off-shore rate plus 1.25%, a CD rate plus 1.25% or LIBOR plus 1.25%, at the Company's discretion. The line of credit requires bank approval for the payment of cash dividends. Borrowings under this line are unsecured and are subject to the Company maintaining certain financial ratios and profits. The Company was in compliance with the line of credit covenants as of March 31, 1996. At March 31, 1996, there was approximately \$0.4 million of standby letters of credit outstanding under this line of credit. There were no borrowings outstanding under this line at March 31, 1996.

Note 6. Commitments

Symantec leases all of its facilities and certain equipment under operating leases that expire at various dates through 2026.

The future fiscal year minimum operating lease commitments were as follows at March 31, 1996:

<i>(In thousands)</i>	
1997	\$ 12,749
1998	11,738
1999	8,257
2000	6,980
2001	3,883
Thereafter	12,006
	<u>\$ 55,613</u>

Rent expense charged to operations totaled \$11.3 million, \$9.7 million and \$9.8 million for the years ended March 31, 1996, 1995 and 1994, respectively.

Note 7. Income Taxes

The components of the provision (benefit) for income taxes were as follows:

(In thousands)	Year ended March 31,		
	1996	1995	1994
Current:			
Federal	\$ (5,882)	\$ 998	\$ (5,460)
State	130	349	773
International	2,149	2,825	2,248
	<u>(3,603)</u>	<u>4,172</u>	<u>(2,439)</u>
Deferred:			
Federal	(1,006)	6,431	2,063
State	—	1,761	(425)
International	—	(1,217)	(452)
	<u>(1,006)</u>	<u>6,975</u>	<u>1,186</u>
	<u>\$ (4,609)</u>	<u>\$ 11,147</u>	<u>\$ (1,253)</u>

The difference between the Company's effective income tax rate and the federal statutory income tax rate as a percentage of income (loss) before income taxes was as follows:

	Year ended March 31,		
	1996	1995	1994
Federal statutory rate	(35.0)%	35.0%	(34.0)%
State taxes, net of federal benefit	0.3	3.3	(1.6)
Non-deductible acquisition expenses	6.8	2.6	2.8
Non-deductible acquired in-process R&D	—	1.1	—
Benefit of pre-acquisition losses of Central Point	—	(6.7)	—
Impact of international operations	—	(11.2)	(2.1)
Losses for which no benefit is currently recognizable	16.9	—	—
Valuation allowance	—	—	30.7
Other, net	0.7	1.0	1.5
	<u>(10.3)%</u>	<u>25.1%</u>	<u>(2.7)%</u>

The principal components of deferred tax assets were as follows:

(In thousands)	March 31,	
	1996	1995
Tax credit carryforwards	\$ 8,213	\$ 7,645
Net operating loss carryforwards	19,813	16,487
Inventory valuation accounts	2,704	1,122
Other reserves and accruals not currently tax deductible	9,403	5,251
Accrued compensation and benefits	1,916	1,744
Deferred revenue	5,465	2,960
Sales incentive programs	4,054	968
Allowance for doubtful accounts	1,104	825
Acquired software	2,979	3,822
Accrued acquisition, restructuring and other expenses	2,364	2,960
Other	579	(991)
	<u>58,594</u>	<u>42,793</u>
Valuation allowance	(45,719)	(30,924)
	<u>\$ 12,875</u>	<u>\$ 11,869</u>

Approximately \$19.7 million of the valuation allowance for deferred tax assets is attributable to stock option deductions, the benefit of which will be credited to equity when realized.

Approximately \$18.1 million of the valuation allowance relates to losses and temporary differences associated with Delrina and the remaining \$7.9 million of the valuation allowance represents net operating loss and tax credit carryforwards of other acquired companies that are limited by separate return limitations and under the "change of ownership" rules of Internal Revenue Code Section 382. The change in the valuation allowance for the years ended March 31, 1996, 1995 and 1994 were net increases of \$14.8 million, \$1.6 million and \$27.4 million, respectively.

Pretax income (loss) from international operations was approximately \$(4.1) million, \$25.9 million and \$18.8 million for the years ended March 31, 1996, 1995 and 1994, respectively.

At March 31, 1996, the Company had tax credit carryforwards of \$7.9 million that expire in fiscal 1997 through 2011 and net operating loss carryforwards of \$50.8 million that expire in fiscal 1999 through 2011.

Note 8. Employee Benefits

401(k) Plan Symantec maintains a salary deferral 401(k) plan for all of its domestic employees. The plan allows employees to contribute up to 15% of their pretax salary up to the maximum dollar limitation prescribed by the Internal Revenue Code. Symantec matches 50% of employees' contributions up to 6% of the employees' eligible compensation. Company contributions under the plan were \$1.5 million, \$1.2 million and \$1.1 million for the years ended March 31, 1996, 1995 and 1994, respectively.

Stock Purchase Plan In October 1989, the Company established the 1989 Employee Stock Purchase Plan and has reserved 2.0 million shares of common stock for issuance under the plan, including an increase of 500,000 shares approved by Symantec stockholders in fiscal 1996. Subject to certain limitations, Symantec employees may purchase, through payroll deductions of 2 to 10% of compensation, shares of common stock at a price per share that is the lesser of 85% of the fair market value as of the beginning of the offering period or the end of the purchase period. As of March 31, 1996, approximately 1.4 million shares had been issued under the plan.

Stock Option Plans As of March 31, 1996, the Company has reserved 14.8 million shares of its common stock for issuance as incentive and nonqualified stock options to employees, officers, directors, consultants and independent contractors, including an increase of 1.0 million shares approved in fiscal 1996 by Symantec's stockholders for issuance under the 1988 Employees Stock Option Plan. Options under the Company's option plans may be granted at prices not less than 100% of fair market value on the date of grant, have a maximum term of ten years and generally vest over a four-year period. In addition, the Company has reserved an additional 1.2 million shares of its common stock for issuance under acquired company option plans and acquired company warrants.

During March 1996, the Board of Directors authorized the

Company to offer to each employee with stock options having an exercise price greater than \$13.10 (the "Old Options") the opportunity to cancel the affected grants and receive a new grant for the same number of shares dated March 4, 1996 (the "New Options"). The New Options have an exercise price equal to \$13.10. Under the terms of this stock option cancellation and regrant, all options began vesting as of the new grant date and no portion of any regranted option may be exercised until March 4, 1997. Options representing a total of approximately 2.3 million shares of common stock were canceled and regranted. The President and Chief Executive Officer, the Executive Vice President, Worldwide Operations and Chief Financial Officer, the majority of the members of the Executive Staff, and all members of the Board of Directors elected to exclude themselves from this stock option cancellation and regrant.

On March 4, 1996, the Board of Directors also approved the 1996 Equity Incentive Plan (the "Plan"), the purpose of which is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of Symantec by offering them an opportunity to participate in the Company's future performance through awards of options and stock bonuses. This Plan is intended to replace the 1988 Option Plan, which the Board terminated as of stockholder approval of the Plan. The Plan will be administered by either the Board of Directors or a committee appointed by the Board of Directors. Awards under the Plan may be granted to employees, officers, directors, consultants, independent contractors and advisors of Symantec (or of any parent, subsidiary or affiliate of Symantec as the Board of Directors or committee may determine). On May 14, 1996, the stockholders of Symantec approved the Plan, including the allocation of approximately 2.7 million shares to be made available for the grant of such awards. As of March 31, 1996, no awards were outstanding under the Plan.

During fiscal 1996, Symantec also registered 400,000 shares to be issued under the terms of the 1994 Patent Incentive Plan. The purpose of this plan is to increase awareness of the increasing importance of patents to Symantec's business and to provide employees with incentives to pursue patent protection for new technologies that may be valuable to the Company. The Company's executive officers are not eligible for awards under the 1994 Patent Incentive Plan. As of March 31, 1996, approximately 4,000 shares had been issued under this plan.

Stock option and warrant activity was as follows:

<i>(In thousands, except exercise price per share)</i>	Number of Shares	Exercise Price Per Share	
Outstanding at March 31, 1993	7,755	\$0.05	- \$64.65
Granted	3,873	0.07	- 35.05
Exercised	(1,699)	0.05	- 21.01
Canceled	(1,244)	0.05	- 64.65
Outstanding at March 31, 1994	8,685	0.05	- 64.65
Granted	3,799	10.06	- 27.52
Exercised	(1,813)	0.05	- 21.42
Canceled	(1,682)	0.50	- 64.65
Outstanding at March 31, 1995	8,989	0.50	- 54.95
Granted	5,990	10.31	- 32.88
Exercised	(1,601)	0.50	- 24.00
Canceled	(3,660)	2.48	- 54.95
Outstanding at March 31, 1996	9,718	0.50	- 39.38
<i>(In thousands)</i>			
Balances are as follows:		1996	1995
Reserved for issuance		10,418	11,679
Available for future grants		700	2,690
Exercisable and vested		3,894	4,006
Exercised, subject to repurchase		1	1

Note 9. Related Party Transactions

As part of the acquisition of Peter Norton Computing, Incorporated ("Norton") in fiscal 1991, Symantec assumed Norton's perpetual exclusive license agreement with Mr. Norton, a member of Symantec's Board of Directors until his resignation on September 27, 1994, to use his name and image for computer software products. Under the terms of the license, Mr. Norton is entitled to receive a royalty equal to the greater of 1% of net sales or 0.4% of the suggested retail price of products bearing Mr. Norton's name. Mr. Norton may terminate the agreement if Symantec fails to pay Mr. Norton an average of at least \$30,000 of royalties in any three consecutive years. Royalty expense under the agreement was \$2.9 million, \$1.9 million and \$1.6 million for the years ended March 31, 1996, 1995 and 1994, respectively.

Additionally, in connection with certain indemnification agreements entered into as part of the acquisition of Norton, Mr. Norton agreed to reimburse Symantec for certain litigation and acquisition costs in excess of specified amounts.

The net amount payable to Mr. Norton pursuant to these agreements at March 31, 1996 and 1995 was \$0.4 million and \$0.3 million, respectively.

Note 10. Acquisition, Restructuring and Other Expenses

Acquisition, restructuring and other expense consists of the following:

<i>(In thousands)</i>	Year Ended March 31,		
	1996	1995	1994
Delrina acquisition	\$ 22,000	\$ —	\$ —
Loss on sale of Time Line			
Solutions Corporation assets	2,653	—	—
Relocation of certain research and development activities	2,229	—	—
SLR acquisition	—	545	—
Central Point acquisition	(2,300)	9,000	—
Fifth Generation acquisition	—	—	15,000
Contact acquisition	—	—	7,400
XTree acquisition	—	—	3,514
Centralization and restructuring expense	—	—	4,700
Central Point restructuring charges	—	—	16,025
Purchased in-process research and development	—	—	2,955
Class action lawsuit settlement	—	—	6,500
Legal fees and expenses	2,000	—	—
Other	1,035	—	—
Total acquisition, restructuring and other expenses	\$ 27,617	\$ 9,545	\$ 56,094

In connection with the acquisition of Delrina (See Note 2) in fiscal 1996, Symantec recorded total acquisition charges of \$22.0 million, which included \$8.8 million for legal, accounting and financial advisory services, \$6.4 million for the elimination of duplicative and excess facilities and equipment, \$3.7 million for personnel severance and outplacement expenses and \$3.1 million for the consolidation and discontinuance of certain operational activities and other acquisition-related expenses.

In November, 1995, Symantec sold the assets of Time Line Solutions Corporation, a wholly-owned subsidiary, to a group comprised of Time Line Solution Corporation's management and incurred a \$2.7 million loss on the sale.

During fiscal 1996, Symantec expensed \$1.0 million, which included a loss on the sale of certain assets and liabilities of a subsidiary and other expenses.

In February 1995, Symantec announced a plan to consolidate certain research and development activities. This plan was designed to gain greater synergy between the Company's Third Generation Language and Fourth Generation Language development groups. During fiscal 1996, the Company incurred \$2.2 million for the relocation costs of moving equipment and personnel.

In the fourth quarter of fiscal 1996, the Company recorded \$2.0 million in estimated legal fees expected to be incurred in connection with a securities class action complaint filed in March 1996 and other legal expenses (See Note 11).

In connection with the acquisitions of Central Point and SLR (See Note 2), Symantec recorded total acquisition charges of \$9.5 million in fiscal 1995. The charges included \$3.2 million for legal, accounting and financial advisory services, \$1.0 million for the write-off of duplicative product-related expenses and

modification of certain development contracts, \$0.9 million for the elimination of duplicative and excess facilities, \$3.1 million for personnel severance and outplacement expenses and \$1.3 million for the consolidation and discontinuance of certain operational activities and other acquisition related expenses. During fiscal 1996, the Company recognized a reduction in accrued acquisition, restructuring and other expenses of \$2.3 million as actual costs incurred were less than costs previously accrued by the Company.

In connection with the acquisitions of Fifth Generation and Contact by Symantec and the acquisition of XTree by Central Point (See Note 2), the Company recorded total charges of \$25.9 million in fiscal 1994. The charges included \$4.3 million for legal, accounting and financial advisory services, \$7.6 million for the write-off of duplicative product related expenses and modification of certain development contracts, \$3.6 million for the elimination of duplicative and excess facilities, \$5.3 million for personnel severance and outplacement expenses and \$5.1 million for the consolidation and discontinuance of certain operational activities and other acquisition related expenses.

During fiscal 1994, Symantec implemented a plan to consolidate and centralize certain operational activities. This plan was designed to reduce operating expenses and enhance operational efficiencies by centralizing certain order administration, technical support and customer service activities in Eugene, Oregon. The Company recorded a charge of \$4.7 million, which included \$1.1 million for the elimination of duplicative and excess facilities, \$1.5 million for the relocation of the Company's existing operations and equipment, \$1.1 million for employee relocation expenses and \$1.0 million for employee severance payments. This centralization has been completed.

During fiscal 1994, Central Point incurred \$16.0 million of expenses related to the restructuring of its operations in order to reduce its overall cost structure and to redirect its software development and marketing efforts away from the personal desktop computer market toward personal computer network markets. The charge included \$6.2 million for employee severance, outplacement and relocation expenses, \$5.6 million for the write-off of certain excess fixed and intangible assets, \$1.8 million for lease abandonments and facility relocation and \$2.4 million for the consolidation and discontinuance of certain operational activities and other related expenses. Of the total charges, \$5.9 million resulted from the write-off of assets and \$10.1 million involved cash outflows. This restructuring has been completed.

As of March 31, 1996, total accrued cash related acquisition and restructuring expenses were \$7.8 million and included \$2.0 million for estimated legal fees and expenses, \$3.5 million for the elimination of duplicative and excess facilities and \$2.3 million for the consolidation and discontinuance of certain operational activities and other acquisition related expenses.

During fiscal 1994, Central Point purchased from unrelated parties certain in-process software technologies for approximately

\$3.0 million which was immediately expensed.

During fiscal 1994, Symantec reached an agreement with the plaintiffs and Symantec's insurance carriers to settle two securities class action lawsuits and a related derivative lawsuit brought by stockholders of Symantec. The combined settlement amount of the cases was \$19.0 million, approximately \$12.5 million of which was paid by Symantec's insurance carriers. Symantec recorded a charge of \$6.5 million representing Symantec's portion of the class action settlement.

Note 11. Litigation

On March 18, 1996, a class action complaint was filed by the law firm of Milberg Weiss Bershad Hynes & Lerach in Superior Court of the State of California, County of Santa Clara against the Company and several of its current and former officers and directors. The complaint alleges that Symantec insiders inflated the stock price and then sold stock based on inside information that sales were not going to meet analysts' expectations. The complaint seeks damages in an unspecified amount. Symantec believes the complaint has no merit and will vigorously defend itself. The Company has accrued certain estimated legal fees and expenses related to this matter; however, actual amounts may differ materially from those estimated amounts.

On December 30, 1994, Software Engineering Carmel ("Carmel") filed a lawsuit in the U.S. District Court for the District of Oregon against Central Point, a wholly owned subsidiary of the Company. Carmel developed and maintains the anti-virus program distributed by Central Point. The complaint alleges that Central Point breached its contract with Carmel by not fulfilling an implied obligation under the contract to use its best efforts or alternatively, its reasonable efforts, to market the anti-virus program developed by Carmel. The complaint also alleges that Central Point violated the non-competition provision in its agreement by selling a competing anti-virus program, apparently based on Symantec's sale of its own anti-virus product. The complaint seeks damages in the amount of \$6.75 million and a release of Carmel from its obligation not to sell competing products. A trial date has been set for July 1996. Symantec believes the complaint has no merit.

On September 3, 1992, Borland International, Inc. ("Borland") filed a lawsuit in the Superior Court for Santa Cruz County, California against Symantec, Gordon E. Eubanks, Jr. (Symantec's President and Chief Executive Officer) and Eugene Wang (a former Executive Vice President of Symantec who is a former employee of Borland). The complaint, as amended, alleges misappropriation of trade secrets, unfair competition, including breach of contract, interference with prospective economic advantage and unjust enrichment. Borland alleged that prior to joining Symantec, Mr. Wang transmitted to Mr. Eubanks confidential information concerning Borland's product and marketing plans. Borland claims damages in an unspecified amount. Symantec has denied the allegations of Borland's complaint and contends that Borland has suffered no damages from

the alleged actions. Borland obtained a temporary restraining order and a preliminary injunction prohibiting the defendants from using, disseminating or destroying any Borland proprietary information or trade secrets. Symantec filed a cross complaint against Borland alleging that Borland had committed abuse of process and defamation in publishing statements that Symantec had acted in contempt of a temporary restraining order. The case is not being actively prosecuted at this time pending the outcome of the criminal proceedings, discussed below. Symantec believes that Borland's claims have no merit.

On September 2, 1992, the Scotts Valley, California police department, operating with search warrants for Borland proprietary and trade secret information, searched Symantec's offices and the homes of Messrs. Eubanks and Wang and removed documents and other materials. On February 26, 1993, criminal indictments were filed against Messrs. Eubanks and Wang for allegedly violating various California Penal Code Sections relating to the misappropriation of trade secrets and unauthorized access to a computer system. On August 23, 1993, the Court recused the District Attorney's Office from prosecution of the action. On October 5, 1993, the State Attorney General and the District Attorney's Office filed a Notice of Appeal of the Order, and that appeal was argued on July 11, 1995. On September 8, 1995, the Court of Appeals reversed the recusal order. A petition for review of this decision by the California Supreme Court was granted on December 14, 1995. Symantec believes the criminal charges against Messrs. Eubanks and Wang have no merit.

On June 11, 1992, Dynamic Microprocessor Associates, Inc. ("DMA"), a former wholly-owned subsidiary of Symantec which has since been merged into Symantec, commenced an action against EKD Computer Sales & Supplies Corporation ("EKD"), a former licensee of DMA and Thomas Green, a principal of EKD, for copyright infringement, violations of the Lanham Act, trademark infringement, misappropriation, deceptive acts and practices, unfair competition and breach of contract. On July 14, 1992, the Suffolk County, New York sheriff's department conducted a search of EKD's premises and seized and impounded thousands of infringing articles. On July 21, 1992, the Court issued a preliminary injunction against EKD and Mr. Green, enjoining them from manufacturing, marketing, distributing, copying or purporting to license DMA's pcANYWHERE III or using DMA's marks.

On July 20, 1992 and in a subsequent amendment, EKD and Mr. Green answered Symantec's complaint denying all liability and asserting counterclaims against Symantec and Lee Rautenberg, a former principal of DMA. In May 1993, EKD and Mr. Green were granted permission to file a Second Amended Answer and Counterclaims that dropped every previously raised claim and instead alleged that DMA obtained the temporary restraining order and preliminary injunction in bad faith and that DMA, Symantec and Mr. Rautenberg breached certain license agreements and violated certain federal and New York State antitrust laws. In February 1995, DMA was granted leave

to file an Amended Complaint, which EKD subsequently responded to by a Third Amended Answer and Counterclaims virtually identical to EKD's Second Amended pleading. Symantec believes the charges made by EKD and Mr. Green have no merit.

Symantec is involved in a number of other judicial and administrative proceedings incidental to its business. The Company intends to defend all of the aforementioned pending lawsuits vigorously and although adverse decisions (or settlements) may occur in one or more of the cases, the final resolution of these lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the financial position of the Company. However, depending on the amount and timing of an unfavorable resolution of these lawsuits, it is possible that the Company's future results of operations or cash flows could be materially adversely affected in a particular period.

Note 12. Segment Information

Symantec operates in the microcomputer software industry business segment. The Company markets its products in North America and international countries primarily through retail and distribution channels.

Information by Geographic Area

<i>(In thousands)</i>	Year Ended March 31,		
	1996	1995	1994
Net revenues:			
North American operations:			
North American customers	\$ 303,280	\$ 296,684	\$ 286,790
International customers	16,609	16,977	33,504
Intercompany	6,015	4,625	7,841
	<u>325,904</u>	<u>318,286</u>	<u>328,135</u>
International operations:			
Customers	125,543	117,607	82,912
Intercompany	11,387	13,865	2,855
	<u>136,930</u>	<u>131,472</u>	<u>85,767</u>
Eliminations	(17,402)	(18,490)	(10,696)
	<u>\$ 445,432</u>	<u>\$ 431,268</u>	<u>\$ 403,206</u>
Operating income (loss):			
North American operations	\$ (58,296)	\$ 17,907	\$ (57,458)
International operations	8,201	23,449	10,473
Eliminations	1,816	(1,070)	(305)
	<u>\$ (48,279)</u>	<u>\$ 40,286</u>	<u>\$ (47,290)</u>

Intercompany sales between geographic areas are accounted for at prices representative of unaffiliated party transactions.

<i>(In thousands)</i>	March 31,		
	1996	1995	1994
Identifiable assets:			
North American operations	\$ 246,619	\$ 258,850	\$ 227,672
International operations	51,309	50,782	38,696
	<u>\$ 297,928</u>	<u>\$ 309,632</u>	<u>\$ 266,368</u>

Significant Customers

The following customers accounted for more than 10% of net revenues during fiscal 1996, 1995 and 1994:

	Year Ended March 31,		
	1996	1995	1994
Ingram Micro D	27%	22%	18%
Merisel	10	11	13

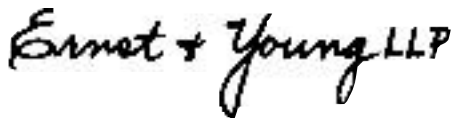
Report of Ernst & Young LLP, Independent Auditors

*The Board of Directors and Stockholders
Symantec Corporation*

We have audited the accompanying consolidated balance sheets of Symantec Corporation as of March 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits. We did not audit the financial statements or schedule of Delrina Corporation, which statements reflect total assets and net income constituting 29% and 14%, respectively, of the related 1995 consolidated financial statement totals, and which statements reflect net income of approximately \$12.7 million related to the 1994 consolidated net loss. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Delrina Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Symantec Corporation at March 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, based upon our audits and the report of other auditors, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Ernst & Young LLP
San Jose, California
April 24, 1996

BOARD OF DIRECTORS

Walter W. Bregman²
*Chairman & Co-Chief Executive Officer,
 S&B Enterprises
 Chairman, Truevision*

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*Chairman, Symantec Corporation
 General Partner, Hill, Carman Ventures*

Gordon E. Eubanks, Jr.
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 Symantec Corporation*

Leslie L. Vadasz^{1,2}
Senior Vice President, Intel Corporation

Charles M. Boesenberg
President & CEO, Ashtech

Robert S. Miller²
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CORPORATE OFFICERS
AND KEY EMPLOYEES

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Howard A. Bain, III
*Vice President, Finance, &
 Chief Accounting Officer*

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Vice President, Communications Products

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Vice President, Support & Services

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*Vice President, Networking &
 Client/Server Technology*

Dana E. Siebert
Vice President, Worldwide Sales

Derek P. Witte
*Vice President, General Counsel
 & Secretary*

CORPORATE HEADQUARTERS

Symantec Corporation
 10201 Torre Avenue
 Cupertino, California 95014-2132
 (408) 253-9600

OTHER CORPORATE OFFICES
AND DEVELOPMENT SITES

Beaverton, Oregon
 Eugene, Oregon
 Melville, New York
 Santa Monica, California
 St. Louis, Missouri
 Sunnyvale, California

TRANSFER AGENT

Bank of Boston
 PO Box 644
 Boston, Massachusetts 02102

INVESTOR RELATIONS

A copy of the Company's Form 10-K as filed with the Securities and Exchange Commission is available upon request without charge. Please contact the Investor Relations Hotline at (408) 446-8990. Additional investment oriented questions may be directed to:

Lori A. Barker
Manager of Investor Relations
 Symantec Corporation
 10201 Torre Avenue
 Cupertino, California 95014-2132
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OUTSIDE COUNSEL

Fenwick & West
 Two Palo Alto Square
 Palo Alto, California 94306

INDEPENDENT AUDITORS

Ernst & Young LLP
 55 Almaden Boulevard
 San Jose, California 95113

MAJOR SUBSIDIARIES

Symantec Ltd.
 Dublin, Ireland
 Leiden, Holland

 Symantec (UK) Ltd.
 Maidenhead, United Kingdom

Symantec (Deutschland) GmbH
 Dusseldorf, Germany

Symantec France EURL
 Suresnes, France

Symantec Australia Pty Ltd.
 Sydney, Australia

Delrina (Canada) Corporation
 Toronto, Canada

Symantec S.r.l.
 Milan, Italy

Symantec Japan, Inc.
 Tokyo, Japan

ANNUAL MEETING

The annual meeting of Stockholders will be held September 25, 1996 at Symantec Corporate Worldwide Headquarters, Cupertino, California.

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SYMANTEC.

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