



This 3DAdvisors Report Covers:

- ✓ **Insider Trading:** Insider Trading Behavior
- ✓ **Accounting:** Quality of Earnings Issues
- ✓ **Governance:** Corporate Governance Issues

Despite 30% Decline in Shares, Insiders Keep Selling Symantec Corporation (NASDAQ:SYMC) Update

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Symantec Corporation provides content and network security software and appliance solutions to enterprises, individuals and service providers. The Company provides client, gateway and server security solutions for virus protection, firewall and virtual private network (VPN), security management, intrusion detection, Internet content and e-mail filtering, remote management technologies and security services to enterprises and service providers worldwide. Symantec has offices in 36 countries worldwide. The Company views its business in five operating segments: enterprise security, enterprise administration, consumer products, services and other activities.

Summary of 3DAdvisors Findings for SYMC

- ▶ **Insider Trading:** Despite 30% decline in shares, insiders keep selling
- ▶ **Accounting:** Segment profitability (or lack thereof) difficult to determine
- ▶ **Governance:** CFO comp deal raises plenty of questions
- ▶ **Accounting:** Benefits from option exercises will decline dramatically

Discussion of 3DAdvisors Findings

We don't need to dwell on the poor performance of Symantec shares in the wake of the late 2004 announcement that the Company would be merging with Veritas. Likewise, we need to spend little time reminding our clients about the imposing threats of Microsoft competition on the horizon. Indeed, as we write this, already weak Symantec shares hit more rough water earlier this week on Microsoft's announcement that it was acquiring Sybari Software Inc., its second such deal in three months in the security software space and a further reminder of the software giant's intentions to compete in the business for software that keeps consumer and business computers free of spam, spyware, viruses and other threats.

With Microsoft's footsteps growing ever louder, we have been monitoring, with great interest, the behavior of SYMC insiders since late 2003 as it has become evident that building long-term positions is not a goal of most Company executives; they have surfaced repeatedly, clearing out big portions of their stock option holdings. Each wave

of aggressive insider selling has been followed by yet another as Symantec shares moved higher through 2004.

As is our practice, this persistent insider behavior caused us to drill into behavior in the accounting and governance areas as well, where we have observed a variety of interesting items. From compensation plans driven by EPS and aided by repurchases, to plenty of small acquisitions resulting in big additions to goodwill (now \$1.4B or 25% of assets), to jockeying A/R allowances and the selective use of restatements, there has been plenty of noteworthy behavior over the last 18 months to keep our attention.

Now, after Symantec shares had dropped 30% in the wake of the Veritas announcement and given up virtually all gains since last summer, we have a group of operating executives selling large amounts of stock at the lower prices. Making matters more interesting, some of them have trimmed material amounts from their holdings at these prices. It always is of interest to us when insiders move to unload shares that have dropped precipitously instead of waiting for a rebound to occur. When this happens, we are on the lookout that there may be more uncertainties on the horizon.

Insider Trading: Despite 30% decline in shares, insiders keep selling

We were surprised to see that five Symantec operating executives, and two directors, would sell 697,402 shares at prices in the low \$20's between late January and early February. It would be impossible to argue that this was the only available window for selling as insider distribution was aggressive at Symantec in each month of the final quarter 2004 as over 2 million shares were sold by a broad swath of Company executives. The aggressive selling at the end of 2004 only served to confirm our suspicions that, in spite of the rise in the price of Symantec shares in the second half of 2004, not enough had changed fundamentally to cause insiders to alter their already-aggressive patterns of liquidating their holdings and now, with SYMC shares trading at their lows, and insiders continuing to unload, it would seem that insiders are anticipating even more choppy water ahead and taking any profits they can right now.

- **Greg Myers (54)** – CFO. Meyers' holdings have been noticeably dropping in the past year. As new options have vested, he continues to be quick to cash them in and unload the underlying shares. Since our last update report on 08/23/04, he has unloaded another 260,000 shares; 130,000 of them on February 1st for \$23.41 each. This has **taken his holdings down 51%** since our August update. In the process, Myers has unloaded options that weren't set to expire until between 2010 and 2013 (see Appendix). Myers' holdings are a far cry from where they were back in August of 2003 when they stood at almost 750,000 shares. After this current round of selling, his actionable position is down to about 254,000 shares and vested options. His behavior is all the more interesting to us given the special compensation treatment he has received (see below).
- **Rebecca Ranninger (45)** – Sr. V.P., Human Resources. Ranninger is another executive, from the recent round, that has cleared out of most of their holdings. Since our August update, she has dropped a total of 211,546 shares, most of them not set to expire until between 2009 and 2011. Her most recent sale was on February 1st for 43,546 shares for \$23.42 each. Since August, she **has trimmed 60% from her holdings**.

Figure 1. SYMC Daily Closing Price, March 1, 2004 through February 10, 2005. Blue shaded area is where insiders sold 697,402 shares. Source: Reuters and SYMC SEC Filings.



- **Dieter Giesbrecht (60)** – Sr. V.P. and G.M., Enterprise Administration Business Unit. Giesbrecht has sold 290,000 shares since last August with the last 50,000 of these sold on January 28th for just \$22.98 each. As in the case with the others, none of the options he exercised, with the sales, were set to expire until between 2009 and 2010 (see Appendix). The sales **dropped his holdings by over 21%**.
- **John W. Thompson (55)** – Chairman and CEO. Thomson also entered the ranks of those willing to sell at the lows, clearing out options for 408,856 shares (not set to expire until 2009) and selling them at \$22.59 each on January 24th. He continues to hold a substantial position (see Appendix).
- **Enrique Salem (38)** – Sr. V.P., Network and Gateway Security Solutions. Salem boomeranged back into the SYMC fold when the Company bought Brightmail (a company Symantec held a 13% stake in) in a \$370 million cash acquisition in May of 2004. Salem was CEO of Brightmail and upon the conversion of his Brightmail stake into a Symantec options and common, he held a total of 147,583 shares of Symantec common and another 333,946 options. Prior to his Brightmail experience, he had worked for Symantec as head of its security business unit.

We find it interesting that, at the same time as the other Symantec executives, Salem has begun to sell his Symantec stake at equally low prices, dropping 45,000 shares at \$22.38 each on January 26th. Salem now holds 144,055 common shares and 291,418 options. His actionable holdings reduction, however, is not determinable as he has not revealed the vesting schedules for his remaining options. Suffice it to say that it is likely that a significant portion of remaining options are unvested.

Also selling were directors **George Reyes (50)** who dropped 15,000 shares at \$22.78 and **Daniel Shulman (46)** who sold 5,000 at \$22.46.

Accounting: Segment profitability (or lack thereof) difficult to determine

The business segment section in Symantec's 10-K is quite interesting. They have one segment called "Other" which contains sunset products and those products nearing the end of their shelf lives. We are always suspicious when "Other" in any financial statement becomes prominent, in this case it is where a large chunk of operating expense and depreciation and amortization are allocated. The Company doesn't exactly hide the fact that it is used as a dumping ground, either: **"Also included in the [other] segment are all indirect costs, G&A expenses, amortization of other intangible assets...which are not charged to other segments"**. While this practice would not change the overall net income picture, it is easy to see that they could dump costs here that could reasonably be shown as applicable to various segments, distorting results on a segment basis.

Table 1. Segment Results, 3 Months and 9 Months Ended for 2004 and 2003.
(Amounts in \$000). Source: SYMC 2004 Form 10-K.

	Consumer Products	Enterprise Security	Enterprise Admin.	Services	Other	Total Company
3 Mons. Ended December 31, 2004						
Net Revenues	\$ 360,591	\$ 241,228	\$ 77,783	\$ 15,576	\$ 46	\$ 695,224
Operating Income (Loss)	237,720	50,427	35,465	(5,362)	(90,181)	228,069
Deprec. & Amortization	873	4,097	831	362	21,427	27,590
3 Mons. Ended December 31, 2003						
Net Revenues	\$ 242,448	\$ 186,671	\$ 53,258	\$ 11,359	\$ 169	\$ 493,905
Operating Income (Loss)	151,925	34,873	36,636	(1,935)	(67,915)	153,584
Deprec. & Amortization	969	3,798	73	1,446	22,528	28,814
9 Mons. Ended December 31, 2004						
Net Revenues	\$ 954,286	\$ 671,576	\$ 206,237	\$ 37,851	\$ 221	\$ 1,870,171
Operating Income (Loss)	618,564	146,039	90,087	(12,645)	(254,601)	587,444
Deprec. & Amortization	2,708	12,816	1,765	2,124	69,046	88,459
9 Mons. Ended December 31, 2003						
Net Revenues	\$ 603,006	\$ 528,837	\$ 151,238	\$ 30,245	\$ 368	\$ 1,313,694
Operating Income (Loss)	359,934	100,054	108,999	(7,446)	(212,879)	348,662
Deprec. & Amortization	2,729	10,676	244	4,173	66,625	84,447

It's quite easy to see how few revenues are channeled through the "Other" segment while, at the same time, the vast majority of the Depreciation and Amortization and other costs flow through to that area. By using this practice, we get the impression

that Symantec is trying to avoid giving any information that would indicate the actual profitability of each segment.

Given the competitive nature of the industry, not to mention the ominous threats posed by Microsoft's entering the arena, it could be that management does not want to reveal the level of profitability, or the lack thereof, in some of its more aggressively competed areas. Another possibility is that the segment profitability may be inflated to protect large amounts of Goodwill (\$1.4B as of Q3:05) from obvious impairment risk.

Governance: Special compensation treatments raise plenty of questions

Symantec has a new restricted stock plan, approved in 2004, that allows for restricted share grants "at no less than par value" to individuals selected to receive them. It's interesting to note that CFO **Greg Meyers** was the first to benefit from this windfall when the Company awarded him:

"On October 20, 2004, we issued 200,000 restricted shares to our Senior Vice President of Finance and Chief Financial Officer, at a purchase price per share of \$0.01 (par), vesting 50% at each anniversary date beginning October 20, 2005. The market value of the common stock on the date of grant, less par, was recorded in Deferred stock-based compensation within Stockholders' Equity in the Condensed Consolidated Balance Sheet during the three-month period ended December 2004. The deferred stock-based compensation is being amortized over the two-year service period. We recorded amortization expense of \$461,000 for the three months ended December 31, 2004."

That's \$1.844 million annually, and this in addition to the \$903,750 he received in salary and bonus during F/Y 2004. So far, Myers is the only executive disclosed as having received a material award under the new restricted share plan. In light of his aggressive share sales during the past year and also very recently (see above), we are led to wonder whether he had plans to leave the Company but the plan, which will not permit vesting of restricted shares if he terminates his employment, served as a pair of Golden Handcuffs.

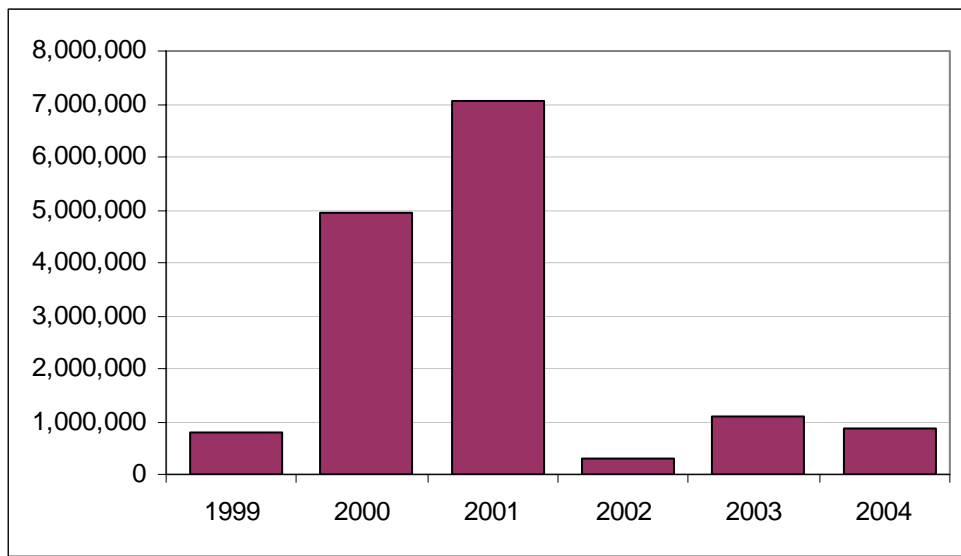
Meyers is not the only person who Symantec seems to have bent over backwards for in the compensation area in the past year. The package offered to incoming Sr. V.P., Worldwide Sales, **Thomas Kendra** (hired from IBM in January of 2004) raised our eyebrows not only for its size but also the fact that it was not disclosed until Symantec's Q3 Form 10-Q, issued over one after the fact, in February of 2005. Kendra received a starting annual base salary of \$325,000 and is eligible for a bonus of \$195,000. In addition, he received a one-time "hire-on" bonus of \$285,000. In addition, he "will be paid the amount of \$962,370, payable in three equal, semi-annual payments beginning in July of 2004". This last payment seems to be related to his IBM options held. However, if IBM "deems Symantec to be a competitor and does not permit you to exercise your current (IBM) vested options, you will instead be paid the amount of \$1,818,370..." It would seem that Symantec is facing paying higher and higher compensation amounts in order to remain competitive with the 600 pound Gorillas that threaten its turf.

Accounting: Benefits from option exercising will decline dramatically

Rarely have we seen such material boosts to cash from stock option exercises (on a relative basis) as we have at Symantec. The propensity towards exercising options by Company insiders has generated cash proceeds totaling \$189 million in 2004, \$138 million in 2003 and \$134 million in 2002. To put this in prospective, the 2004 total covered, by far, the \$112 million in CAPEX for the period. Through three quarters of F/Y 2005, the same condition exists: \$140 million in cash from option exercises with CAPEX for the period totaling \$66 million.

In addition to the cash benefits are the material tax benefits associated with the option exercises. These totaled \$84 million through Q3, 2005, and \$67 million, \$39, and \$46 million in 2004, 2003 and 2002. It is very clear from the vesting schedules (see Appendix and Figure 2 below) that new grants have dropped off precipitously in recent years. This, combined with the effects of weak stock prices for SYMC shares, will no doubt put a big dent in the windfalls associated with Symantec's earlier aggressive option granting strategies.

Figure 2. Annual Stock Option Grants to Executives Included in Appendix. Source: SYMC SEC Filings.



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Appendix

Option Vesting Schedules for Selected Symantec Corp. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
Dieter Giesbrecht, Senior VP, GM, Enterprise Administration Business Unit. Common stock holdings: 71,760 shares							
12/20/99	280,000	\$6.95	12/20/00	12/20/09	50,000	0	Fully vested
12/18/00	560,000	\$4.32	12/18/01	12/18/10	249,968	0	Fully vested
12/14/01	390,000	\$8.21	12/14/02	12/14/11	390,000	89,373	Vests 2.083% per month
09/04/03	152,000	\$14.62	09/04/04	09/04/13	152,000	101,334	Vests 2.083% per month
10/20/04	56,000	\$27.68	10/20/05	10/20/14	56,000	56,000	25% vest on 10/10/05, remainder vests 2.083% per month
Greg Myers, Senior VP Finance, CFO. Common stock holdings: 40,000 shares							
12/20/99	520,000	\$6.95	12/20/00	12/20/09	95,844	0	Fully vested
12/18/00	440,000	\$4.32	12/18/01	12/18/10	14,476	0	Fully vested
12/14/01	360,000	\$8.21	12/14/02	12/14/11	97,292	82,498	Vests 2.083% per month
03/06/03	400,000	\$10.36	03/06/04	03/06/13	250,704	216,668	Vests 2.083% per month
09/04/03	160,000	\$14.62	09/04/04	09/04/13	160,000	106,667	Vests 2.083% per month
10/20/04	100,000	\$27.68	10/20/05	10/20/14	100,000	100,000	25% vest on 10/10/05, remainder vests 2.083% per month
Rebecca Ranninger, Senior VP, Human Resources. Common stock holdings: 48,572 shares							
12/14/01	300,000	\$8.21	12/14/02	12/14/11	127,228	68,748	Vests 2.083% per month
09/04/03	100,000	\$14.62	09/04/04	09/04/13	100,000	66,667	Vests 2.083% per month
10/20/04	50,000	\$27.68	10/20/05	10/20/14	50,000	50,000	25% vest on 10/10/05, remainder vests 2.083% per month
John Schwarz, President, COO. Common stock holdings: 39,008 shares							
12/26/01	2,000,000	\$8.04	12/26/02	12/26/11	1,348,272	458,326	Vests 2.083% per month
07/24/02	300,000	\$7.68	07/24/03	07/24/12	300,000	112,500	Vests 2.083% per month
09/04/03	300,000	\$14.62	09/04/04	09/04/13	300,000	200,000	Vests 2.083% per month
10/20/04	150,000	\$27.68	10/20/05	10/20/14	150,000	150,000	25% vest on 10/10/05, remainder vests 2.083% per month



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Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
John W. Thompson, Chairman, CEO. Common stock holdings: 1,460,684 shares							
01/01/00	1,560,000	\$7.32	01/01/01	01/01/10	1,560,000	0	Fully vested
12/18/00	2,400,000	\$4.32	12/18/01	12/18/10	6,216	0	Fully vested
12/05/01	4,000,000	\$8.21	12/05/02	12/05/11	4,000,000	916,652	Vests 2.083% per month
10/20/04	500,000	\$27.68	10/20/05	10/20/14	500,000	500,000	25% vest on 10/10/05, remainder vests 2.083% per month