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PRESENTATION

Operator

Good day, and welcome to the Symantec first quarter 2009 earnings conference call. Today's call is being recorded. At this time, I would like to turn the call over to Ms. Helyn Corcos, Vice President of Investor Relations. Please go ahead, ma'am.

Helyn Corcos *Symantec - VP, IR*

Thank you. Good afternoon and thank you for joining our fiscal first quarter 2009 earnings conference call. With me today are John Thompson, Chairman of the Board and Chief Executive Officer of Symantec; Enrique Salem, Chief Operating Officer; and James Beer, Executive Vice President and Chief Financial Officer. In a moment, I will turn the call over to John. He will provide high level comments on the Company. Enrique will follow with quarterly highlights. And James will wrap it up with the review of the financials and our guidance as outlined in the press release. This will be followed by a question and answer session.

Today's call is being recorded and will be available for replay on Symantec's investor relation's home page at www.Symantec.com/invest. A copy of today's press release and supplemental financial information are available on our website and a copy of today's prepared remarks will be available on the Investor Relations website shortly after the call is completed. During the June 2008 quarter, we classified -- we reclassified the Altiris Services revenue from security and compliance to the services segment. We have provided the corresponding historical comparisons in our press release and supplemental information, which has been posted on our website.

Before we begin, I would like to remind everyone that some of the information discussed on this call, including our projections regarding revenue, operating results, deferred revenue, cash flows from operations, amortization of acquisitions-related intangibles and stock-based compensation for the coming quarter contain forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statement. Additional information concerning these risks and uncertainties can be found in the Company's most recent periodic records filed with the US Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statements.

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, Symantec reports



non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in the press release and on our website. Now, I would like to introduce our CEO, Mr. John Thompson.

John Thompson *Symantec - Chairman, CEO*

Thanks, Helyn, and good afternoon, everyone. I'm excited by the team's ability to execute our operating plan and deliver solid June quarter results. Performance was strong in all geographies, with international growth remaining robust and with North America posting strong double-digit results. The salesforce continues to focus on upsell and cross-sell opportunities resulting in record June quarter large transaction volumes. Healthy spending on storage management solutions continued during the quarter, as growth in data volumes continues for our customers around the world. In addition, our investments in higher growth areas, like archiving and data protection are paying off. As an example, the integration of our duplication technology with net backup has ignited an important growth opportunity for us, and our archiving business continues to build on its market-leading position.

The June quarter results highlight the critical nature of our product portfolio to customers around the world. In addition, we saw CIOs of large enterprises purchase more products from Symantec as they strive to reduce the number of vendors they must manage. This is a trend we expect to continue, particularly during these more challenging economic times. In addition to strong revenue and earnings results, our deferred revenue and strong cash flow generation during the June quarter underscore the financial strength of our company. This performance is a terrific start to our fiscal year.

Looking ahead, we believe the pipeline for September is strong and visibility continues to improve. We intend to leverage our core strengths and end point security, data protection, storage management, and our consumer franchise to accelerate new growth opportunities. We will continue to upsell new functionalities and drive incremental business across our global customer base. And we will continue to invest in areas such as software as a service and virtualization.

At our financial analyst day, we provided an update on our Endpoint Virtualization strategy as one of our emerging growth areas. Additionally, according to IDC, the X86 server virtualization market is growing in excess of 25% annually and expects -- is expected to exceed \$3 billion by 2011. We made a number of important moves over the last few years to position our Company to be able to take advantage of these opportunities. They include the purchase of Altiris with its software virtualization service. The acquisition of AVStream to complement the SVS solution. As well as the recent announcement of our Veritas virtualization infrastructure solution. So let me put our strategic intent around virtualization in context for you today.

At the end point, our strategy is based on freeing valuable information from the underlying systems functions. Today, important enterprise information is scattered across a broad range of devices, from PDAs to storage arrays. This valuable information is deeply entangled with our -- entangled, I'm sorry, with other data such as operating systems and application code, which is far less valuable to any enterprise. We believe that virtualization, when properly applied, can decouple information that matters from the rest of the IT environment, so that it can be independently secured and managed. To help our customers achieve this benefit, Symantec is infusing virtualization capabilities across our portfolio from server management and high availability to security.

For instance, in the data center, server and storage virtualization coupled together can separate unique information from redundant copies of an application or operating system, dramatically lowering storage costs. In June, we announced the Veritas virtual infrastructure as the only product that can drive a total server and storage management solution for both virtual and physical environments. Available on the X86 platform, this will allow us to leverage our customers' interest in Linux and Windows server consolidation. On the end point, the user experience can be separated from the OS and application to provide better portability in today's highly mobile environment. Together, Symantec's application streaming technology and our client software virtualization solution provides end users with the applications they require on demand, allowing IT managers to optimize the cost of delivery of critical applications without impacting the users' experience.

We believe customers will use virtualization technologies to help them simplify their environments by separating out the information that matters from that which does not. And we believe Symantec is well positioned to help them secure and manage that information by putting virtualization to work across our portfolio. With enterprise data volumes doubling every two years, we believe we have the right



products, right now, with additional enhancements and innovations planned to meet the critical need to secure and manage the information explosion. We will continue to strengthen our position in both our consumer and enterprise customers around the world, as this opportunity represents a significant growth catalyst for our Company. With that, I'll turn it over to Enrique, who will provide some details on the June quarter highlights.

Enrique Salem Symantec - COO

Thanks, John, and good afternoon, everyone. I'm very pleased with the strong performance of our team during the June quarter. Sales activity continued to improve around the world, with all regions posting double-digit revenue growth. In addition, all key product areas generated strong growth. The salesforce executed well effectively upselling and cross-selling the broader Symantec portfolio. This was evident in our large transaction.

During the June quarter, we generated a total of 336 transactions valued at more than \$300,000 each, up 35% compared to 249 transactions in the year-ago quarter. We generated 85 transactions worth more than \$1 million each, up 77% compared to the 48 transactions in the June 2007 quarter. In addition, nearly 80% of all large transactions include multiple products or services driven by the trend that large enterprises prefer to deal with fewer vendors. During the quarter we generated strong sales and revenue performance across all of our segments and geographies.

Within our storage and server management segment, our data protection business posted outstanding results as we continue to extend our leadership position by gaining market share from our competitors. The revenue from our backup business grew more than 20% year-over-year. Sales of Net Backup 6.5 were driven by our unique capabilities around virtual machine protection, disk space data protection and by our deduplication technology in Pure Disk. During the quarter we launched a beta version of our new continuous data protection technology. This innovative technology dramatically reduces IT risk and improves backup and recovery service levels. At the same time, it minimizes infrastructure costs through advanced disk space protection and more efficient usage of server and storage resources. This product has already garnered strong interest from our customer base.

Backup Exec 12, which launched in mid-February continues to perform very well in the small and midmarket segments. We also continue to leverage technology between Net Backup and Backup Exec in order to deliver innovation across our product portfolio, across all market segments. We protect more than half the world's data and we will continue to bring next generation technology to the market in a timely manner.

On the data center side of the business, our storage foundation products posted their best result in years. The performance was driven by our customers' desire to simplify their data center infrastructure and reduce costs by standardizing the storage management software across their heterogeneous environment. In our security and compliance segment, our market-leading end point security franchise posted strong results and generated double-digit year-over-year revenue growth. Customers value Symantec end point protection's superior feature set and smaller footprint. We continue to garner new customers and have won a number of competitive displacements.

Our end point management business generated strong sales activity and posted year-over-year revenue growth in the high teens. We continue to see strong win rates against our competitors. In the June quarter, we announced the release of new Symantec end point management suite. This suite defines the next generation of integrated, best of breed systems management, end point security and backup and recovery. The suite uniquely differentiates Symantec versus others in this marketplace. We believe our integrated approach provides organizations with the visibility into and control of an entire end point environment. Thereby minimizing the exposure, security and compliance risks.

Looking ahead, one of our key product deliverables this year is Altiris 7.0, built on the Symantec open collaborative architecture. It provides us the opportunity to integrate other Symantec solutions, such as our end point products within this new architecture.

Now moving on to our archiving business, we continue to win against our competition in the archiving space. Enterprise Vault had another outstanding quarter with revenue posting 30% year-over-year growth. We believe Enterprise Vault has become the de facto standard for addressing the ever-increasing regulations around E Discovery. Once again Gartner positioned Enterprise Vault in the leaders quadrant of the 2008 magic quadrant for e-mail archiving. In addition, for the fifth consecutive time, we are the only, the only



vendor positioned in the leadership quadrant.

Our Vontu team had the best quarter in their history. The continued momentum of our Data Loss Prevention business demonstrates the successful integration of our teams. During the quarter we closed our largest DLP deal ever and we won our largest international deal to date. Gartner recently positioned Vontu Data Loss Prevention 8 in the leaders quadrant for content monitoring, filtering, and data loss prevention. DLP is a key component in Symantec's product strategy to secure and manage the world's information.

Now moving to the consumer business, we continue to enhance our leadership position by delivering the most innovative products and services that address the evolving needs of customers today. Our suite products, Norton Internet Security and Norton 360 continue to perform well, increasing their share of total consumer sales and driving ASPs higher. Norton 360 now represents almost 25% of our consumer revenue and more than 35% of consumer sales.

During the quarter, we closed the SwapDrive acquisition, with the explosion of digital information such as photos, music and videos, consumers have more files on their computers than ever before. Adding SwapDrives technology into the Norton portfolio gives consumers access to a world class service to help secure and manage their information. While we already leveraged SwapDrives online backup service in Norton 360, this acquisition allows us to enhance operating results for this product and gives us the capability to utilize SwapDrives online backup and storage platform in our other consumer offerings.

Our consumer services continue to generate strong customer interest. Our most popular services such as PC tune-up, PC installation and green PC are finding that these services lead to higher customer satisfaction levels and build even greater loyalty for the Norton family of products. We also recently launched the public betas of the 2009 editions of Norton Antivirus and Norton Internet Security. The 2009 products have been designed to be the fastest security products in the industry. This is supported by more than 300 improvements that span nearly every aspect of the product from the scanning engines to the user interface. Examples include an install time of 1 minute or less with one click, the industry's fastest update capability and memory usage reduced to less than 50% of our nearest competitor. Our beta users are consistently giving us high marks for performance and usability. And finally, we expect these products to ship during the usual September timeframe.

Looking ahead, the September quarter pipeline looks strong and I believe security and storage are priority areas for IT spending, even in this environment. And with that, I'll hand the call over to James.

James Beer *Symantec - EVP, CFO*

Thank you, Enrique, and good afternoon, everyone. It is very encouraging to see the combination of consistent execution, further margin expansion and solid cash generation driving better results in each of our four key financial metrics. First, I'll review with you the financial details of the June quarter, which as a reminder, included 14 weeks of activity versus the normal 13 weeks.

GAAP revenue came in at \$1.65 billion. Non-GAAP revenue grew 16% over the June 2007 period to \$1.66 billion, driven by both our success in selling more to our installed base, as well as new customers around the world. Our June quarter revenue included approximately \$75 million of one-time benefit generated from the extra week. Foreign currency movement positively impacted non-GAAP revenue by 7 percentage points year-over-year.

The June quarter's fully diluted GAAP earnings per share were \$0.22. Non-GAAP fully diluted earnings per share for the quarter were \$0.40, up 38% year-over-year, reflecting that even as our top line growth strengthened, we continued to judiciously manage expenses. Our June quarter EPS included approximately \$0.03 of one-time benefit generated from the extra week. International non-GAAP revenue of \$866 million grew 19% versus the year-ago period, with all regions posting double-digit growth. International revenue accounted for 52% of total non-GAAP revenue. We are also particularly pleased with the Americas performance, which grew 13% year-over-year.

Now I would like to move on to our non-GAAP revenue by segment. The consumer business generated record revenue of \$473 million, up 12% versus the June 2007 quarter. Electronic distribution grew by more than 20% year-over-year, reaching a new high of nearly 80% of our total consumer revenue. Online sales were driven primarily by strong subscription renewal, ISP and OEM activity. In the enterprise



arena, the competitiveness of our security, availability and services solutions, along with excellent sales execution drove the improved top line growth. Storage and server management segment generated revenue of \$616 million, up 20% as compared to the June 2007 results driven by strong data protection and storage management performance.

Our security and compliance segment generated revenue of \$449 million, up 12% versus the year-ago period. Our end point security products generated record revenue during the quarter, growing approximately 10% year-over-year. We were also pleased with the performance of our end point management team for posting another very solid quarter. In addition, we continued to see strong double-digit growth from our industry-leading archiving solutions. Our services segment generated revenue of \$117 million, up 35% year-over-year, representing 7% of our total revenue.

We continue to focus on improving the cost efficiency of our services operations and we are pleased with the contribution improvements that the group has made during the past couple of quarters. Please note that we have reclassified the Altiris services revenue from security and compliance to the services segment. We have provided the corresponding historical comparisons on the Investor Relations website. Non-GAAP gross margin increased 170 basis points to 86.5% for the June 2008 quarter as compared to the year-ago period. This is as a result of our cost of goods sold remaining approximately constant year-over-year, while revenue grew by more than \$230 million. Improved revenue production and a focus on cost management have also increased non-GAAP operating margins for the June quarter to 29.3%, up 360 basis points year-over-year. This is the third consecutive quarter in which operating margins have increased strongly versus the prior year.

As I mentioned at our financial analyst day, strong top line performance can lead to operating margin improvements above our planned annual goal of 100 basis points year-over-year. GAAP net income was \$187 million for the June 2008 quarter. Non-GAAP net income was \$342 million, up 30% year-over-year. We exited June with a cash and short-term investments balance of nearly \$2.3 billion. During the June quarter, we repurchased 9.7 million shares at an average price of \$20.55. This \$200 million repurchase volume is consistent with our annual target of spending half of our cash flow from operations on share buybacks. Our net accounts receivable balance at the end of the June 2008 quarter was \$652 million. Day sales outstanding, or DSO, was 36 days, in line with normal seasonal trends. Cash flow from operating activities for the June quarter was up 18% to \$414 million, as compared to the June 2007 quarter, primarily due to strong collections and the benefit from prior period litigation settlements, offset by increased cash tax payments.

GAAP deferred revenue at the end of June 2008 was approximately \$3.01 billion. Non-GAAP deferred revenue grew 12% year-over-year to \$3.02 billion, assisted by strong selling activity, particularly at the end of the quarter. Foreign currency movements positively impacted non-GAAP deferred revenue by 7 percentage points year-over-year. Our deferred revenue included a one-time negative impact of approximately \$5 million from the June quarter's extra week. As you may recall, in May 2006, we paid \$130 million of additional US taxes associated with repatriation of offshore funds by Veritas in 2005. Earlier this month, we reached a settlement with the IRS, which we expect will result in our obligation being only 10% of the original \$130 million at issue.

Now I would like to spend a few minutes discussing our expectations for the September quarter, which, as I noted earlier, contains only 13 weeks. We expect GAAP revenue to be in the range of 1.52 billion to \$1.56 billion. Non-GAAP revenue is estimated to be in the range of 1.525 billion to \$1.565 billion as compared to \$1.437 billion in the September 2007 quarter. GAAP earnings per share are forecasted to be in the range of between \$0.15 and \$0.17. Non-GAAP earnings per share are estimated to be in the range of between \$0.34 and \$0.36 as compared to \$0.29 in the year-ago period. At the end of the September quarter, we expect GAAP deferred revenue to be between 2.865 billion and \$2.965 billion. We expect non-GAAP deferred revenue to be between 2.875 billion and \$2.975 billion as compared to \$2.62 billion at the end of September 2007. We expect about 64%, or approximately \$990 million of our September quarter revenue to come from the balance sheet. This percentage, once again, illustrates the degree of predictability that we have built into our income statement during the last few years. This guidance assumes a common stock equivalents total for the quarter of approximately 860 million shares. We have also assumed an exchange rate of \$1.53 per euro for the September quarter. In closing, we are very pleased with the June quarter results and are encouraged with the prospect of building on this momentum during the September quarter. And now I'll turn it back to Helyn so we can take some of your questions.

Helyn Corcos Symantec - VP, IR

Thank you, James. Will you please begin polling for questions.

QUESTIONS AND ANSWERS

Operator

Yes, ma'am. (OPERATOR INSTRUCTIONS)

Helyn Corcos Symantec - VP, IR

While Tom is polling for questions, I would like to announce that Symantec plans to attend the Pacific Crest conference on August 5, the Citi conference on September 3, and Deutsche Bank conference on September 11. Finally, we will be reporting our fiscal second quarter results on October 29. For a complete list of the investor-related events please visit our events calendar on the Investor Relations website. Tom, we are ready for our first question.

Operator

Our first question comes from Sarah Friar with Goldman Sachs.

Sarah Friar Goldman Sachs - Analyst

Hi, guys. Very nice quarter. Can I switch to the enterprise security side and could you talk to me about the penetration of SEP 11 to date and what smacks there, what keeps driving the enterprise security business from here?

James Beer Symantec - EVP, CFO

I think when you look at our success rate with SEP, I mean we continue to see adoption by the larger customers. As you know, Sarah, when you initially ship a product, what happens is some of the larger customers are putting it in pilots and beta testing and we are starting to see movement in the high end of the market. Now, as you know, some of the things that we've added to the product are not only the Mac functionality but also our encryption option that we partnered for. That allows to us continue to drive the ASPs up for the per-node sale of our product. The other piece we've done that I think is more interesting, and I touched on it, is that we are positioning to ship Altiris 7.0, where we bring together the management capabilities that we acquired when we bought Altiris and that allows us to further deliver on our vision of the only way you have a secure end point, it has to be well managed. And so we feel very confident that will continue to strengthen our position at the end point.

Sarah Friar Goldman Sachs - Analyst

And just as a follow-up on that, you talk about the ASP going up on a per-node basis. Can you give us a sense of what that uplift is? And then in particular, if you can get someone to take the Altiris piece, are they paying double -- effectively 100% again, or what is it as a percent of what they would pay per node?

Enrique Salem Symantec - COO

I think it varies on the contract side, Sarah. If you look at it, each segment is going to be a little bit different, but it definitely -- it enhances it, because if you think about it, it's significant new functionality, systems management is a whole category unto itself that we've now successfully integrated and quite frankly, I think folks got to start looking at it from the perspective of if you don't deliver both security and management you only got half a solution.

Sarah Friar Goldman Sachs - Analyst

Okay. Great. Thanks, Enrique.

Operator

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



Heather Bellini UBS - Analyst

Hi, thank you. Good afternoon. I was wondering, Enrique, if you could give us an idea, you guys are seeing great results in cross-selling, and I was wondering how much of this would you say is due to the change in the sales force compensation. I guess was wondering do you think you're getting the full benefit from the changes you made on that front as of yet?

Enrique Salem Symantec - COO

When you look at it, Heather, these changes have been in the works through last fiscal year and this fiscal year and it's still early to get the, what I would say the full effect of the changes we made at the beginning of this new fiscal year. So I expect that the change will take effect as we go through the year. And so there's more benefit to be derived from those changes.

Heather Bellini UBS - Analyst

So does that mean that you expect the average revenue, or the average sale of ASPs of your sales to increase over the course of the year if this plays out as expected?

Enrique Salem Symantec - COO

I don't know that it has as much of an effect on the ASPs. What it does is it allows--.

Heather Bellini UBS - Analyst

Well, in terms of the average revenue per customer?

John Thompson Symantec - Chairman, CEO

It will drive higher license content, if anything, as opposed to affect the ASP. Because the focus in the operating plan is for the team to try to drive net new licenses or new placements within an enterprise. So in that context, perhaps you could translate that into higher ASP, but in our view it's much more about license content.

Heather Bellini UBS - Analyst

Okay, thank you.

Enrique Salem Symantec - COO

Thank you, Heather.

Operator

We'll take our next question from Brent Thill with Citi.

Brent Thill Citigroup - Analyst

Thanks. Just on the deals over a million, last year in the first half, those deals seemed to stall out and obviously you're showing a complete reversal on that trend with 85, up 77% year-over-year. Can you just walk through kind of what you're seeing, I know you mentioned there's an attach of additional multiple products, but can you help us just better understand what's being attached and if you look at product lines or if you look at seats or how to think through that number?

John Thompson Symantec - Chairman, CEO

I think you got it exactly right and that is that we are seeing multiple products being part of these larger transactions. I also think you're starting to see a little bit more of products that are not just either storage or security, but the combination of the two. I think those are probably the two biggest factors. Plus I think as we mentioned, our storage foundation business had its best quarter in as long as -- in many years and so I feel very good about some of our core data center products perform very, very well. So the combination of those three factors I think drove the large deal volume.

Brent Thill Citigroup - Analyst

Thanks.

Operator

We'll take our next question from Adam Holt with Morgan Stanley.

Adam Holt Morgan Stanley - Analyst

Good afternoon. My first question is on the storage and server management business. You seem to have had a complete I guess reversal, or at least real strengthening on the foundation business over the last several quarters, you noted more broad-based buying into the foundation sort of consolidation vision, but could you talk in a little bit more detail about what you think is behind the recent strength in foundation and do you think it's sustainable, sort of mid to high-single digit grower from here going forward?

Enrique Salem Symantec - COO

I think when you look at the success there is, folks are trying to manage down the cost of managing their infrastructure. And when you look at what we're able to do there, the combination of having a common storage management layer that works across a heterogeneous environment absolutely helps folks reduce their cost. The second thing is that we've added some new capabilities in products like command central storage, where you can get much better utilization of your storage. So, for example, if you look at the Gartner data, 37% of storage is currently utilized in the enterprise. When you take a product like Command Central, you can help customers drive down their costs of acquiring more storage, which is an important aspect of this business and quite frankly, that's why we feel that we continue to do an even better job of driving more product into the data center. The other aspect that I think is important is we've had tremendous salesforce stability. I think if you look across last year compared to this year, our geographic leaders have been in place now for over a year. You also have our leadership team across all geographies being very, very stable and that translates into more effective and better results in our entire product line but specifically in storage and server foundation.

Adam Holt Morgan Stanley - Analyst

Could I just ask a follow-up for James on operating margins. Even if you back out the impact of the extra week for the quarter, you still had quite strong margins, better than we were looking for. You noted sort of cost control and head count in your commentary, but are you also starting to see any potentially favorable impact from some of the consumer distribution deals starting to get more productive and more profitable?

James Beer Symantec - EVP, CFO

Well, yes. That is absolutely part of the equation. I think we discussed in the past as to how the accounting for those new consumer OEM arrangements are, is the toughest in the earliest part of the contract. And so we are starting to see now, now that the trial web period has passed, now that we've been able to build our take rates and so forth, a better top line impact to go along with what had previously been a substantial cost line impact.

Adam Holt Morgan Stanley - Analyst

So is it too early to say margins have stabilized there, or are we comfortable that margins should be more stable in the consumer business going forward?

James Beer Symantec - EVP, CFO

Well, we're sticking by our long-term goal of 100 basis points improvement on margin year-over-year, so I think I'll just leave it at that. We're obviously always going to be looking to overperform as we have done in this past quarter and that's going to be a combination of revenue growth and maintaining the discipline around the cost line.

Adam Holt Morgan Stanley - Analyst

Terrific, thank you.

Operator

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



Phil Winslow *Credit Suisse - Analyst*

Hi, guys. Great quarter. Just two quick questions. First, Enrique, just on the salesforce side, wonder if you could give us a sense for just attrition of salesforce and just how that's been trending over the past several quarters. I know it seemed to hit a high point in the year-ago quarter and then, John, also, we recently just saw an announcement of (inaudible) intent to acquire [Utamarquo], this is now your second competitor to move into the hard disk encryption market. I know you have an OEM relationship there, but does this effect your plans there at all?

Enrique Salem *Symantec - COO*

When you look at attrition, definitely it's trending down in the salesforce and that is trending down in the salesforce and that is to the point of having stability not only in the leadership team, but also at the various levels of management. I think that definitely has a positive effect on our overall sales performance.

John Thompson *Symantec - Chairman, CEO*

Phil, we've been quite pleased with that relationship with Guardian Edge. Obviously as the pipeline continues to build, that represents a good opportunity for both of our companies. We have made no decisions about changing that relationship or any other as it might add to purchase something in the encryption space and so when we have something to say other than what we're doing, we'll talk about it then.

Phil Winslow *Credit Suisse - Analyst*

Great. Thanks, guys.

Operator

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

Israel Hernandez *Lehman Brothers - Analyst*

Hey, good afternoon, everyone, and congratulations on the quarter. The question is on the large deals, obviously a lot of success closing those during the quarter and over the last couple quarters, any risk as we go into a more challenging macro environment that we could start to see some of these deals slip? How are you guys gauging the pipeline for these large deals and the predictability around those? Thanks.

James Beer *Symantec - EVP, CFO*

Well, Izzy, thanks on the comment on the quarter. I think it's fair to say that there are a number of customers out there that are caution in their view of what their spending plans are for the second half of this calendar year and so we can't be unmindful of that. But by the same token, we happen to have key product portfolio items in security and storage management, which are almost undeferrable expenditures for them as their data volumes continue to grow. So as data volumes grow, so will our business, independent of perhaps the broader macroeconomic environment. While we're not immune, we think we do have some degree of insulation from that problem.

Operator

And we'll take our next question from Daniel Ives with Friedman, Billings Ramsey.

Daniel Ives *Friedman, Billings, Ramsey - Analyst*

Thanks, great quarter. In regards to acquisitions, especially on the private side, can you talk to me in an environment like this, bolt-on acquisitions are probably -- there's a lot of pickings out there. Just how are you going through that and what's your thought process in regards to bolt-ons and what specific areas? Thanks.

John Thompson *Symantec - Chairman, CEO*

Well, most of the things we've done of late have been small transactions, actually small private Company transactions. I think as the liquidity opportunities for private companies continues to be challenging, it would make it much more attractive for them to consider a strategic purchase by a buyer like Symantec. We believe that that will create an opportunity for us for the next few years because there

are forecasts that would suggest there's going to be a tight IPO market for probably 12 to 18 months. And so as we said at our analyst conference, we intend to continue to be acquisitive around the notion of securing and managing the world's information content and to the extent that there's something out there that complements that vision for us, you should expect to see us be active acquirers.

Operator

And we'll go next to John DiFucci with JPMorgan.

John DiFucci *JPMorgan - Analyst*

Hi, thanks. Just a question on guidance. This quarter the numbers look really strong, even if you back out that extra week and the guidance, although it looks decent, 7% revenue growth and calculated bookings and realizing a lot of your revenue comes off the balance sheet, but with the deferred revenue anticipated sequentially to go down a little bit, about 5% calculated bookings growth, foreign exchange is probably going to benefit you by about that much anyway. I'm just curious, are you -- just given the economic backdrop, is it -- are you just trying to be prudent in what's happening out there in the world, or was there something this quarter that perhaps you may see fall off a little bit, like even in the Backup business, you said you were up about 20% year-over-year. Again, you had the extra week, but you had two big product releases and you think that will sort of maintenance catch-up things might fall off? Just trying to understand the looking forward here.

Enrique Salem *Symantec - COO*

Yed, John, we're very optimistic about the September quarter. We feel as though we've got a strong pipeline coming into the quarter. The product portfolio is in terrific shape. We've got important new products in late stages of development. So we feel as though we have a lot of momentum as really has been evidenced by the results of recent quarters. As to how we set guidance, I wouldn't say that we have tried take a different approach this quarter to the way we do it each quarter, and obviously now it's about doing our best work hard to beat that guidance, but where we have set it, we feel good, very much reflects the momentum of the business.

John DiFucci *JPMorgan - Analyst*

Okay. Fair enough. Thank you.

Operator

And we'll take our next question from Katherine Egbert with Jefferies & Company.

Katherine Egbert *Jefferies & Company - Analyst*

Hi, one quick question on the IRS settlement. It looks like you're going pay a lot less than what you thought. Are you going to reverse the reserve on that and is it going to have an impact on cash flow this quarter?

James Beer *Symantec - EVP, CFO*

Well, in terms of cash flow, we wouldn't expect it to have an impact. We have another large tax issue that has just finished a trial that I suspect you're aware of, and so I wouldn't see us having any refund necessarily. We'll likely leave that money on deposit at the IRS. So I wouldn't look for any particular cash flow impact and, again, we've paid the taxes a couple of years back and so there's no particular reversal of any reserves to take care of either.

Katherine Egbert *Jefferies & Company - Analyst*

Okay, thanks, James. And then real quick, John, you talked about the analyst day that you had very good coverage ratio for the June quarter. Can you give us any indication what it looks like for September?

John Thompson *Symantec - Chairman, CEO*

Well, it's equally strong for September. I don't think we quoted a specific number in June for the June quarter. But I would tell you that as we look at the statistics that we review weekly on sales force force.com, we feel very, very strong or solid about what's going on this quarter and how deals greater than 50% odds, the coverage for those are in our pipeline, so we're feeling good about the quarter.

Katherine Egbert *Jefferies & Company - Analyst*

Great, good job.

John Thompson *Symantec - Chairman, CEO*

Thank you.

Operator

And we'll take our next question from Robert Breza with RBC Capital Markets.

Matt Hedberg *RBC Capital Markets - Analyst*

Good afternoon, guys. This is actually Matt Hedberg for Rob. I had a question on the consumer side, the new service offerings. Can you give us a sense for the volume you saw in the quarter and maybe remind us again about typical ASPs on some of those services? Thanks.

Enrique Salem *Symantec - COO*

Yes, so the typical ASPs are anywhere from 449 to \$69 and the products as we mentioned, we're getting some good take rates on the tune-up service and given what's going on, the green PC service where we tune your PC to be more energy efficient, is of interest to folks who are trying to do the right thing for the environment and conserve costs. So we are where we expected to be with consumer services.

Operator

And we'll take our next question from Walter Pritchard with Cowen and Company.

Walter Pritchard *Cowen and Company - Analyst*

Hi, just one product related question then a seasonality question. On the products it seems like data protection is strong, it's been strong for your competitors as well, at least the last couple quarters, is there some sort of recent upsell in this market, or do you think -- you did mention you're taking share but it seems like everybody in this space is seeing pretty good growth?

John Thompson *Symantec - Chairman, CEO*

I think what's driving us, Walter, is data volumes for all of our customers are growing and to the extent that they have made a choice of a provider or a platform, that certainly gives you as the platform option the opportunity to grow as their volumes grow. In our particular case, I think what you're seeing is the results of the team being very, very focused on integrating innovative technologies into the Core Net Backup, or Backup Exec products, and with Deduplication now, integrated into Net Backup with a number of really, really snazzy features in our Backup Exec product, you're starting to see the market leader take share, as it should always.

Walter Pritchard *Cowen and Company - Analyst*

Got you, and then, James, on the seasonality, I know you're not guiding for the rest of the year, the seasonality's a little strange this year and next just because of the 14 weeks. Should we expect sort of a return over the next couple quarters to normal seasonality for the Company?

James Beer *Symantec - EVP, CFO*

Yes, you should. The only difference in seasonality for this fiscal year versus the norm is really driven by the June quarter, having that extra 14th week.

Walter Pritchard *Cowen and Company - Analyst*

Great. Thanks a lot.

Operator

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

Todd Raker *Deutsche Bank - Analyst*

Hey, guys. Nice quarter.

John Thompson *Symantec - Chairman, CEO*

Thank you, Todd.

Todd Raker *Deutsche Bank - Analyst*

Two unrelated questions for you. First of all, we've seen in software some of the very large vendors starting to take pricing up on their installed base. If you look at your business, especially on the storage side, do you guys think you have any kind of pricing power, if you look out over the next two or three years?

John Thompson *Symantec - Chairman, CEO*

Well, gee, Todd, it's hard to even think about pricing power when our customers are hurting economically, and so I think we look at new functions and capabilities that we want to deliver into the marketplace and I think the best way to exercise price power, if you want to call it that, is through new innovation. Customers are certainly willing to pay for new innovation. They are less willing to pay for across the board price increases and we just don't think that's the smart thing to do, particularly in challenging economic times.

Todd Raker *Deutsche Bank - Analyst*

And second question for you on the consumer side, I recognize that the revenue is very visible coming off the balance sheet. As you look at it from a bookings perspective, how much visibility do you guys have on the consumer business and what kind of expectations or concerns do you have if we get a general macro slowdown that the consumer business could decelerate?

John Thompson *Symantec - Chairman, CEO*

Well, clearly with 80% or more of the activity being online, we have very, very solid visibility into daily, if not weekly activity in the online channel. We operate with a sell-through and a reporting structure that allows us to understand what's going on at retail and if anything, we worry about a continued decline in retail as a part of our overall consumer business.

Todd Raker *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Operator

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

Tim Klasell *Thomas Weisel Partners - Analyst*

Yes, sort of a follow-on to the prior question. Have you seen any change in the behavior of the consumer, i.e. swapping out products, renewal rates, anything like that you could share with us?

Enrique Salem *Symantec - COO*

Actually we've seen consistent behavior in our online business, as we've noted, a combination of strong performance in online and weakening in retail has now become 80% of our overall business. And as John stated, we have good visibility into how many users come back to our site. Renewal rates haven't been affected from what we can tell, and our products are necessary for anyone who wants to go online and uses a PC. So we haven't seen any changes there.

Tim Klasell *Thomas Weisel Partners - Analyst*

Okay. Very good. That's my only question. Thank you.

Operator

We'll take our next question from Garrett Becker with Merrill Lynch.

Garrett Becker *Merrill Lynch - Analyst*

Hi, good afternoon. And apology, this maybe has been addressed earlier. But John, I know you mentioned a while ago that heading into June, the pipeline was maybe the strongest you had seen in quite a while. So I was just hoping you would talk a little bit about on the linearity and also on maybe the close rates that you've seen and how your close rates, maybe you've thought about that as you've looked ahead with your guidance?



John Thompson Symantec - Chairman, CEO

Well, if I were to reflect on the June quarter, what I would say is because our quarter closed on July 4, it was a much smoother quarter close than we have historically had, and so we did not have the back end loaded last day, last 48-hour kind of activity in the June quarter that we've seen in other quarters. Ironically enough, as we move forward through this quarter, we have a similar situation where the quarter will close on October 3, I think, which should give us a chance to kind of smooth things out because of normal behavior, if you will, of our customers who would tend to look to the last day of the quarter as the last day in which we would be looking to book a deal.

In terms of visibility, as I've mentioned earlier, we opened this quarter with very, very good pipeline coverage. As you look at deals in the pipeline with 50% or greater odds, look at deals with total odds, all of those things are very solid, consistent with similar metrics, if you will, as we enter the June quarter. So we feel good about our business and we feel even better about, quite frankly, how the team is executing around the world.

Garrett Becker Merrill Lynch - Analyst

Great. That's all I have. Thanks.

Operator

And we have a question from Philip Rueppel with Wachovia Securities.

Philip Rueppel Wachovia Securities - Analyst

Great, thanks very much. We talked a lot about how big -- how the strength in big deals was a key contributor to the revenue outperformance. Can you talk about the other end of the spectrum, SMB? Were there any changes there? Was that also strong, and kind of looking forward, is that a segment that might be more at risk due to the economic head winds, or is it -- does it have a similar characteristics as your large customers?

John Thompson Symantec - Chairman, CEO

I think where I would start is while we saw good traction in our large deals, I think in some ways it's easier to highlight what's happened at the high end of the market or in the larger deals. But we did see performance across all product lines and all segments, and across the geographies. And so what that means to us is that we are getting the benefit of our broader portfolio and that our products are necessary in these -- in this current environment. The other thing is we mentioned that our Backup Exec business and our backup business was growing at 20%. A lot of the success of that product line is in the SMB segment, where you get a lot of folks were using the Windows platform and we're clearly the market leader in backup and recovery for the small and medium-size companies. So we don't -- we haven't seen any changes there and don't expect anything to be different in the September quarter.

Philip Rueppel Wachovia Securities - Analyst

Okay, and as a follow-up, the strength in ILP, the Vontu deal, are they still primarily stand-alone, or are you starting to see them part of the big deals, part of the overall Symantec solution?

John Thompson Symantec - Chairman, CEO

I think that what we're getting right now is while we continue to do large stand-alone deals, you are seeing the benefit to the other parts of the security portfolio. And what's important in DLP that initially it was DLP at the network level. Now what you're seeing are customers say they want to see the benefit at the end point. And so given our strong position at the end point with Symantec end point protection, the Altiris client management suite, we think that the combination of DLP, systems management and our core end point security products gives us a very strong position and we can definitely see DLP becoming part of more and more of our security deals.

Philip Rueppel Wachovia Securities - Analyst

Great.

Enrique Salem Symantec - COO

I would add to that and say that the typical sell cycle for DLP deal will range in the 6 to 9-month range, closer to 9 than 6 and so what we are seeing is really, really good cooperation at the field level between the Vontu team and the established Symantec account managers

and I think as time goes on, as those relationships continue to build and get stronger, I don't know that we'll improve the sell cycle, but I think we can expect to see much, much broader deal coverage, of very large deals, given the nature of the technology itself.

Philip Rueppel *Wachovia Securities - Analyst*

Great. Thanks very much.

Operator

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

Rob Owens *Pacific Crest Securities - Analyst*

Great. Thanks for taking my question. Can you guys talk about your revenue yield on billings business? If I look at the overage on revenue and the overage on deferred relative to guidance, it seemed like your end period revenue realization was a little bit better than you had forecasted. Is that a function of product set, or is there something else going on there?

James Beer *Symantec - EVP, CFO*

Yes, I think there are a few different things going on here. I think as we've said a few times, the product set is strong. We've seen good traction behind new recent releases, like NBU 6.5, SEP 11 obviously has been very important as well. At the same time, we have continued the theme of the last year and a half or so now, of really close cooperation between those out there on the front line doing selling and the back office so that we get cleanly written contracts, contracts that allow us to take some of our selling activity into revenue during the period in which the deal is booked. In addition, Enrique alluded to earlier the new comp model. So it's a variety of different things that are allowing us to see a better revenue yield in period and that's particularly encouraging when you remember that in the June quarter last year, we had strong revenue performance. So a relatively tough year-over-year revenue comp for us. So very pleased with that overall result.

Rob Owens *Pacific Crest Securities - Analyst*

Great, and if we look at that extra \$75 million that impacted the quarter, is the mix pretty consistent with just the general mix of business, or was there one area that benefited more from the extra week? Thanks.

James Beer *Symantec - EVP, CFO*

No, I would say it's pretty much a mix of the overall business. I wouldn't call out anything in particular there.

Helyn Corcos *Symantec - VP, IR*

We're ready for one more question.

Operator

And our next question comes from Steve Ashley with Robert W. Baird.

Steve Ashley *Robert W. Baird - Analyst*

I would just like to ask a question on the continuous data protection feature that you're going to be offering. In terms of timing, is that something we might see this quarter? And is that a add-on feature to both the Net Backup and the Backup Exec products?

Enrique Salem *Symantec - COO*

Yes, so that feature's very important because as John has highlighted, as data volumes go up, folks are struggling to complete their backups and given the amount of data that needs to be backed up. So this new technology, this new improvement allows you to continue to back up all of the critical information without having to worry about is your backup window -- is the backup not going to complete in the backup window. The functionality is going to be obviously part of both our high end Net backup product and our Backup Exec technology. We are -- it's definitely going to be included, or it's definitely going to be an add-on to the Net Backup 6.5 platform, and it is a for-fee offering, meaning it's an upsell for the customers.

Steve Ashley *Robert W. Baird - Analyst*

And is Altiris 7 in beta use right now?



Enrique Salem Symantec - COO

Absolutely.

Steve Ashley Robert W. Baird - Analyst

And is there any feedback by people using it and integrating it with the SEP 11 product?

Enrique Salem Symantec - COO

I think the feedback we're getting is positive, because one of the great things we've added is a new workflow engine that allows us to do a better job not only of managing the existing environment, but also integrating with the other applications that the customer has and so feedback has been positive. We have deliverables this quarter to some of our partners and as we said, this product will be available this fall.

Steve Ashley Robert W. Baird - Analyst

Thank you.

Operator

And that is our final question today. At this time, I would like to turn the call back over to the Company for any closing remarks.

John Thompson Symantec - Chairman, CEO

Well, thank you very much for joining in this afternoon. I'm quite proud of our team's performance in the June quarter. We have a very solid pipeline and very strong visibility as we head into September. Execution is improving. Our product portfolio is quite strong, and so I think we are starting to hit our stride and I'm quite proud of our team. Thanks for doing another great job, guys.

Operator

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time.

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PRESENTATION

Operator

Good day, and welcome to Symantec's second-quarter 2009 earnings conference call. Today's call is being recorded. At this time, I'd like to turn the call over to Ms. Helyn Corcos, Vice President of Investor Relations. Please go ahead, ma'am

Helyn Corcos *Symantec - VP, IR*

Good afternoon and thank you for joining our fiscal second-quarter 2009 earnings call.

With me today are John Thompson, Chairman of the Board and Chief Executive Officer of Symantec, Enrique Salem, Chief Operating Officer and James Beer, Executive Vice President and Chief Financial Officer.

In a moment, I will turn the call over to John, who will provide high level comments on the Company, Enrique will follow with quarterly highlights and James will wrap up with a review of the financials and our guidance as outline in the press release. This will be followed by a question and answer session.

Today's call is being recorded and will be available for replay on the Symantec Investor Relations home page. A copy of today's press release and supplemental financial information are available on the website and a copy of today's prepared comments will be available on the website shortly after the call is completed.

Before we begin, I'd like to remind everyone that some of the information discussed on this call, includes our projections regarding revenue, operating results, deferred revenue, cash flow from operations, amortization of acquisition related intangibles and stock-based compensation for the coming quarter contain forward-looking statements.

These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statements.

Additional information concerning these risks and uncertainties can be found in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statements.

In addition, to reporting the financial results in accordance with generally accepted accounting principals with GAAP, Symantec reports nonGAAP financial results. Investors are encourage to do review the reconciliation of these nonGAAP financial measures to the most directly comparable GAAP results, which can be found in the press release and on our website.

Now, I'd like to introduce our CEO, Mr. John Thompson,.



John Thompson Symantec - Chairman, CEO

Thank you, Helyn and good afternoon, everyone. In the face of a slowing economic environment, our Company generated year over year growth in revenue demonstrated solid progress on operating margin goals and delivered strong earnings growth.

Our core businesses consumer security, back up and storage, continue to grow and drive profitability for our Company. And we saw solid performance in the large enterprise buyer segment as illustrated by the strength of our big deals during the September quarter.

While we are pleased overall with the results, like many other companies, we saw a pause in IT spending among some of our customers during the last week of the quarter due to what we suspect were uncertainties and constraints in the global markets. And as expected, the strengthening of the dollar versus other currencies around the world also impacted our financial results.

While a stronger dollar is certainly an important metric of the health of the U.S. economy relative to other economies, it will continue to have an impact on our results for the December quarter.

Therefore, we are updating our business outlook to reflect the likelihood of a continued economic slow down and the change in foreign currency rates.

In addition, we intends to maintain our flexibility with customers in tailoring transaction to say assist them in acquiring technologies they need during, to whether this tough economic times. The strength of our financial position, as well as our focus on areas where we can outperform our competitors, should position us well in this marketplace.

As always, we will continue to be prudent in managing our cost and expense. We've identified incremental cost saving areas and are making them part of our continuous improvement approach.

These new actions are consistent with the efforts we have had in place which have produced the improvements in operating margins over the past four quarters. These actions are intended to align our cost structure with the new realities driven by the economic environment.

James will provide a bit more detail on our plans in a few minutes.

We think customers will take advantage of this environment to both rationalize the products they use and the vendors they buy from.

In speaking with customers around the world they feel certain areas must continue to garner their attention and capture the lion's share of any new investment they are like to the make over the next year or so.

All of these investments must meet stringent ROI standards and support the requirements to create a less complex, more compliant IT infrastructure. Some examples of these areas include more comprehensive storage management solutions to help lure overall hardware spending.

Rich day loss prevention solutions to deal with rapidly changing employee and subcontractor or contractor environment and services that allow them to selectively out task those things no longer deemed to be critical for them to manage.

Our storage business, for example, certainly benefits from the ROI based selling approach we put in place more than a year ago. And the reason be enhancement to our data loss prevention solution are timely and consistent with what our customers say they need know to manage in today's more uncertain times.

We will stay focused on executing our strategy to secure and manage information against more risk, at more points, more completely and efficiently than any other Company in the world. Our development teams have been working diligently to deliver next-generation products for compliance and systems management.



Let me spend a minute discussing a couple of these offerings. In the compliance arena, our integrated process automation solution control compliance suite 9.0 helps organizations generate, create and maintain a sustainable compliance program in accordance with governance mandates and their risk management strategies.

Importantly, it should allow our customers to achieve their compliance objectives at a much lower cost than manual or more traditional approaches. Our next release of Altier seven leverages proven infrastructure and technology to deliver a tightly integrated solution to help customers automate many of the labor intensive processes they use today in their distributor and client server infrastructure. The Symantec management platform, a core technology of our open collaborative architecture will be used to integrate technologies from many of our key products including Symantec End Point Protection, Backup Exec Systems Recovery, Configuration Management and Data Loss Prevention.

Our customers are really excited about these products and the progress we are making in integration across our portfolio. Something that will be difficult for some others, certainly some competitors to achieve through partnerships alone.

We are well-positioned to keep our business growing and to return value to shareholders. We've got a strong balance sheet, a solid recurring model, minimal capital expenditure requirements and a continued focus on improving the efficiency of our business operations.

These attributes when combined with our strong product portfolio, diverse customer base and investments in key product growth areas position our company for continued long-term success. With that, I'll turn the call over to Enrique, who will provide more detail on the second quarter highlights.

Enrique Salem *Symantec* - COO

Thanks, John, and good afternoon everyone. I'd like to highlight a few key items of our fiscal second quarter.

Starting with our consumer segment. The consumer revenue was impacted by continued softness in the retail sector. As you know, retail sales have been steadily declining. It's important to note that during the September quarter, revenue from our retail channel declined by more than 20% year over year. However, our electronics distribution channels continue to grow posting 10% year over year growth.

Our consumer business remains very profitable and the contribution margin from this segment continues to improve. As you know, moving on to 2009 versions of Norton Antivirus and Norton Internet Security in September. These products have set a new industry standard for speed and performance by being the fastest security products in the world. Initial response to the launch of Norton Internet Security 2009 has been overwhelmingly positive.

In addition, to the eight top awards we've received to date, Wall Street Journal notes that 2009 is the fastest, simplest and least obtrusive security suite in the market.

We continue to pursue a multiprong strategy to acquire new customers. First, we have relationships with seven of the top OEM manufacturers. We signed several OEMs during the September quarter, including a deal with Packard Bell, where Packard Bell will continue to ship in AMIA. Another deal, a large PC manufacturer has awarded N. I. S. the recommended and trial default positions in AMIA, Japan and Latin America for all small business PCs for the period November 2008 through April 2009.

Second, in the emerging markets where customers are more price sensitive we will grow our business by leveraging the PC tools brand online, go-to-market model. Now, moving on to our enterprise segment, we had another strong quarter in terms of large deals. During the September quarter, we generated a total of 326 transactions valued at more than \$300,000 each, up 8% compared to 302 transactions in the year ago quarter.

We generated 77 transactions worth more than \$1 million each, up 20% compared to 64 transactions in the September 2007 quarter. In addition, we also saw a good mix of our product offerings within these top deals. 87% of all large transactions, included multiple products or services providing further validation that during the difficult economic times customers prefer to consolidate vendors and are doing so with Symantec.



In our end point security business, we are seeing good traction in large enterprise and continue to win competitive displacements. We are also seeing large scale deployments with one high tech customer deploying our Symantec end point protection solution on more than 100,000 nodes worldwide. Symantec end point protection is leveraging the zero impact performance technology already available in our consumer security products.

Our recently delivered maintenance release has faster boot time than any of our competitors. While this business is doing well in large enterprise, we saw softness in the mid market influenced in part by weak macro economic conditions.

A particular area of strength in our core business continues to be the storage and back up businesses. There are two factors that are driving our storage management business to grow above market growth rates. The first driver is customers increasing focus on hard dollar ROI from savings on storage spending.

Customers want to manage complexity while reducing costs and making more efficient use of their existing storage investments. Our storage foundation products help customers simplify their data centers and reduce costs by standardizing the storage management software across their environment.

The second catalyst is being driven by large enterprise migrate to go Linux and Windows based commodity servers in their data centers. This horizontal scaling allows infrastructure to grow or shrink based on computing demands without huge changes in capital expenditures.

These types of data centers rely heavily on sophisticated management and availability tools to take full advantage of serving and storage virtualization technologies providing a catalyst for our storage management and high availability businesses.

To further take advantage of this shift in the data center we recently launched Veritas cluster server one. VCS-1 is a new high availability in disaster recovery platform optimized for the next-generation virtual lived data center. We believe VCS-1 has a multiyear head start over our competitors proprietary high availability tools which are optimized for legacy data center environments.

Early adopter reception to this product has been strong with a major telecommunications provider already using this production in production today. Given these factors, we are confident in the long-term direction of our server management and high availability businesses.

The next area of our business that continues to show strength is back up. The back up market where we have the market leading product for both high-end and mid market segments is being driven by the migration from tape to disk, virtualization, deduplication and replication.

Our next-generation data protection strategy leverages these trends and continues to gain momentum with our customers and partners. Net back up has the best protection for environments and now we have taken this best-in-class virtual machine protection and incorporated them into the Backup Exec product.

This is an example of how we are gaining cost synergies by combining the net back up and Backup Exec product teams. We have started shipping Backup Exec 12.5 also supports Microsoft's hyper V environments. We remain commit to providing solutions that work across all major operating systems, hardware types and across all hyper visors. We recently expanded our strategic partnership with Dell in the back up area. Dell will sell disk arrays that are preinstalled with Backup Exec 12.5 technology. These appliances are extremely easy to deploy, provide support for both physical and virtual environments and are mostly targeted for the SMB marketplace.

Small and immediate businesses can now take advantage of Backup Execs advanced features around Share Point and Exchange Protection and Granular Recovery of files.

Moving on, our [inaudible] and data loss prevention businesses continues to show strong growth further extending our market leading



positions.

In the same way that data basis have become the home for structured information, our market leading arkind solution, Enterprise Vault gives company's of all sizes a primary storage tier for unstructured information. An increasing number of Fortune 100 companies are recognizing that an intelligent arkind of is the best place to secure and manage their unstructured information. Enterprise Vault 8.0 which will we expect to ship in early 2009 will focus on helping organizations reduce the cost of storing unstructured information through data duplication and will feature advanced electronic discovery capabilities.

Our data loss prevention team had its best quarter ever. We signed deals with some of the largest global enterprise during the quarter with most customers opting to purchase the full suite. For example, a large US credit card company licensed the entire Symantec data loss prevention suite. PCI compliance was the key driver given the requirements to protect credit card information, employee data, financial data and high net worth customer lists. This customer selected our solution because our detection accuracy, central management and ability of the solution to scale.

During the quarter, we also announced the release of Symantec DLP 9.0, which includes end point management Symantec's open collaborative architecture. This release highlights our focus on integrating key technologies across the portfolio using the collaborative architecture. In closing, we will continue to drive profitability while investing in key high growth areas and further strengthening our competitive position in the marketplace. With that, I hand the call over to James.

James Beer *Symantec - CFO, EVP*

Thank you, Enrique, and good afternoon everyone. I'm pleased that our ongoing focus on managing costs is leading to continued operating margin expansion and earnings growth. I'll start by reviewing the financial details of the September quarter. GAAP revenue was \$1.518 billion. NonGAAP revenue grew 6% over the September 2007 period to \$1.523 billion driven by strong growth in our storage, back up, archiving, data loss prevention and services businesses. Foreign currency movements positively impacted nonGAAP revenue by approximately 3.5 percentage points year over year and negatively impacted revenue by two percentage points sequentially.

Had the exchange rate remained at our guided rate of \$1.53 per Euro, versus the weighted-average rate of \$1.49 per Euro for the quarter, our nonGAAP revenue would have totaled \$1.541 billion, approximately line with the midpoint of our revenue guidance. It's September quarters fully diluted GAAP EPS was \$0.16.

NonGAAP fully diluted EPS for the quarter was \$0.37, up 28% year over year reflecting the combination of continued revenue growth and judicious expense management. International nonGAAP revenue of \$764 million grew 5% versus the year ago period, accounting for 50% of total nonGAAP revenue. The Asia Pacific Japan region grew 11%. The Americas grew 6% and the Europe, Middle East and Africa region grew 3% year over year.

Emerging markets such as China, India and Russia continues to generate very strong growth rates. Moving on to our nonGAAP revenue by segment. The consumer business generated revenue of \$440 million, equivalent to 29% of total revenue and grew 2% year over year.

Moving to the enterprise arena, the storage and server management segment generated revenue of \$573 million, up 12% year over year and representing 38% of total revenue. Our security and compliance segment generated revenue of \$403 million, up 1% versus the year ago period. This segment accounted for 26% of total revenue.

Our services segment generated revenue of \$107 million, up 16% year over year, representing 7% of total revenue. We continue to focus on improving the cost efficiency of our services operation and are pleased with the contribution improvements that the group has made during the past few quarters. NonGAAP gross margin increased 40 basis points to 85.7% for the September 2008 quarter, as compared to 85.3% for the year ago period.

Our continued focus on cost management has also increased nonGAAP operating margins for the September quarter to 29.1%, up 390 basis points year over year.



This is the fourth consecutive quarter in which operating margins have increased strongly versus the prior year. GAAP net income was \$140 million for the September 2008 quarter. NonGAAP net income was \$311 million, up 18% year over year. We exited September with a cash and short term investments balance of nearly \$2.31 billion. During the September quarter, we repurchased \$200 million, or 9.3 million shares at an average price of \$21.46.

Our net accounts receivable balance at the end of the September 2008 quarter was \$645 million. Days sales outstanding, or DSO, was 39 days in line with normal seasonal trends. Cash flow from operating activities for the September quarter was \$248 million, as compared to \$331 million in the September 2007 quarter. This reduction was driven by increased cash tax payments versus the year ago period in which we received a tax refund. The year over year differential in cash taxes totaled over \$100 million.

Tax deferred revenue at the end of the September 2008 quarter was approximately \$2.71 billion.

NonGAAP deferred revenue grew 4% year over year to \$2.72 billion. Foreign currency movements negatively impacted nonGAAP deferred revenue by one percentage point year over year and negatively impacted deferred revenue by five percentage points sequentially.

Had exchange rates remained at our \$1.53 per Euro guided rate versus the ending period rate of \$1.38 per Euro, deferred revenue would have totaled \$2.83 billion. This was weaker than expected due total reluctance on the part of some of our customers to finalize contracts during the last week of our quarter.

Now, I'd like to spend a few minutes discussing our expectations for the December quarter.

While the storage and security value propositions that we offer our customers give us a certain amount of insulation from the current macro economic environment, clearly, no company is immune from its customers challenges during tough economic times.

As a result, along with recognizing the recent strengthening of the dollar, we are providing a wider guidance range than normal as follows. We are assuming an exchange rate of \$1.25 per Euro for the December 2008 quarter versus the \$1.45 per Euro we experienced during the December 2007 quarter.

Given the rapidly moving exchange rate environment, it may be helpful to provide the following rules of thumb as to the impact of currency movements on our financial metrics.

or every U.S. cent movement versus the Euro revenue would be impacted by approximately \$4.5 million. And deferred revenue would be impacted by approximately \$7 million.

In addition, for every \$0.05 movement versus the Euro, nonGAAP earnings per share would be impacted by approximately \$0.01.

It is important to note, however, that these rules of thumb will move around based on the actual currency mix of our revenues and expenses.

For the December 2008 quarter, we expect GAAP revenue to be in the range of 1.446 to \$1.496 billion. NonGAAP revenue is estimated to be in the range of 1.45 to \$1.50 billion. In constant currency terms, this range would equate to 1.54 to \$1.59 billion as compared to the \$1.529 billion we generated in the December 2007 quarter. As a result GAAP earnings per share are forecasted to be in the range of between \$0.11 and \$0.14. NonGAAP earnings per share are estimated to be in the range of between \$0.30 and \$0.33.

In constant currency, this range would equate to \$0.34 to \$0.37 as compared to the \$0.33 result in the year ago period. This guidance assumes a common stock equivalents total for the quarter of approximately 840 million shares.

At the end of the December quarter, we expect GAAP deferred revenue to be between 2.696 and \$2.821 billion. We expect nonGAAP deferred revenue to be between 2.7 and \$2.825 billion. The exchange rate at the end of the December 2007 quarter was \$1.47 per Euro.



Using this constant currency rate, this range would be between 2.854 and \$2.979 billion as compared to \$2.897 billion at the end of December 2007.

We expect about 62% or approximately \$920 million of our December quarter revenue to come from the balance sheet. This percentage once again illustrates the degree of predictability that we have built into our income statement during the last few years. Lastly, we have \$600 million left in our current stock repurchase board authorization.

We continue to be committed to do share buybacks as an important part of our Capital Management strategy.

There is further opportunity to improve the efficiency and effectiveness of our cost structure. For example, we just recently entered into contracts with third-parties to outsource portions of both our IT and finance back office functions. We are also in the process of outsourcing our European manufacturing operations from Ireland to the Czech Republic.

The economic and process improvement benefits of these movements will begin to appear during FY 2010. In the shorter term, we are continuing to focus on each line item of our cost structure and the attendant opportunities to drive additional efficiencies.

We are in the process of implementing a reduction in force, as well as carefully managing the replacement of ongoing attrition. In addition, we are focusing on our travel expenses as well as all other discretionary purchases. We estimate that these actions will allow to us maintain our quarterly operating expenditures approximately in line with the September quarters result for the remainder of the fiscal year, versus the more traditional pattern of cost increases in the second half of the year.

In saying this, I am accounting for the increasing costs driven by the acquisition of PC tools and am assuming a foreign exchange rate of \$1.25 per Euro for the remainder of the FY.

In closing, while our September quarter was impacted by the strengthening of the dollar and the weakening of the economic environment, we believe that the last three months marked another important step forward that the development and growth of Symantec.

We continue to build momentum in terms of the breadth and quality of our product offerings, the depth of our relationships with customers and the efficiency and effectiveness of our back office.

Our security products continued to be essential to the protection of digital assets and our storage and system management products save customers considerable amounts of money, which will be even more important in the coming quarters. We generate strong cash flow from operations, in part as a result of our predictable maintenance streams and have reduced net CapEx during the last two years. We possess a strong balance sheet and have a sustained record of share buybacks while also successfully continuing to expand the product and market scope of the Company through acquisitions.

As a result, I believe we are well-positioned to deal with the current macro economic environment. And we will stay focused on both our revenue and cost strategies. And now, I'll turn the call back to Helyn so that we can take some of your questions.

QUESTIONS AND ANSWERS

Helyn Corcos Symantec - VP, IR

Thank you, James. Tom, will you please begin polling for questions?

Operator

(OPERATOR INSTRUCTIONS)



Helyn Corcos Symantec - VP, IR

While Tom is polling for questions, I would like to announce that Symantec plans to attend several financially analyst conferences over the next couple of months. In addition, we will be reporting our fiscal third quarter results on January 28, 2009.

For a complete list of the investor related events, please visit our events calendar on the Investor Relations website. Tom, we are ready for our first quarter.

Operator

And our first quarter comes from Robert Breza with RBC Capital Markets.

Robert Breza RBC Capital Markets - Analyst

Thanks for taking my questions. First question for John or Enrique. When you dig into the segments, when you look at the 12% growth in storage and server management, it clearly indicates that you're taking share from competitors out there.

I would just get an understanding of who and when you look at the security and compliance space growing only one percent, how do you feel about your competitive situation there? Do you feel like your taking share, maintaining share, how would you classify that? And I have a follow up for James, thanks.

John Thompson Symantec - Chairman, CEO

If we look at the strength in our storage and back up business, I think what you are seeing is that we now have a very strong product line across both the windows platform and the more distributed platforms and given some of the new features that we have been adding, our strength in banking up, virtual environments and some of the other things we've done in data duplication are really starting to pay off.

So we are absolutely now given the strength of those products making a lot of progress against the competition where not only in large accounts but also in the mid market. So we continue to see the strength in those products and I think we will continue to gain market share there.

I think when you look at the end point security business or the security business, I think what you've seen is, we continued to well in large enterprise but we did see some softening in the mid market as we delivered the semantic end point protection technology into that segment.

My sense is right now, that that's more impacted by some of the things going on in the macro environment and I fully expect with the new release of our new maintenance releases, maintenance release three, that the performance improvements will shine in the mid market and continue to improve our position in that segment.

Robert Breza RBC Capital Markets - Analyst

James, maybe as a follow up quickly you mentioned the reduction in force. Could you just kind of help us think about some ranges there, kind of zero to five or 2 to 3%. Can you kind of just help us with a range on how we should think about the reduction in force? Thanks.

James Beer Symantec - CFO, EVP

Yes, sure. We are looking at a reduction of around 4.5% of our dollar volume for people.

Robert Breza RBC Capital Markets - Analyst

Great. Thank you very much.

Operator

Next question Heather Bellini UBS.



Heather Bellini UBS - Analyst

Hi, thanks. Good afternoon, everyone. I was wondering if you could talk a little bit about deferred? They are obviously impacted by FX and you also mentioned the macro victim.

I was wondering if you could share with us a little bit what business segment had -- exiting out FX for a minute -- what business segments were the weakest in terms of deal signings during the quarter and how should we think about bookings growth going forward in terms of how you guys define bookings growth? And I just had one follow up if I might.

John Thompson Symantec - Chairman, CEO

Heather, I think it would be fair to say that we saw softness in mid market in the low end of the enterprise segment as we entered the last week of our fiscal quarter. Which happened to be the week of the Monday \$700 million decline in the Dow. So it was an interesting time to be trying to close business.

It was characterized in the segments that I just mentioned. It had a particularly strong impact, quite frankly in Europe and the U.S. compared to APJ and many of those were deals that just pushed as opposed to deals that essentially went away or we lost to competition.

Now, the question is for how long have they pushed. Do they show up in our December quarter results or do they become an issue that will continue to chase until the economic environment improves just a bit. And let me have James answer the second half of your question.

James Beer Symantec - CFO, EVP

In terms of bookings, Heather, I won't try to get into predicting bookings rates going forward but certainly as we think about what we achieved in the September quarter, I know many of you will look at the bookings as the calculation of revenue plus change in deferred.

And certainly, I would urge you and your colleagues to look at that change in deferred on the cash flow statement. The cash flow statement is using an average FX rate for the period, whereas if you look at the balance sheet and it's going to use that end of period exchange rate in that statement, the balance sheet would give you a very different answer.

It would very much accentuate the volatility that we saw in the foreign exchange rates towards the ends of the quarter.

So I would urge you to focus on revenue plus change in deferred as defined on the cash flow statement and doing that calculation it gets you out to around 3% bookings growth, which is direction until in line with what we accomplished during this quarter.

Heather Bellini UBS - Analyst

Okay. Great. And then John, since you mentioned it you said the question is how long have the deals pushed out for. I mean, do you have any sense given what you've seen so far in the first month of the quarter? Do you have a view on how long they might push out for?

John Thompson Symantec - Chairman, CEO

I wish I had that crystal ball, Heather.

I do think our teams are very mindful of where the transactions are. What the issues are that might cause them to move with customers. As I said in my planned remarks, I think we are going to have to use the strengths of our financials to help move transactions along.

That does not mean that we go and do crazy things that pollute our balance sheet, but we should come through this a lot stronger than companies that don't have the financial muscle that we have.

And so Enrique and James and I will certainly be working with the geographic leader to say make sure we can structure transactions that able, recognizing it in the period, and building a deferred revenue revenue pool that underpins the cash flow of the company.

Heather Bellini UBS - Analyst

And then my follow up for James was, just given the expense reductions and the risk factor that you discussed, given what you are doing there can you still, are you still hold to go your view of 100 basis points of margin expansion? Is that why you are making the cuts to still be able to hit that target given the new revenue view?

James Beer Symantec - CFO, EVP

100 basis points of operating margin expansion is a long-term goal as we've discussed at Analyst Day and on other occasions and certainly, I'm pleased with the records that we have been able to record in the first half of the year and these moves that we are announcing today on the cost structure for the back half of the year will obviously help us as well. So I think I'll just leave it at that.

Heather Bellini UBS - Analyst

Okay. Thank you.

Operator

We'll take our next question from Sarah Friar with Goldman Sachs.

Sarah Friar Goldman Sachs - Analyst

Hi, guys. If I could just come back to guidance as well. Looking at where you've gone from a revenue perspective, we would guess that your currency impact is probably about negative 5% in December, just based on that same exchange rate that you gave, James. It looks like you're guiding flat to 1% type growth at the midpoint.

What else are you trying to encompass with that guidance? Are you really assuming kind of ongoing very tough macro backdrop almost recession type scenario? Just trying to get a sense what have you thought about when you thought about how you are going to guide ultimately?

John Thompson Symantec - Chairman, CEO

Sarah, I don't think this is a time for us to be cavalier about our guidance and overly aggressive in forecasting what we think the macro economic environment might produce.

And while I would never want to have this characterized as conservative guidance, our view is that we need to make sure given what we observed at the end of the September quarter. We factor that into our thinking with respect to what could very well happen in December.

December historically has been the strongest sequential growth period for us. It's the period in which we do the largest amount of business and the largest amount of transactions with large enterprise customers but we cannot ignore the fact that many of our customers are suffering. And as such, that could have some consequences on us.

Sarah Friar Goldman Sachs - Analyst

It makes a lot of sense. And then you've talked about the kind of SMB type weakness but can you also touch on the consumer? I know digital river call last night, they talked about a real stop in spending in the last week, almost 911 like but they haven't seen a lot of that rebound. So data point about more consumer driven purchasing behavior. From what are you seeing generally.

John Thompson Symantec - Chairman, CEO

I think if we look at the consumer business, Sarah, it's pretty clear that retail has continued to soften. And as I mentioned in my comments, we've seen basically we are down about 20% year over year on the retail side. On line has continued for us to do well. I think we are 10% year over year growth. And we do see a continued move to on line. That hasn't -- I haven't seen a big change in the business we are doing on line at this point but retail has been the weak spot.

Sarah Friar Goldman Sachs - Analyst

Can you tell, it's my final question, can you tell if it's new customer that are going away or if it's actual renewal rates that are getting impact from customers who already have Symantec but maybe aren't choosing to renew?



John Thompson Symantec - Chairman, CEO

Given that much of it, Sarah, is in the retail channel it's hard to discern whether or not it's a repeat buyer into the store or brand new buyer who hasn't shown up in the store.

And I think you might get some color on that as you see what some of the electronic retailers announce as their results as time go on, or as time goes on.

But fundamentally the on line channel remains quite strong for us. But retail has been a source of agony for lack of a better term for us for four to six quarters now. It's been on a steady decline and we saw a fairly precipitous drop during the September quarter.

James Beer Symantec - CFO, EVP

I think it's important just one comment, though, Sarah to your question, I don't know that we have seen a change in the renewal rate as a result of what's currently going on.

Sarah Friar Goldman Sachs - Analyst

Because would you see it in your auto renewals, right?

John Thompson Symantec - Chairman, CEO

Correct.

James Beer Symantec - CFO, EVP

I was going to add that I'm quite happy with how our renewals have been going along now that we've already rolled it out and seen the year over year effects right around the world and it's been a very positive development for us.

Sarah Friar Goldman Sachs - Analyst

Thanks a lot.

Operator

Next, Adam Holt with Morgan Stanley.

Adam Holt Morgan Stanley - Analyst

Good afternoon. If I could just start with maybe a follow up on the consumer business. I apologize if I missed this but did you give what the mix of 360 was in the quarter? And maybe give us your thinking about what you are expecting out of the retail channel heading into the Christmas season or the holiday season?

John Thompson Symantec - Chairman, CEO

Yes, we didn't break out -- we didn't break out the difference between 360 and Norton Internet Security but as you look at it right now, 360 is roughly 28% of the revenue in the consumer business and I expect that to continue to move in becoming a larger and larger mix of consumer revenue because what we are doing is trying to encourage our customers to continue to move from the point products to the higher end suite, which is Norton 360.

As far as the holiday season and our expectations, we are -- we do believe that we've got a premium product that will do well. But it's important to note that it's too early to tell how much demands we are going to see in the holidays.

We are well-positioned for what's known as Black Friday, which is the day after Thanksgiving, which is the biggest retail shopping day of the year. In a lot of the work, we've done with our partners. But ultimately it's too early for me to try to predict how many folks are going to be in stores this holiday season.



Adam Holt Morgan Stanley - Analyst

If I could ask a follow up for James, a couple of numbers questions. The tax rate was a little bit lower than we had expected in the quarter.

How should we be thinking about the tax rates at the back half? And then just on the margins, understanding that the currency is going to have a negative impact on margins for the third quarter.

Still looking at pretty materially down sequentially and year on year. Anything in particular that you're factoring into your guidance for the margins guidance for the September quarter.

James Beer Symantec - CFO, EVP

On the tax rate, I would suggest that we continue to look at 31% for the back half of the year. The September quarter benefits from a couple of one off items that I wouldn't expect to be repeating. Going forward.

In terms of currency effects around margins, again, we are sticking to our overall long-range goal of 100 basis points and we will see where the various actions that we are taking on our cost structure going forward here in the next few months have us land.

Adam Holt Morgan Stanley - Analyst

And just my last question would be on that front. We should expect to see the 4.5% taken out of the cost structure through the December quarter. So would you hope to have that done by say the end of December?

James Beer Symantec - CFO, EVP

No, I would say that that's impact will be only fully reflected within the P&L come the March quarter. Particularly, in parts of the world such as Europe. It really takes longer to implement any action like this and even in the Americas it's good to take a little bit of time here to complete the implementation.

Adam Holt Morgan Stanley - Analyst

Terrific. Thank you.

Operator

We'll take our next question from Brad Zelnick with Banc of America.

Brad Zelnick Banc of America Securities - Analyst

Hi and thanks for taking my question. Just to follow up on some of your earlier questions on guidance. Beyond the assumptions for FX. Just very specifically are you assuming the same economic environment that you saw in the last week of the quarter across all 13 weeks in the December quarter? And just a follow on to that, can you comment, do you have any outside seasonal exposure to particular vertical markets or customer segments in December?

John Thompson Symantec - Chairman, CEO

Yes, I don't think you could say that we are good enough to declare that effects that we saw in the 13th week of the September quarter are going to perpetuate themselves quarter after quarter after quarter. Or week after week.

I think what you can say or observe in our forecast, is a sense that there will be a sluggishness in the way customers are willing to not just consider transactions but actually commit to those transactions. That's more likely to be reflected in what happens in the last two weeks of our quarter.

That's always the bewitching hour, if you will, for an enterprise software company because that's when the vast majority of the big deals get done.

With respect to verticals clearly Financial Services and Telecom are important sectors for us and the enterprise revenues sector or



component of our business alone, Financial Services including banks and commercial bank's and insurance represents in the range of 14 to 15% of revenue.

And so we are very mindful of what's going on there and we are watching that very, very closely. If that's the specific vertical you are referring to.

Brad Zelnick *Banc of America Securities - Analyst*

Sure, I was looking across any vertical that might be relevant going into the December quarter. But if I could ask a quick follow up for James. James, can you just quantify for us the exact impact of cash taxes payments in the quarter year over year?

James Beer *Symantec - CFO, EVP*

I think I mentioned on the call over \$100 million, very close to that figure.

Brad Zelnick *Banc of America Securities - Analyst*

Thank you.

Operator

: We'll take our next question from Brent Thill with Citigroup.

Brent Thill *Citigroup - Analyst*

Thanks. Just back to the consumer business one of your large software peers was I think pretty surprised by the uptick of the sub \$500 PC or notebooks.

As you look at the impact of your attach rate, your consumer security business, what impact do you assume that these notebooks are going to have an impact on and as it looks right now this is about a third of the PC growth rate, is there any impact at all?

John Thompson *Symantec - Chairman, CEO*

I mean, I think the point is no one is going to go on the Internet without our security software and I think that's the most important independent of the price you pay for the underlying computer what we've seen what matters is the data on that computer and you don't want to risk losing data or your identity or having any other problems with what you are doing on that PC.

So I think that the price point of the PC is not indicative around the demand for our security software.

Enrique Salem *Symantec - COO*

I think in addition to that the question that we all have to ask is if customers are so price sensitive that they would trade down to a \$500 PC, is it more likely in this economic environment that they would do nothing?

Because I'm not sure that there is a marginal material difference I should say between the PC they have and the one that costs \$500. And so I think the issue about price sensitive markets is more about whether or not they will buy a new PC at all. Not whether or not there will be software on the PC.

Brent Thill *Citigroup - Analyst*

Okay. For James, can you just give us the ending headcount and just comment on linearity? It sounded like it was more ten, 20, 70, month to month versus your historical average. I think closer to 20, 30, 50 this last quarter.

James Beer *Symantec - CFO, EVP*

Well, our headcount for September was right under 18,000, and what was the point about linearity again?

Brent Thill *Citigroup - Analyst*

Just in terms if you looked at it month to month what portion of the revenue came first, second, third.



James Beer Symantec - CFO, EVP

Of the revenue?

Brent Thill Citigroup - Analyst

Right.

James Beer Symantec - CFO, EVP

That would have been a normal characteristic month to month during the quarter. Because you see the pausing of spending commitments that we've been referring to came very late in the quarter itself.

And so it would have had a relatively minor impact on a recognized revenue. It really impacted the deferred revenue.

Brent Thill Citigroup - Analyst

So the bookings was more back end loaded this quarter than past quarters?

James Beer Symantec - CFO, EVP

No, I wouldn't characterize it that way either actually. I'd say the -- yes, from the extent that in the last day or two we saw fewer bookings than we would have normally expected. So if anything I suppose mathematically that will means they were more front ends loaded.

Brent Thill Citigroup - Analyst

Thank you.

Operator

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

Daniel Ives Friedman, Billings, Ramsey - Analyst

On the [inaudible] labs acquisition, what's the financial impact from that acquisition in the [inaudible] quarter?

James Beer Symantec - CFO, EVP

For this quarter? For the December quarter?

Daniel Ives Friedman, Billings, Ramsey - Analyst

Yes.

James Beer Symantec - CFO, EVP

Well a relatively modest impact because we are not presuming that we would close that deal until well towards the back end of the quarter.

Daniel Ives Friedman, Billings, Ramsey - Analyst

Okay. And just a final question. Can you walk through [inaudible] as a management team or [inaudible] what you are doing differently with customers? Are you doing more [inaudible], just walk us through --

James Beer Symantec - CFO, EVP

Daniel, you are breaking up. We can't hear you. You are breaking up. Can you repeat your question.

Daniel Ives Friedman, Billings, Ramsey - Analyst

Yes, could you walk us through this environment if you are doing anything differently with customers to get deals done? Thanks.

John Thompson Symantec - Chairman, CEO

I think that we are obviously sensitive to what's happening with our customers but we are not changing our go to market strategy at all.



We obviously are being sensitive to what's the term of the agreement that they are looking for but I don't expect to see any material difference in what we've done in previous quarters over the last year.

Daniel Ives Friedman, Billings, Ramsey - Analyst

Thanks.

Operator

We'll take our next question from Michael Turits with Raymond James.

Michael Turits Raymond James - Analyst

Obviously, the consumer and enterprise security and compliance were the weaker segments this quarter. Storage very strong. Great to see, are you confident that that's sustainable because obviously with the other two segments so weak, even if we are doing to see this [inaudible] we have to see storage really outperform?

John Thompson Symantec - Chairman, CEO

Well, Michael, we think this is about the strength in the diversity of our portfolio that at any given moment in time we might have a weaker segment than we would hope or expect but that will be offset by strength in another sector or segment. And we have been trying to build a business for the last four, five years that has been about diversity.

Product diversity, customer based diversity and geographic diversity. And sometimes those points work to your advantage. Sometimes they work against you. Clearly currency has worked against us this quarter. That was a challenge if you will with the geographic side.

But by contrast the storage business performing as well as it did really does underpin the validity we think in our portfolio strategy and our ability to go to large customers and say, you've got an array of things that you can do with us. Let's sit down and structure a transaction that reflects spending across the domain of activity we have that could in fact lead to stronger market share for us on the back ends of this economic downturn.

Enrique Salem Symantec - COO

I think one of the things that's going on that's helping us is the volume of data that's continuing to increase at a very, very rapid rate.

So we are seeing 60% data volume increases year over year and so what that does is that requires an increase in data protection technology. So you need our back up technology and given the rapid expansion of data or the rapid growth in data, you need to also look at new technologies like this based technology to allow to you complete those backups in the time frames that you have.

So we believe the rapid growth in data volumes and requirement for new technologies are both going to continue to contribute to our strength in storage and data protection businesses.

Michael Turits Raymond James - Analyst

From the security and compliance side, assuming demand in the macro environment stays about where it is. Are there things that are taking place in that business?

I mean in security and compliance business that could suggest that that could begin to accelerate even in the an environment that looks like this one. You mention for example the some of the not as great as expected acceptance of [inaudible] in mid market. So could we see an acceleration in that segment even if things stay bad?

Enrique Salem Symantec - COO

There's two things that are going on. One, I think the new maintenance release for Symantec end point protection I think is going to be a net positive for all segments but especially the mid market and then I think the second area, we just launched our new what we call control compliance suite, which is our integrated set of compliance technologies and I do believe that the combination of using an agent and agent less approach is going to help the performance of the security and compliance segment.

Michael Turits *Raymond James - Analyst*

Have you, one clarification for James. You said thank you expect to keep the OpEx at this current, the September quarter level including right up until the fourth quarter.

I assume that does not include message labs in the fourth quarter, right?

James Beer *Symantec - CFO, EVP*

That's correct. So I'm assuming obviously the costs associated with PC tools but not message labs.

Michael Turits *Raymond James - Analyst*

Any rough thought on what that will contribute in expenses in the fourth quarter?

James Beer *Symantec - CFO, EVP*

No, I mean I wouldn't throw out that estimate right now. We are still working through that.

Michael Turits *Raymond James - Analyst*

All right. Thanks, guys.

Operator

: Next, John Defucci with JPMorgan.

John Difucci *JPMorgan - Analyst*

Thanks for taking my question. Just want to be clear, John, and Enrique, the deals that did slip out of that last quarter. It doesn't sound like you've seen any of them close yet or have some of them closed, are they getting close or.

John Thompson *Symantec - Chairman, CEO*

We have seen some close but it would be typical with normal patterns, John. Every quarter you have deals slip.

John Difucci *JPMorgan - Analyst*

Right.

John Thompson *Symantec - Chairman, CEO*

Some of those deals do get done in the first week or first month of the subsequent quarter.

I think what was the bigger surprise to us this quarter was the sheer volume of not just the number but the dollar volume of what slipped.

John Difucci *JPMorgan - Analyst*

And also just to be clear, it doesn't sound like these were like especially large deals that slipped, it's just a massive mid to smaller deals.

John Thompson *Symantec - Chairman, CEO*

It was a range. There was a full range. There were, there was at least one really big one that we were looking at and there were a number of other that is we would have loved to have gotten. It's the typical pipeline management issues.

John Difucci *JPMorgan - Analyst*

Okay. Okay. And, James, on the cash tax issue, I mean going forward, because you can manage that in certain ways. It sounds like it hurt you this quarter but may have helped you perhaps a year ago or so. What should we be thinking about that going forward? And the cash flow still looks pretty decent but just want to make sure, we don't get surprised by you have to pay a higher cash tax rate for several quarters.

James Beer Symantec - CFO, EVP

I would characterize our cash tax payment in the September quarter as really pretty typical of what we will see in each of the quarters of this fiscal year. So nothing abnormal in this quarters payment.

John Difucci JPMorgan - Analyst

But was --

James Beer Symantec - CFO, EVP

It was September a year ago where we had the abnormality.

John Difucci JPMorgan - Analyst

And was there an abnormality in the December quarter a year ago?

James Beer Symantec - CFO, EVP

December, no. We were a little bit light on cash taxes versus where we would normally have been but not to the degree that we saw in September of 2007.

John Difucci JPMorgan - Analyst

And I'm sorry to keep asking this but also for like the March and June quarters were those sort of normalized? Because.

James Beer Symantec - CFO, EVP

I would characterize the March, March of last year and June of this fiscal year as more normal.

John Difucci JPMorgan - Analyst

Okay. Okay. Thank you.

Helyn Corcos Symantec - VP, IR

Tom, we have time for one more question.

Operator

Yes, ma'am. That, question comes from Israel Hernandez with Barclays Capital.

Israel Hernandez Barclays Capital - Analyst

Hello everyone. John, can you talk about the performance of AMIA I think it was up 3% year over year. Did you see any patterns that were different from the events that you described at the end of the quarter or were there any particular stand outs, any countries that performed better or worse relative to your expectations.

John Thompson Symantec - Chairman, CEO

Good question. Candidly, UK, France were weaker than we expected. The UK is our largest region within the AMIA territory and it had a weaker close as did France. Than we would have expected. By contrast, Germany had a very solid quarter.

And as some of you will recall, we have been working on building and improving our business in Germany for quite sometime and we were pleased to see the performance in Germany during the September quarter.

That said, better perform in the UK and France would have certainly helped overall Europe results.

James Beer Symantec - CFO, EVP

I think that it's fair to say that Eastern Europe and the Middle East were strong.



John Thompson Symantec - Chairman, CEO

Correct. Just need to be bigger, that's all.

Israel Hernandez Barclays Capital - Analyst

Thank you.

Operator

And that is our final question today. Ms. Thompson, I will turn the call back over to you.

John Thompson Symantec - Chairman, CEO

Well, thank you very much everyone for dialing in. We posted strong solid earnings performance in the September quarter.

We've got our eye on the issues that we think we need to manage in this uncertain economic environment. Not just in terms of what products we deliver and the strength of the relationships we have with our customers but what we do on the cost side of our business to make sure we are being thought full and prudent.

We believe that the strength of our portfolio, the strength of our balance sheet, and quite frankly, the resolve of our team will help to carry us through during these uncertain economic times.

We look forward to communicating with you about our progress as the quarter unfolds. Thanks very much.

Operator

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time

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PRESENTATION

Operator

Good day, and welcome to Symantec's third quarter 2009 earnings conference call. Today's call is being recorded. At this time, I'd like to turn the call over to Ms. Helyn Corcos, Vice President of Investor Relations. Please go ahead.

Helyn Corcos *Symantec - VP of IR*

Thank you. Good afternoon, and thank you for joining our fiscal third quarter 2009 earnings conference call. With me today are John Thompson, Chairman of the Board and Chief Executive Officer of Symantec; Enrique Salem, Chief Operating Officer, and James Beer, Executive Vice President and Chief Financial Officer. In a moment I will turn the call over to John. He will provide high level comments on the Company. James will review the financials and our guidance as outlined in the press release, and Enrique will wrap it up with quarterly highlights. This will be followed by a question and answer session.

Today's call is being recorded and will be available for replay on Symantec's Investor Relations home page. A copy of today's press release and supplemental financial information are available on our website, and a copy of today's prepared comments will be available on the Investor Relations website, shortly after the call is completed.

Before we begin I'd like to remind everyone that some of the information discussed on this call, including our projections regarding revenue, operating results, deferred revenue, cash flow from operations, amortization of acquisition related intangibles, and stock based compensation for the coming quarter contain forward-looking statements. These statements involve risks and uncertainties and may cause actual results to differ materially from those set forth in these statements. Additional information concerning these risks and uncertainties can be found in the Company's most recent periodic reports filed with the U.S. Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statements.

In addition to reporting financial results in accordance with Generally Accepted Accounting Principles, or GAAP, Symantec reports non-GAAP financial results. Investor are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in the press release and on our website. Now I'd like to introduce our CEO, Mr. John Thompson.

John Thompson *Symantec - Chairman, CEO*

Thank you, Helyn, and good afternoon everyone. We are pleased to report stronger than expected December quarter results, against the backdrop of a challenging global economy. More importantly I'm quite pleased that our financials are reflecting our team's commitment to improving our execution. Solid sales activity, coupled with our ongoing focus on managing our cost structure, drove the over performance for the quarter. We were able to deliver revenue above our forecast despite our customers continued scrutiny of their IT



budgets.

Customers tell us they will allocate funds to areas of storage optimization, data loss prevention, and enterprise security. Furthermore, their attention is turned to initiatives that will drive immediate cost savings, rather than longer term investment programs. I'm pleased that our sales force has been able to successfully illustrate the positive impact our solutions can have on our customers' operating cost. Our enterprise business benefits from a large recurring revenue base, particularly in the storage segment where more than half of our revenue comes from maintenance contracts.

In our consumer segment we were able to leverage our existing customer base, a very strong customer base, to continue the migration to Norton 360. In addition our recent acquisition of PC Tools and SwapDrive are important elements of our strategy to expand into the emerging geographic markets and the online back up segment. Our higher than expected non-GAAP earnings this quarter are the result of our very effective cost management programs. The combination of our top line growth, our cost and expense management programs, and our ongoing share repurchases has enabled us to achieve seven consecutive quarters of double-digit earnings growth.

Looking forward to our March quarter the final quarter of our fiscal year, we expect the market environment to remain challenging. However, we are confident in the competitiveness of our products and services, and the determination of our team. We will maintain our focus on execution, striking the right balance between achieving efficiency and sustaining strong business performance, without compromising our ability to serve our customers. In an environment where revenue growth may be the greatest uncertainty, our goal is to grow our earnings and emerge from this economic downturn a stronger Company, positioned for ever greater success in the next economic cycle.

With that I'll turn it over to James for financial details.

James Beer Symantec - EVP, CFO

Thank you, John, and good afternoon everyone. I'm pleased that our Company-wide focus on execution drove over performance in each of our key financial metrics during the December quarter. In particular, our ongoing focus on managing costs has resulted in significant operating margin expansion and earnings growth.

I'll start by reviewing the financial details of the December 2008 quarter. GAAP revenue was \$1.51 billion. Non-GAAP revenue grew 1% over the December 2007 period to \$1.54 billion, driven by growth in our consumer, storage, data loss prevention, and services businesses.

Foreign currency movements negatively impacted non-GAAP revenue by approximately four percentage points year over year. Had the quarter's exchange rate equaled our guided value of \$1.25 per Euro, rather than the actual weighted average rate of \$1.32 per Euro, our non-GAAP revenue would have totaled \$1.505 billion, still above the top end of our guided range.

The December quarter's fully diluted GAAP loss per share is due to a non-cash goodwill impairment charge of approximately \$7 billion. During the December quarter, given the current economic environment and the resulting decline in our market capitalization, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis. We have not completed this analysis, but have concluded that an impairment loss can be reasonably estimated. We expect to finalize our goodwill impairment analysis during the fourth quarter of fiscal 2009, and may make an adjustment to this charge when the goodwill impairment test is completed.

Non-GAAP fully diluted EPS for the quarter were \$0.42, up 27% year over year. Compared to the high-end of our guidance, we over performed by \$0.09. Two of the \$0.09 cents were driven by one-time tax and hedging gains, while a further half cent improvement was as a result of a lower share count than previously expected. The majority of the remaining \$0.065 over performance was driven by expense management.

The U.S. region grew non-GAAP revenue by 7%, to total \$767 million equivalent to 50% of total non-GAAP revenue. International non-GAAP revenue of \$771 million declined by 5% versus the year ago period. Foreign currency movements negatively impacted



international non-GAAP revenue by approximately seven percentage points year over year.

Moving on to our non-GAAP revenue by segment. The consumer business generated revenue of \$448 million, equivalent to 29% of total revenue, and grew 2% year over year. In the enterprise arena, the storage and server management segment generated revenue of \$569 million, up 1% year over year, and represented 37% of total revenue. Our security and compliance segment generated revenue of \$396 million, down 5% versus the year ago period. This segment accounted for 26% of total revenue.

Our services segment generated revenue of \$125 million, up 20% year over year, representing 8% of total revenue. Our continued focus improving the cost efficiency of our services operations continues to result in significant contribution margin improvements year over year.

Non-GAAP gross margin increased 40 basis points to 86.6% for the December 2008 quarter, as compared to 86.2% for the year ago period. Our continued focus on cost management as well as our over performance on the top line increased non-GAAP operating margins during the December 2008 quarter to 32%, up 480 basis points year over year. This is the fifth consecutive quarter in which operating margins have increased versus the prior year. The GAAP net loss for the December 2008 quarter was \$6.8 billion, due to the non-cash goodwill impairment charge. Non-GAAP net income was \$350 million, up 20% year over year.

We exited December with a cash and short term investments balance of \$1.5 billion. During the December quarter we repurchased \$200 million, or 16.1 million shares, at an average price of \$12.45. \$400 million remains in the Board authorized share repurchase plan. We also spent \$239 million on the purchase of PC Tools, and \$619 million on the MessageLabs acquisition during the quarter, for a total of \$858 million.

Our net accounts receivable balance at the end of the December 2008 quarter was \$927 million. Day sales outstanding, or DSO, was 55 days, in line with normal seasonal trends. Cash flow from operating activities for the December quarter totaled \$402 million, as compared to \$462 million in the December 2007 quarter. GAAP deferred revenue at the end of the December 2008 quarter was \$2.92 billion. Non-GAAP deferred revenue grew 2% year over year, to \$2.96 billion.

Foreign currency movements negatively impacted non-GAAP deferred revenue by two percentage points year over year. Had the end of period exchange rate equaled our \$1.25 per Euro guided rate, versus the actual rate of \$1.39 per Euro, deferred revenue would have totaled \$2.86 billion, again above the top end of our guided range.

Now I'd like to spend a few minutes discussing our expectations for the March quarter. We are assuming an exchange rate of \$1.32 per Euro for the March 2009 quarter, versus the \$1.50 per Euro we experienced during the March 2008 quarter. Given the rapidly moving exchange rate environment, I'd like to remind everyone to continue to apply the rules of thumb that we provided last quarter as a guide to the impact of currency movements on our financial metrics. Our guidance also assumes a common stock equivalents total for the quarter of approximately 830 million shares.

For the March 2009 quarter, we expect GAAP revenue to be in the range of \$1.475 billion to \$1.525 billion. Non-GAAP revenue is estimated to be in the range of \$1.49 billion to \$1.54 billion. In constant currency terms, the midpoint of this range would equate to \$1.60 billion, as compared to the \$1.548 billion we generated in the March 2008 quarter.

GAAP earnings per share are forecasted to be in the range of between \$0.12 and \$0.14. Non-GAAP earnings per share are estimated to be in the range of between \$0.33 and \$0.35. In constant currency terms, the midpoint of this range would equate to \$0.35, as compared to the \$0.36 result in the year ago period.

The March quarter guidance includes a full quarter's impact of MessageLabs for the first time, and is consistent with the comments we made in October regarding the dilutive impact of this transaction for the remainder of this fiscal year. At the end of the March quarter we expect GAAP deferred revenue to be between \$2.972 billion and \$3.072 billion. We expect non-GAAP deferred revenue to be between \$3.0 billion and \$3.1 billion.



The exchange rate at the end of the March 2008 quarter was \$1.58 per Euro. In constant currency terms, the midpoint of this range would equate to \$3.23 billion, as compared to \$3.09 billion at the end of March 2008. We expect about 61%, or approximately \$930 million, of our March quarter revenue to come from the balance sheet. This percentage once again illustrates the degree of predictability that we have built into our income statement during the last few years.

Lastly I would like to remind everyone that the upcoming June 2009 quarter will be comprised of 13 weeks, versus the June 2008 quarter which included an extra 14th week. Let me briefly review the impact of the extra week on our financials this past year. Our June 2008 quarter revenue included approximately \$75 million, and earnings per share included approximately \$0.03, a one time benefit generated from the extra week. Deferred revenue was negatively impacted by approximately \$5 million, as a result of the extra week. The June 2008 quarter also benefited from significant currency tailwinds.

We expect normal seasonality for the June 2009 quarter, which typically includes sequential declines in revenue, earnings per share and deferred revenue from the March quarter. We encourage analysts to consider these factors when modeling the upcoming June quarter.

In closing, I believe we are well positioned to do deal with the current macroeconomic environment. We will stay focused on our costs and earnings, but we will also capitalized on opportunities to boost our long-term competitiveness and top line growth rate. And now I will turn the call over to Enrique, who will provide more detail on the December quarter highlights.

Enrique Salem Symantec - COO

Thanks, James, and good afternoon everyone. I'm pleased with the execution of both our sales and our product teams during the quarter. While the environment continues to be challenging, we believe the mission-critical nature of our products combined with the compelling ROIs delivered by many of our solution positions us well in this environment. We are continuing to drive many new license sales, and our customers are renewing at a high rate across both our storage and security business.

Now I would like to highlight a few key items of our fiscal third quarter. Starting with our data center business, a key factor of driving our storage and server management results over the past four quarters has been our ability to enable clients to quickly reduce IT spending, particularly storage spending. In this economic climate customers are looking for solutions that can deliver cost savings within an operating budget cycle. As such, we initiated a new selling campaign built around the theme of "Stop Buying Storage". Customers using our solutions can reduce storage costs by better utilizing existing storage, and by buying lower cost storage.

Our data center backup and deduplication products posted strong year over year revenue growth. The transition of net backup to a platform-based architecture has enabled our customers to take advantage of best of breed features, such as disk space back up, virtualization, continuous data protection, and deduplication. In the small-medium business segment, our strategic partnership Dell in the backup area is off to a good start. The Dell-based disk arrays that are pre-installed with Backup Exec 12.5 is outselling a similar appliance shipping with our competitors' technology by three to one.

Next, [Vontu] just celebrated its one year anniversary at Symantec. I am pleased with how well this integration has gone. The DLP team has been very successful in leveraging the broader Symantec sales force and channel presence, and has expanded the business globally. The team also made significant progress in integrating the DOP product with the broader Symantec portfolio. DLP 9 is now fully integrated with our Endpoint Management Solution, leveraging Symantec's open collaborative architecture.

The revenue from our DLP business continues to show strong growth. We signed deals with some of the largest global enterprises, spanning many different industry verticals. For example, our complete Symantec Data Loss Prevention Suite was licensed by Continental Airlines to protect credit card numbers, personally identifiable information, and other sensitive content.

The airline chose to implement our DLP Solution to ensure compliance with various state data privacy laws and to help maintain PCI compliance. The customer selected our DLP Solution for its best-in-class features, and for its mature reporting and work flow capabilities. In addition Continental also decided to do standardize on Symantec Endpoint Protection and Symantec Endpoint Encryption for mobile device. Symantec Endpoint Protection garnered several competitive wins in large enterprise segment. The performance improvements made in the recent maintenance releases have been well-received by both our customers and our partners.



Now I'd like to take a few minutes to talk about our market-leading consumer business, which clearly generates the most profits in the consumer security market. Our stellar 2009 products and associated accolades are allowing to us replace the competition and increase our presence in both the retail and electronic channels. We continue to aggressively pursue OEM relationships for customers who benefit from the ever increasing value of our Premium Security Software. Symantec signed, or extended, or renewed more than 20 new customer agreements in the December quarter.

The Netbook market is an exciting new opportunity for us. We are working with a number of providers in this fast-growing market, including ASUS, the number one vendor in the ultra low cost PC segment. We recently signed a multi-year deal to ship a sixty-day trial of NIS on ASUS laptops and desktops world's wide. In addition, we signed new contract with the United Online and Fujitsu. We also won a deal with a leading PC OEM to ship NIS on their gaming platform, and we are pursuing other new OEM opportunities, particularly with our online backup offering.

In the merging markets, we are expanding our portfolio to derive growth from new markets by leveraging our recently acquired PC Tools brand and its online go-to-market channel. PC Tools just completed its first full quarter as part of our Company, and we are pleased with their ability to reach new customers. PC Tools allows us to see emerging markets and new consumer segments with less expensive point products, while protecting our premium Norton brand.

We are also now shipping Norton Internet Security for the Mac. Even Mac owners are susceptible to online threats, and when it comes to phishing, it doesn't matter what platform you are using. NIS for Mac helps safeguard user from phishing threats, Malware, and hackers, without compromising system performance.

As we look ahead, we are excited about the upcoming product cycles in both our enterprise and consumer segments. In the enterprise segment we are shipping new versions of Enterprise Vault and Control Compliance Suite. Later this quarter, we expect to ship the next version of our Altiris Management Products.

In consumer, we have several exciting new product launchings which will benefit our existing user base as well attract new customers. The new release of our industry-leading all-in-one Security Suite, Norton 360, will include all the performance and security enhancements of our award-winning 2009 products. We will also be introducing the web-based Norton Online Backup in February.

Driven by our acquisition of Swap Drive last June, we are providing online backup to customers. We have 6.5 times more customers than our nearest competitor. Today we host 26 pedabytes of data, and with 2.5 million backups per day, we are the clear lead in the online backup mark. Our online backup offering is particularly valuable for Netbook users who want to access their data from multiple devices, and who tend to have limited local storage for their high volumes of photos, music, and videos.

Going forward I have established three key focus areas for our team. First is Enterprise Security, given the importance our customers place in protecting their critical information. Second, we will solidify our leadership in the transition to next-generation data protection, including disk space backup, virtualization support, continuous data protection, and deduplication. And finally, we will scale our Software as a Service business to include archiving, DOP, backup, and many other services.

In closing we have a broad set of products and services that customers continue to value, and we are very excited about our new product pipeline. We will continue to focus on execution, invest in growth opportunities, and drive earnings growth, in order to emerge from this economic downturn as a stronger Company. With that I will turn the call back to Helen so she can take

Helyn Corcos Symantec - VP of IR

Thanks, Enrique. Tom, will you please begin polling for questions.

Operator

(Operator Instructions)



Helyn Corcos Symantec - VP of IR

While Tom is polling for questions, I'd like to update you on four upcoming events. First, Symantec will be hosting our Financial Analyst Day on June 11 in San Francisco, so please mark your calendars. Second, we encourage you to attend Manage Fusion, our Annual Customer Conference during the week of March 9 in Las Vegas.

Third, we will be presenting at three Financial Analyst Conferences this quarter. And, fourth, we will be reporting our fiscal fourth quarter and fiscal year end 2009 results on May 6. For a complete list of all our investor-related events, please visit the events calendar on the IR website. Tom, we are ready for our first question.

QUESTIONS AND ANSWERS

Operator

Yes, ma'am, that question comes from Sarah Friar with Goldman Sachs.

Sarah Friar Goldman Sachs - Analyst

Good afternoon folks, thanks for taking my questions. James, just on the margin side, on the guidance for the fourth quarter, it seems low and I know you're incorporating MessageLabs there, but excluding the dilution from MessageLabs is your assumption that the margins on the core business stay flat or decline into the fourth quarter, and why would they decline?

James Beer Symantec - EVP, CFO

Well, what we have tried to do on all of these guided figures is adjust for currency. And so I made the comment that the midpoint of our guidance would equate to \$0.35, versus the \$0.36 that we recorded in the March quarter of last year.

Now as you point out, we are going to be experiencing some dilution associated with the MessageLabs acquisition. When we entered into that deal, we pointed out that we were going to \$0.02 cents dilution for the balance of the fiscal year, with the significant majority of that coming in the March quarter. So when you make that adjustment as well, our midpoint guided EPS would be actually coming in in advance of what we recorded last year.

Sarah Friar Goldman Sachs - Analyst

Sure, but sequentially.

James Beer Symantec - EVP, CFO

That gives you a sense of how we are thinking generally about the business.

Sarah Friar Goldman Sachs - Analyst

But I guess the question was a little bit more sequentially. You just put up those great operating margins in December, and you've been on this very nice ramp to to improve margins. Why then the down tick sequentially I guess?

James Beer Symantec - EVP, CFO

Well, there are clearly a variety of different factors that will drive this. At the start of any calendar year, there will be some costs that kick in again. So, for example, the 401k match begins again. Payroll taxes begin again.

So you would naturally see a cost increment in the March quarter over a December quarter typically. Now that said, of course we continue our focus on all elements of the cost structure. And we certainly won't be changing that perspective in the March quarter, so we'll be going in a very focused way in that regard.

Sarah Friar Goldman Sachs - Analyst

And I would assume there's still some uptick coming from some of the risks that you did towards the end of last year?



James Beer Symantec - EVP, CFO

Well, that's right because, as you well know in certain parts of the world, it takes quite a while to actually sort through the mechanics of this sort of an action, and so I would expect there to be some of those benefits coming through in the March quarter for the first time.

Sarah Friar Goldman Sachs - Analyst

Great. Okay. Thank you.

Operator

We'll take our next question from Heather Bellini, with UBS. Ms. Bellini, your line is open, please check your mute button. Hearing no response we will go ahead and move on to Adam Holt with Morgan Stanley.

Adam Holt Morgan Stanley - Analyst

Good afternoon and congratulations on the quarter. I had a couple of questions about the consumer business. Could you give us the detail on where 360 was in terms of the percentage of bookings, as well as the percentage of revenue in the consumer business? Secondly, maybe talk a little bit about how you think that the changing momentum in the PC market potentially impacts your consumer business? And then just lastly, you talked a little bit about the opportunities to expand distribution for 360 at the OEMs. Could you maybe drill down on that a little bit, what specifically you're discussing? Thanks.

Enrique Salem Symantec - COO

Sure, Adam. If you look at it right now, Norton 360 for the quarter was about 25% of the consumer revenue. When you look at the opportunity for us in with Norton 360, with Norton Internet Security, I think you start with just the tremendous awards that we received. Norton Internet Security is by far the best product on the market. We are running the table right now with the awards, and so we have around the world in geographies that previously have been a little bit challenging for us where we are gaining market share.

If you look at retail channeling, or you look at the OEM channel, they are all very interested in using Norton Internet Security 2009, which is the product that we take through the OEMs, and we see an opportunities to continue to expand our relationship with OEMs. And so there's a number of OEMs who cater to the premium security segment, where we think we've got a competitive advantage. And so we are going to focus there.

Adam Holt Morgan Stanley - Analyst

And then if you could just touch on the other two elements, obviously the PC market is decelerating materially. How does that impact you, and how do you think about the influences there? And then just secondarily, as you think about continuing to expand your distribution, both with traditional OEMs and then also thinking about the opportunities with Netbooks, maybe touch on your thoughts there?

Enrique Salem Symantec - COO

Let me give you a couple thoughts. Part of the, so you're right, we are seeing a change in the growth rate in the PC market, and so what we are doing to compensate for that, and we've been planning this for some time, is bringing new offerings into the market that allow us to get more revenue per customer. So for example, we will be shipping a standalone version, a product that we call Norton Online Backup. And so that product is something that we can go in to, quite frankly, any customer whether they are an existing Symantec customer or not. We also can use that product on Netbooks, where Netbooks are devices that typically don't have as much storage, and customers are going to download pictures, download videos, and we can use our backup capabilities to help those customers.

I think the second thing that we want to talk about is PC Tools. The acquisition we did a couple of quarters ago that closed at the beginning of the December quarter, allows us to go into more price sensitive markets, both from where the customer is more price sensitive or potentially they are going to use it on a Netbook offering. And so that gives us the ability to go after new customers who are not the traditional Norton buyer without having to take the Norton product down into that segment. And so we've got a dual brand strategy that I think will allow to us expand and bring in some new customers in some of the emerging markets where, quite frankly, we haven't been willing to take the Norton brand because we haven't been willing to drive the prices down.



Adam Holt Morgan Stanley - Analyst

Terrific. Thank you.

Operator

We will take our next question from Brent Thill with Citi.

Brent Thill Citigroup - Analyst

Thanks, just if you could comment on the personnel total headcount; I think you mentioned you were going to be managing that number down in the quarter and you were at mid 17,000. Can you just walk through going forward would your plans are on that line item?

James Beer Symantec - EVP, CFO

Well, as part of what we've released this afternoon, we show a headcount for the December quarter of 17,621. Now 811 of those people came to us just recently through the acquisitions of MessageLabs and PC Tools. So quarter over quarter, we are down around 950 or so. So I wouldn't want to make any predictions around specific employee numbers going forward. I would say that this is obviously one of the areas in which Enrique and I have already been focusing on the cost side of the ledger. So as we have employees attrit from the Company, we are being very careful about how many of those positions we backfill and so forth. So this is a topic we are looking at in great detail.

Brent Thill Citigroup - Analyst

A quick follow up, John had mentioned on storage business that more than half the revenues from fairly sticky maintenance contracts, can you just update us on what the maintenance rates are today and any changes in terms of that line item you've seen recently? Thank you.

Enrique Salem Symantec - COO

Yes, Brent, when you look at it, we haven't talked about the maintenance rates, but what I am pleased with even in this tougher economic environment, we continue to see customers renewing their maintenance. And they are continuing to buy new licenses alongside of those maintenance agreements.

What I do want to emphasize is that our storage products continue to perform well, very specifically because customers are looking for ways to save money, and with our current offerings we are able to do that. This notion of "Stop Buying Storage" absolutely words with CEOs around the world.

Operator

Would will take our next question from John DiFucci with JPMorgan.

John DiFucci JPMorgan - Analyst

Thank you. It sounds like the consumer business, even though if you back out some of the acquisitions in your pro forma numbers it's down just a little bit year over year. And given what Microsoft put out, talked about the consumer and what others have talked about, that's actually a lot better than expected, and Enrique you sort of hit on that. It sounds like you are selling more products into those same consumers, which is sort of helping that business quite a bit, and the storage sounds steady, but the security and compliance business was down year over year. You also had large deals down; a number of large deals. Just maybe if you can comment on that and just tell us what's happening in that business, at least relative to your other businesses.

Enrique Salem Symantec - COO

Sure, there's two places where I think we've got good performance where if you look at the DLP business, the data loss prevention business, that has continued to do well, but it's a smaller number, so it's growth rate doesn't have as large an impact. We've also seen good performance with Symantec Endpoint Protection at the large , which is where we focus that product. In the mid market given some of the improvements we've made are the SMB space, there is still more work to be done there, and I would tell you that is a place where we need to see some improvement. But overall the DOP business, SEP in the large enterprise continues to do



John DiFucci JPMorgan - Analyst

Do you think that that is more to do with the mid market, the market itself is a little tougher, or is that something that you [use] Symantec on an execution basis just needs to work better at?

Enrique Salem Symantec - COO

I think ultimately, we can definitely do better. I think we can definitely continue to execute well in that segment, and I think we will make some improvements with our Symantec Endpoint Protection product, where we will be able to serve that market segment better.

James Beer Symantec - EVP, CFO

In terms of the volume of large deals, one of the themes there is that we're seeing customers buying what they need for the short to medium term sometimes, rather than investing in those longer term large scale type transactions that were more voluminous in the last quarter or two.

John DiFucci JPMorgan - Analyst

Okay. Thanks. If I can just squeeze one in, on the goodwill impairment there you had, that implies that the fair market value of something that you had bought along the way [big], or a lot of things are now below the carrying value. And I'm just curious what specifically is that? Is that the net present value the way you calculated it of the cash flow from that, is that related to Veritas or is it related, if you can just identify what assets that's related to?

James Beer Symantec - EVP, CFO

Well, the way the calculation works, it's done on a segment basis, as opposed to a specific acquisition basis. So I actually can't answer that question. And so what's driving the overall calculation is the notion that obviously cost of capital has risen, given what we are seeing in terms of dislocations in the financial markets. The short term growth rates have to reflect the realities of today's recession.

And then interestingly, the other element of this that drives the overall scale of the charge is, ironically really, the fact that we invest a very large amount in R&D organically here. So when you go through this calculation you have to value the organically developed intellectual property, and that is actually deducted from the amount of goodwill that you can keep on the books. So it's really those three drivers, and it's a segment analysis rather than a specific acquisition analysis.

John DiFucci JPMorgan - Analyst

Can you tell us which segment James it is, though, just out of curiosity?

James Beer Symantec - EVP, CFO

The segments that, obviously we are as I mentioned still going through this calculation, but it will be the enterprise segments that will be impacted here, and we should be in a position to have more information in the 10Q that we will be issuing in a week or two's time.

John DiFucci JPMorgan - Analyst

Thanks a lot, guys.

Operator

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

Phil Winslow Credit Suisse - Analyst

Hi, guys, last year you made a change to the sales incentive structure at the beginning of this fiscal year. When you start to look going forward here, are there any more refinements that you are planning to make over the next several months here to put even more focus on license revenue, or do you feel pretty comfortable with the current sales model?

Enrique Salem Symantec - COO

All of changes of any consequence that we are going to make to the comp structure, we have already made those, Phil, and I think it's more a matter of we will make some refinements. But make no mistake about it, our focus here is how do we keep driving new license?



And so things that we can do to improve new license generation we will do. And are there a few more things we can do? Yes, but they are going to be tweaked to the current plan, not any big changes.

Phil Winslow *Credit Suisse - Analyst*

And any expectation for a change has been in the mix of the sales force, so you have more quota carrying heads, et cetera?

Enrique Salem *Symantec - COO*

As far as the mix, I would tell you, we always look at the coverage model and we're trying to find where the big opportunities are. I will tell you that in this economic environment, we are looking at which segments are going to have higher growth, but the priority for us right now is looking at what are some of the big opportunities for our customers and I would highlight three areas. One is, we can continue to grow our security business and so we need to focus there. Two is, as customers move to kind of the next-generation data protection, I think that creates an opportunities for Symantec to look at how do we allocate resource against that opportunity. And then, three, we are definitely seeing as folks continue to look at how they reduce costs and understand what they need to do themselves or what their core competencies are, they will do more leveraging software as service, so that will be another area for us to look at. And so it's across the segments, looking at those three opportunities will be how we decide our resource allocation.

Phil Winslow *Credit Suisse - Analyst*

Great. Thanks, guys.

Operator

We will go next to Heather Bellini with UBS.

Heather Bellini *UBS - Analyst*

Great and apologize for before. Hi Enrique, I was just wondering, and I may have missed this because my phone is cutting in and out, I'm over in Europe, but I was wonder if you could share with us there's been some questions I've been getting about when your Enterprise Security contracts are up for renewals, how do we think about the impact of job reductions, and if there's a potential for true downs in the number of seats or nodes that you guys are protecting that we might have to think about when we are thinking about the Enterprise Security growth rates? Thank you.

Enrique Salem *Symantec - COO*

Yes, I think Heather what you want to think about is we've got over 100 million endpoints that we protect, and so the current economic environment has a diminimus effect as far as the number of nodes that we are going to go protect. I think the more salient point at times is going to be how long are people willing to re-up their maintenance. Are they doing a three-year maintenance which is pretty typical in our security business, or are they going to go for shorter terms. I think we will see more shorter term but the number of nodes will still be out there. There will be a diminimus effect from the current economic environment.

Heather Bellini *UBS - Analyst*

Okay. Great. Thank you.

Enrique Salem *Symantec - COO*

You bet.

Operator

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

Chris (unidentified) *Pacific Crest Securities - Analyst*

Hi, guys, this is actually Chris filling in for Rob.

Enrique Salem *Symantec - COO*

Hey, Chris.

Chris (unidentified) Pacific Crest Securities - Analyst

First quick question, I kind of wanted to talk a little more about Enterprise Security. In terms of its second quarter in a row of negative sequential growth. Do you feel like you guys are seeding share at all there?

Enrique Salem Symantec - COO

I think what you want to look at is the segments we are in, meaning the products that we offer, I think we are doing well. We are gaining share in DLP, in data loss prevention. If you look at the numbers, very good performance there. I think that there are parts of security that haven't been as resilient, and I think in the SMB space, it's an area where we have to do a better job.

But make no mistake about it in large enterprise, when I look at the business that we've done, I highlighted Continental and a few others, we are displacing competitors at the high-end of the market with Symantec Endpoint Protection. So at the high-end I think we are gaining. I'm looking at a segment analysis though, where I think there's a couple of segments where we can do a better job with SEP, specifically, I think we can do more in the

Chris (unidentified) Pacific Crest Securities - Analyst

Got it. Second question would be North America had a strong quarter. If you could kind of touch on that, what drove it, what

Enrique Salem Symantec - COO

I think it's ultimately just strong execution by our sales team. I think overall we've focused our efforts on, what are the things that are going to resonate with our customers. If you think about it, you've got a situation where people are looking for how do they drive costs out of their environment. So technologies like Storage Foundation, our NetBackup product, both did well. And then also I highlighted just a moment ago, our data loss prevention business, where customers continue to need to protect their information, is something that has proven to be, shown continued strength. I expect that to continue. I don't think customers are going to stop looking at how do they protect their intellectual property, their customer data, their employee data, and so I think our DOP business that full suite, now that we've moved it out to the Endpoint with DLP 9, I think we will continue to perform well.

Chris (unidentified) Pacific Crest Securities - Analyst

Thank you. Last question, you talked a little bit about the security for Macs. Do you have any idea how big that market size will be?

Enrique Salem Symantec - COO

I think what you want to look at is, I would look at it on the percentage of Macs that are out there. And that number is growing. Their market share of total PCs is growing, and so I think our opportunity will grow commensurate with that. I think what's important is that, for example, with phishing, whether you are on a PC platform or a Mac platform, you still need protection. You still have to get protected, and so that creates an opportunity for us because we've got a fantastic brand. We've historically had a good footprint on the Mac, and so we expect that to continue.

Chris (unidentified) Pacific Crest Securities - Analyst

Okay. Thanks.

James Beer Symantec - EVP, CFO

I think it's fair to say that the Mac users tends to be high-end premium type users, and that's very much our target market with the Norton brand.

Chris (unidentified) Pacific Crest Securities - Analyst

Got it. Thank you. That's it. Thanks.

Operator

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



Todd Raker Deutsche Bank - Analyst

Hey, guys, nice quarter.

Enrique Salem Symantec - COO

Thank you.

Todd Raker Deutsche Bank - Analyst

Two quick questions for you. First on the consumer side, can you guys give us any sense in terms of early conversion rates on Netbooks, or any kind of indication in terms of how you think penetration is going to look on the Netbook segment versus traditional?

Enrique Salem Symantec - COO

I don't have any data that I can share right now. We are on the ASUS Netbooks and a couple of others that is we are in discussions with. I would tell you that the price of PCs has been dropping for the last 15 years from the day they were introduced in the early 80's, and ultimately, the value of our software has not. Meaning if you think about when we launched Norton Internet Security in 1999, 2000, it was \$69.00.

We are still charging \$69.00 for that product. And the reason is, it's less about cost of the hardware and much more about what you are doing on that PC. It's the information on the PC, it's your identity when you go online, and that's why I think the notion of the price point of the Netbook is not driving whether they are willing to pay for security software or not. If that would be the case we wouldn't be able to get \$69.00 and \$79.00 for NIS and Norton 360 respectively.

Todd Raker Deutsche Bank - Analyst

Okay. And then on the enterprise side, if you look at the March quarter here, have you guys changed any of your assumptions around close rates versus what you saw in December, or how are you thinking about kind of the business environment impacting March?

Enrique Salem Symantec - COO

No, look, we've got a couple of things going on. We think it will be a similar close rate and plus it's driving into the end of our fiscal year. So I think that we expect a similar close rate at this point, and I think that you saw in our results that we've been able to perform both on the top line and the bottom line.

Todd Raker Deutsche Bank - Analyst

Okay, thanks guys.

Operator

We'll take our next question, Walter Pritchard with Cowen and Company.

Walter Pritchard Cowen and Company - Analyst

Hi, I'm wondering if you could give us a sense, you had a lot of acquired revenue on the PC Tools side in the consumer space and with MessageLabs for part of a quarter in the enterprise space. Any sense as to what the contribution was from acquisition there? Just trying to get a sense of kind of the underlying growth rate of those businesses?

James Beer Symantec - EVP, CFO

No. We are really not going to try to break out acquisition specific numbers here. These are relatively small deals. Where we've done this in the past, they've been much larger figures, so I think we will leave it to your own analysis.

Walter Pritchard Cowen and Company - Analyst

I guess the thing that confused me a little bit was on the consumer revenue you had like a \$16 million add back for deferred revenue, which would kind of lead me to believe that the number that you are adding back is a big number and therefore meaningful. Is there a reason why that deferred revenue add back was so big?

James Beer Symantec - EVP, CFO

No. I wouldn't want you to infer that that's a small percentage of the total impact from PC Tools. Absolutely not. No. These are net net small impacts to the consumer business unit in the current quarter, and I would expect that to be the same in the March quarter.

Walter Pritchard Cowen and Company - Analyst

Got it. Then just there's been a few questions on the Enterprise Security business, but just want to do follow up with one. I mean SEP 11 I think released about 15 months ago or so and you've been through a few cycles on that in terms of getting out service packs or whatever they are referred to. Just wondering as we look forward there, is the catalyst in that business waiting for a new release SEP 12 or whatever it may be called or, because it seems like it's been more of a product issue there, or maybe I'm wrong. But just trying to get a sense of what's going to be the catalyst to getting that business growing again on a year over year basis outside of the macro environment?

Enrique Salem Symantec - COO

I think it's a matter of continuing to leverage the breadth of our portfolio, Walter, and you saw that with DLP 9 we integrated the Endpoint. We are going to leverage the technology there to strengthen our overall Endpoint business. Because when you protect data, you have to protect it everywhere, at the end point, at the server, at the gateway and the network. And so from our perspective, while we are absolutely going to do enhancements to Symantec Endpoint Protection, we have made significant performance improvements in the latest maintenance release, and you should expect us to continue to do that, the real value in the growth opportunity comes from bringing in the other parts of the portfolio that bring in DLP and some of the other capabilities.

Walter Pritchard Cowen and Company - Analyst

Great. Thanks a lot.

Operator

We'll go next to, Daniel Ives with Friedman Billings Ramsey.

Daniel Ives Friedman, Billings, Ramsey Group, Inc. - Analyst

Just a quick question on the consumer business, last quarter the retail obviously dropped off because of some macro issues. It looks like that came back pretty strong. Was that the Best Buy that helped that? Can you just talk about that, even though it's a small percent, for the consumer on the retail business?

James Beer Symantec - EVP, CFO

Yes, well, we continue to see this trend that we've had for years now of retail becoming a lesser part of the total consumer revenue online continuing to grow steadily. I think it is best to say that the retail side of the equation did not go down as much as it did in the last quarter year over year. Last quarter we were talking in the low 20's percents. This quarter I would describe it much more as mid-teens, something like that. So there has been something of a shallowing, if you will, of the trend line and certainly we feel good about our relationship with Best Buy as we go forward here.

Daniel Ives Friedman, Billings, Ramsey Group, Inc. - Analyst

Okay. And just one question, for Enrique, when you thought about the quarter and just visiting with customers month or month, was it sort of panicky in December, or it felt very smooth in terms of pipeline and deal flow, and just overall kind of environment from what you've seen?

Enrique Salem Symantec - COO

I think that when you look at it it was a, I was pleased with the close rates, and it was going into the calendar year end for lots and lots of our customers, and so it was a fairly orderly process. I think that the change that we have seen is the term. I think folks are committing to a little bit shorter term than they may have previously.

Daniel Ives Friedman, Billings, Ramsey Group, Inc. - Analyst

Okay. Great job in a tough environment. Thanks.



Enrique Salem Symantec - COO

Thank you.

Operator

We will take our next question from Robert Breza, with RBC Capital Markets.

Matt Hesberg RBC Capital Markets - Analyst

Hey guys, this is Matt Hedberg sitting in for Rob. First of all great quarter in a tough environment. Enrique you spent some time in your prepared remarks talking about the Backup Exec product. Just wondering there, one of your competitors release a new version of their suite earlier this week, and I'm wondering if you could talk a bit about the competitive nature of that product specifically?

Enrique Salem Symantec - COO

Sure. When you think about it, we've got the clear market leading product. We have 47-plus percent market share, and I did see their announcements. There's nothing new in that product that we are aren't offering today. I think some of the features that we've been delivering, things like deduplication, disk-based backup protection, are available from the Symantec portfolio. And the nice thing about where we are is, not only do we have the lead market share product in back up and recovery, but we also have the market leading archiving product. And that combination, because customers are starting to say, hey, I don't want to differentiate between archiving and backing up. I think that I just want to protect my information and, hence, the notion of having both market leading technologies I think positions us very, very well, Rob.

Matt Hesberg RBC Capital Markets - Analyst

Great. And then James one small housekeeping question for you on the tax side. It was a little bit lower than we had anticipated, a little lower than the year on year number. What are your assumptions for your March tax rate? Do you think it will be about flat or tick up a little bit?

James Beer Symantec - EVP, CFO

We are looking at March to be 30.5%, as opposed to what we've traditionally said at 31%. So what we had happening in the December quarter was in essence a move to 30.5%, but of course you have to catch up for the first two quarters of the year as well. Hence, when you add it all up you end up with a 29.5% tax rate in the December quarter.

Matt Hesberg RBC Capital Markets - Analyst

Thank you.

Helyn Corcos Symantec - VP of IR

We have time for one more question, please, Tom.

Operator

All right. And our question does come from Katherine Egbert with Jefferies Investment Bank.

Katherine Egbert Jefferies & Company - Analyst

Hi, thanks, and my congratulations as well.

Enrique Salem Symantec - COO

Thank you.

Katherine Egbert Jefferies & Company - Analyst

Sure. You have a competitor, obviously Macafee, who has done a lot of things in the PC OEM channel to kind of get more share there. Does that come at your expense, and can you just talk about how you're combating some pretty aggressive efforts there by them?



Enrique Salem Symantec - COO

I think you look at a couple of things. First of all I want to make sure we point to, we've got the best profits in this industry. I think second, we've got the best products in this industry. And third, we are always very diligent about making sure that we are going after segments that are going to pay for premium security. And so we look at every deal, and given our scale we are in every discussion, but we are not going to do bad deals, and so what that means is, if people aren't going to value our technology appropriately we are not going to go [deal].

But if you look at the results, given the strength of our products and I mentioned this in the comments, we got over 20 wins in the last quarter in a range of both OEMs in the retail channel, because we've got the best technology. Now the other thing we are doing is we are going to leverage PC Tools in emerging markets and for a more price sensitive segment, so we feel we can go after our traditional customer, the more premium-oriented buyer with Norton, and we can go after the more price-sensitive customer with the PC Tools brands.

Katherine Egbert Jefferies & Company - Analyst

Thanks, Enrique. And, James, it looks on the billings, the revenue plus change in deferred guidance for the March quarter, if my numbers are right, you are guiding (inaudible) is about 5% or 6% year on year, and that's better than they were in the December quarter but not as good as they were last March. Is that right, and if so, why the down tick?

James Beer Symantec - EVP, CFO

The way we try to do this calculation, which we think is the way you do the calculation, at the midpoint of the guided range, we are coming up with on a constant currency basis a 5% increase in bookings year over year. So in this sort of an economic environment, we are relatively pleased with that look forward.

Katherine Egbert Jefferies & Company - Analyst

Okay. Thanks. John, I think this is your last conference call. Good luck to you, good luck in Washington.

John Thompson Symantec - Chairman, CEO

Thank you very much. With that I guess I would close by saying I'm particularly proud of our team and their ability to execute so well in what is undoubtedly a very challenge economic environment. We would expect that environment to continue, but we would also expect our team to maintain their resolve and their focus to deliver the best results that we can. I couldn't have been more proud to have spent ten years at Symantec, so thank you very much.

Operator

Thank you. This does conclude today's conference call. We appreciate your participation. You may disconnect at this time.

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PRESENTATION

Operator

Good day, and welcome to today's Symantec fourth quarter 2009 conference call. Today's call is being recorded. At this time, I would like to turn the call over to Ms. Helyn Corcos, Vice President of Investor Relations. Please go ahead, ma'am.

Helyn Corcos *Symantec - VP of IR*

Good afternoon and thank you for joining our call to discuss fourth quarter and full-year 2009 financial results. With me today are Enrique Salem, Symantec's President and Chief Executive Officer; and James Beer, Symantec's Executive Vice President and Chief Financial Officer. In a moment, I will turn the call over to Enrique. He will start with a few comments about our quarterly activities and results. James will then provide financial and operational details, as well as review our guidance as outlined in the press release. Then Enrique will wrap up with comments about our fiscal year 2010 focus areas. This will be followed by a question-and-answer session.

Today's call is being recorded and will be available for replay on Symantec's Investor Relations website at Symantec.com/invest. A copy of today's press release and supplemental information are available on our website and a copy of today's prepared remarks will be available on the Investor Relations website shortly after the call is completed.

Before we begin, I'd like to remind you that our June 2008 period results included 14 weeks of activity versus the normal 13 weeks that the June 2009 quarter will have. I'd like to take a moment to review the specific financial details of the extra week. Non-GAAP revenue for the June 2008 quarter included approximately \$75 million of a one-time benefit and non-GAAP earnings per share included approximately \$0.03 of a one-time benefit generated from the extra week. Non-GAAP deferred revenue included a one-time negative impact of approximately \$5 million from the extra week. We will exclude the impact of the extra week when comparing our 2009 guidance and results to the June 2008 results.

Next, we will review our non-GAAP financial results, focusing on constant currency growth rates unless otherwise stated. For March 2009 quarter, the actual weighted average exchange rate was \$1.30 per Euro and the end of period rate was \$1.34 per Euro compared to our guided rate of \$1.32 per Euro. For the March 2008 quarter, the actual weighted average rate was \$1.50 per Euro and the end of period rate was \$1.58. For revenue and operating expense purposes, current and comparative prior period results for entities reporting in currencies other than the US dollar are converted into US dollars at the actual exchange rate in effect during the respective periods. For deferred revenue, results are converted into US dollars at the actual exchange rate in effect at the end of the period. We have included a summary and reconciliation of the year-over-year growth rates in our press release table and in our supplemental information.

Given the rapidly moving exchange rate environment, I'd like to remind everyone to continue to apply the rules of thumb that we have



provided as a guide to the impact of currency fluctuations on our financial metrics. For every US cent movement versus the Euro, revenue would be impacted by approximately \$4.5 million, and deferred revenue would be impacted by approximately \$7 million. In addition, for every \$0.05 US movement versus the Euro, non-GAAP earnings per share would be impacted by approximately \$0.01. It is important to note, however, that these rules of thumb will move around based on the actual currency fluctuations and the mix of our revenues and expenses.

Moving on, some of the information discussed on this call including our projections regarding revenue, operating results, deferred revenue, cash flow from operations, amortization of acquisition-related intangibles, and stock-based compensation for the coming quarter contain forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Additional information concerning these risks and uncertainties can be found in the company's most recent periodic reports filed with the US Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statements.

In addition to reporting financial results in accordance with Generally Accepted Accounting Principles or GAAP, Symantec reports non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in the press release and on our website.

And now I would like to introduce our new CEO, Mr. Enrique Salem.

Enrique Salem *Symantec - CEO & President*

Thank you, Helyn, and good afternoon, everyone. This quarter marks a solid close to fiscal year 2009. The breadth and depth of our portfolio contributed to the solid results despite the current macro economic environment and currency headwinds during the second half of the year. Results for the quarter were driven by strength in enterprise backup, storage management, data loss prevention, and consumer. Our strong non-GAAP earnings per share are a result of eliminating unnecessary costs and shifting our spending to areas with the greatest returns. We continue to generate substantial cash flow from operations and strong deferred revenue.

Now I'd like to highlight a few key items of our fiscal fourth quarter. In our consumer segment, despite the decline in PC units, we continue to strengthen our leadership position as highly publicized threats such as Conficker and trojan.h. have increased consumer awareness for the need for security software to protect their personal data.

We continue to expand our category leadership by bringing innovative products and services to market. In the March quarter, we shipped Norton 360 Version 3.0 that has an ultralight footprint and fast performance that is the hallmark of our 2009 product line. Norton 360 has already won PC Magazine and Computer Shoppers' Editors Choice award. Furthermore, Symantec's Norton line of products have received top scores from several of the industry's preeminent independent testing bodies. In the most recent review from AV Comparatives, Symantec was the only vendor to be awarded top ratings in all three tested categories -- detection, false positives, and performance.

Additionally, Symantec has received Virus Bulletin's VB 100 award 43 consecutive times, dating back to 1999. No other competitor has had our record. This record underscores Symantec's ability to provide the best protection against malware to our customer, something that no other competitor can match. Customer feedback has shown that satisfaction across all areas of the product's experience are at an all-time high, particularly in the area of performance.

Despite the market's emphasis on our relationship with HP, HP represents only one of numerous OEM relationships we have around the world. We have meaningful relationships with HP, Dell, Acer including Gateway and Packard Bell, Lenovo, Fujitsu, Toshiba, ASUS, and Sony among many others. We continue to aggressively pursue valuable OEM deals, recently winning multiple competitive agreements. We will be shipping on Dell's global small business line, and also their gaming line. We are renewing our relationship with Lenovo's ThinkPad brand, and have also extended our agreement with Acer.

In the netbook segment, our 2009 product continued to be an attractive choice. In addition to the ASUS agreement announced last quarter, we signed contracts to ship NIS on Dell and HP minis this quarter. Although the price of PCs has steadily fallen over the past



decade, security software prices have not. This is due to the fact that it is not the cost of the underlying PC, but the value of the information and content on the PC that matters.

Norton Online Backup, which shipped during the quarter is giving us additional and unique traction with OEMs. We have already signed an agreement to ship a 60 day trial of Norton Online Backup with Sony [Europe]. Norton Online Backup also creates a new opportunity to partner with ISPs. We have signed an agreement to provide back up for a major ISP in North America. We currently host over 30 petabytes of customer data and have more than 7 million active customers. That's seven times more customers than our nearest competitors. Our Norton Online Backup product allows us to expand beyond traditional security and introduce more consumers to our trusted Norton brand.

Next in our enterprise business, we are seeing the results from our solutions ability to simplify heterogeneous environments and reduce spend by commoditizing infrastructure. In our data center business, the March quarter saw the first results from our Stop Buying Storage marketing campaign. There are four key opportunities that our customers are benefiting from. Those are -- one, storage resource management; two, thin provisioning; three, data deduplication; and four, intelligent archiving. Our software enables customers to decrease the hardware spend by increasing utilization rates across multiple hardware platforms. The strong sales momentum created by the Stop Buying Storage campaign accelerated throughout the quarter with the teams tracking over 250 specific new enterprise opportunities. Additionally, we are extending our lead in thin provisioning by securing the commitment to the top storage array vendors to support our storage foundation and provisioning APIs including new solutions with Hitachi Data Systems and [Three Par] data.

Our data center backup and deduplication products posted strong year-over-year growth. Net Backup, the number one backup solution for the enterprise, continued its strong performance as the market moved to next generation data protection. Our deduplication product, PureDisk, in particular performed well during the quarter. PureDisk can reduce total storage required for disk space backup by over 50 times.

Earlier this week, we have started shipping Symantec Endpoint Protection Small Business Edition. We expect to improve performance in the mid market through this product. Symantec Endpoint Protection Small Business Edition provides comprehensive protection with simple management capabilities and preconfigured settings that allow small businesses to get up and running quickly. We are working with our partners to make sure they are fully educated on the benefits of the new product. We believe this release will enable Symantec Endpoint Protection to extend its success in the large enterprise to the SMB space.

Also in our enterprise security products group, data loss prevention continued its fifth quarter of double digit year-over-year revenue growth. Our customers tell us our products are two years ahead of our competitors' offerings. Studies have shown in the market of uncertain job security, data loss prevention has become even more relevant for our customers.

Additionally, we are now shipping the Altiris Client Management Suite 7.0 and Server Management Suite 7.0. Both management suites utilize workflow technology to provide the necessary automation and integration from a central location to help our customers reduce the time it takes to manage their assets, improve security, and reduce operational costs. Both suites are built on the Symantec Management platform, which provides integration across Symantec's product portfolio and third party solutions. The work flow engine facilitates integration into the customer's environment and enables our partners to sell more value-added services.

Finally, this quarter, Dell began shipping every server with their next generation Management Console as a native solution built on Symantec's management platform. This presents an opportunity to upsell our new Altiris suite as well as many Symantec products that will simply snap into the platform, including our Backup Exec information manager and Backup Exec system recovery. Dell Management Console ships with every server Dell sells, further validating Symantec's strength of technology and architecture.

I will now turn the call over to James to provide you the financial details before I discuss my focus areas as I look forward to fiscal year 2010.



James Beer Symantec - EVP & CFO

Thank you, Enrique and good afternoon, everyone. The fourth quarter wrapped up a year in which we delivered record non-GAAP revenue of over \$6.2 billion and record non-GAAP earnings per share of \$1.57. During the fiscal year 2009, we grew earnings per share 24%, increased operating income by 19%, and expanded our non-GAAP operating margin by 360 basis points to 30.2%. These results are reflective of the substantial progress we are making in our efforts to improve the efficiency and effectiveness of our cost structure. Our balance sheet continues to be strong, providing us with significant financial flexibility. We exited the March quarter with nearly \$2 billion of cash on hand, reflecting the fact that during the past six months, even during a challenging economic environment, we generated more than \$1 billion of cash flow from operations.

Now let me get into the details of the fourth quarter. Symantec achieved GAAP revenue of \$1.47 billion. Non-GAAP revenue grew 2% in constant currency terms versus the March 2008 period to \$1.49 billion. It is important to note that the US dollar strengthened 13% against other currencies compared to the year ago period, reducing our international revenue as measured in US dollars. As a result, foreign currency movements negatively impacted non-GAAP revenue by 6 percentage points year-over-year. Had currency effects remained at our guided rate for March-quarter, revenue would have reached \$1.495 billion, placing it within our guided range.

We generated a total of 369 transactions valued at more than \$300,000 each, and 85 transactions worth more than \$1 million during the March quarter as customers adjusted their IT spending as a result of the challenging nature of the current macro economic environment. While this was the primary reason for fewer large transactions versus last year, and lighter than expected revenue in the quarter, we did see a greater proportion of our sales being recorded on the balance sheet rather than the income statement, reflecting the emphasis during the quarter toward customers renewing maintenance opposed to buying new licenses.

Looking at our geographic results, international non-GAAP revenue of \$747 million grew 3% in constant currency versus the year ago period and accounted for 50% of total non-GAAP revenue. Asia Pacific/Japan was up 4% in constant currency while North America and EMEA grew 1% and 2% respectively on a currency adjusted basis.

Now I'd like to move on to our nonGAAP revenue by segment. The consumer business generated revenue of \$443 million, up 4% in constant currency versus the March 2008 quarter. Electronic distribution represented 80% of consumer revenue and grew 7% as compared to March 2008, driven primarily by strong activity from our subscription renewals, OEM partnerships, and online channels. Norton 360 accounted for 30% of consumer revenue and grew more than 65% versus the year ago period.

Storage and server management group generated revenue of \$539 million, up 1% in constant currency compared to the March 2008 results driven by strong enterprise backup and storage management performance. We are particularly pleased with the customer reaction to our sales campaign around Stop Buying Storage. It is generating significant business for us given that IT buyers are looking for a clear and quick return on new investments in this economic environment.

Our security and compliance group generated revenue of \$370 million. The segment declined 9% in constant currency terms. While our midmarket security business continued to be weak, we are encouraged by the release of our new Endpoint product that targets this market sector. Our data loss prevention solutions continue to be in high demand as companies address the increasingly important issue of confidential information being misused by employees. Our services group, which included a full quarter of MessageLabs results, generated revenue of \$135 million, up 41% in constant currency year-over-year and represented 9% of our total revenue.

Turning now to margins, non-GAAP gross margin was 85.7% for the March 2009 quarter, in line with the year ago quarter. Our continuing focus on cost management increased non-GAAP operating margins for the March quarter to 30.5%, up 270 basis points year-over-year. We recorded a GAAP net loss of \$249 million for the March 2009 quarter as a result of the finalization of the goodwill writedown calculation that was previously estimated in our December quarter results. This drove a March-quarter charge of approximately \$400 million.

Non-GAAP net income was \$318 million, up 3% versus the March 2008 quarter. March quarter's fully diluted GAAP loss per share equated to \$0.30. Non-GAAP fully diluted earnings per share for the quarter were \$0.38, up 6% from the March 2008 quarter, and



\$0.03 above the high end of our guided range.

During the March quarter, we spent \$100 million to repurchase 7 million shares as an average price of \$13.84. In total during fiscal year 2009, we returned \$700 million to shareholders by repurchasing 42 million shares at an average price of \$16.53. Our net accounts receivable balance at the end of the March 2009 quarter was \$837 million. Days sales outstanding or DSO was 51 days.

Cash flow from operating activities for the March quarter was \$607 million, primarily due to strong collections and expense controls. We generated operating cash flow of approximately \$1.67 billion for the fiscal year.

GAAP deferred revenue at the end of March 2009 was approximately \$3.06 billion. Non-GAAP deferred revenue reached \$3.08 billion, up 6% in constant currency as compared to March 2008. Foreign currency movements positively impacted non-GAAP deferred revenue versus our guidance. Had foreign exchange remained at the guided rate for the quarter, deferred revenue would have been lower at \$3.07 billion, but at the upper end of our guided range. Sequentially, deferred revenue grew by \$119 million or by 6% in constant currency. Our financial results will continue to benefit from our strong deferred revenue balance during fiscal year 2010.

Now I'd like to spend a few minutes discussing our guidance for the June 2009 quarter. As a reminder, the year ago June quarter included an extra week of activity, which we will be stripping out of our comparative commentary, as Helyn outlined during her introductory comments. In addition, we are assuming an exchange rate of \$1.30 per Euro for the June 2009 quarter versus the \$1.56 per Euro we experienced during the June 2008 quarter, equivalent to a 17% currency headwind. Our guidance also assumes a common stock equivalent for the quarter of approximately 830 million shares and an effective tax rate of 30.5%.

For the June 2009 quarter, we expect GAAP revenue be in the range of \$1.44 billion to \$1.50 billion. NonGAAP revenue is estimated to be in the range of \$1.45 billion to \$1.51 billion compared to revenue of \$1.58 billion after adjusting for the extra week during the June 2008 quarter. At the midpoint of the guided range, we expect revenue growth of approximately 1% in constant currency terms. GAAP earnings per share are forecasted to be in range of between \$0.09 and \$0.11. The FASB Staff Position 14-1 change in accounting for convertible debt will increase during fiscal year 2010 by a total of approximately \$100 million or by about \$25 million per quarter. This accounting change does not affect cash flow. Given that this is a noncash expense, we will be excluding it from our non-GAAP results.

Non-GAAP earnings per share are estimated to be between \$0.34 and \$0.36, as compared to \$0.37 after adjusting for the benefit of the extra week in June 2008. At the midpoint of the guided range, we expect earnings per share growth of approximately 9% in constant currency. At the end of the June quarter, we expect GAAP deferred revenue to be between \$2.84 billion and \$2.94 billion. We expect non-GAAP deferred revenue to be between \$2.85 billion and \$2.95 billion as compared to \$3.03 billion after adjusting for the negative impact of the extra week in June 2008. At the midpoint of the guided range, we expect deferred revenue to decline 5% sequentially in constant currency, in line with historical seasonal patterns. We expect about 64% or approximately \$955 million of our June quarter revenue to come from the balance sheet.

In closing, the focus in FY 2010 will be on balancing investment in key growth areas of the business with effective cost management in order to position the company for long-term success. And now I will turn it back to Enrique.

Enrique Salem Symantec - CEO & President

Thank, James. Now five weeks into my leadership role, I would like to take a moment to discuss my plans for the new fiscal year.

Looking back during John Thompson's ten years as CEO, Symantec grew annual revenue to \$6 billion. We remain focused on our vision to secure and manage the world's information. However, I have a slightly different approach to managing the \$6 billion business that I have inherited. I plan to use the scale that John built and focus our investments to increase internal innovation to improve quality and further integration our solutions. We will extend our market leadership position in security, backup, and storage management. On the product side, I am pleased with our leadership and performance in our storage management and consumer businesses.

For fiscal year 2010, I have established three key product focus areas for our team. First, responding to customer needs and enterprise security; second, capitalizing on the migration to next generation data protection; and third, offering our products through the software

as a service model. In enterprise security, in addition to the Symantec Endpoint Protection Small Business Edition, which allows us to better serve the midmarket, we are now shipping Symantec Protection Suite 3.0 in Small Business and Enterprise editions. The suite creates an endpoint and messaging environment that are secure against today's most complex malware, data loss, and spam threats. It is quickly recoverable in the event of a failure, thereby controlling costs and managing risk. Moreover, the suites are easy to deploy and simple to use, saving customers time and costs associated with securing their IT environments.

The most recent Conficker virus provides a perfect illustration of the core Symantec vision -- the unification of security and management. We can enable our customers to identify their systems that need to be patched, deliver the patches, update their SEP signatures, and validate they are indeed secure using our compliance tools. Additionally, we can manage the frequency of backups to protect critical data in times of high threat levels. We are the only vendor who can bring this complete offering to market.

Second, we will solidify our leadership in the data protection business as we transition and help our customers move to next generation technologies which include disk-based backup, virtualization support, continuous data protection, and deduplication. We expect to sell more of these next generation technologies as Net Backup 5.0 customers on maintenance continue to transition to Net Backup 6.5, which enables more disk-based options. Additionally in February, we announced that backup and archiving will be combined under the same management. Net Backup, Backup Exec, and Enterprise Vault are the clear market leaders in the enterprise and midmarket backup, the archiving market segment, and the archiving market segments respectively. We will leverage our technology strength in backup and archiving to simplify administration and reduce costs for our customers. Our Backup Exec product will have built in deduplication and archiving options powered by the Enterprise Vault technology, which is expected to ship later this year.

Software as a service is our third product focus area. We acquired MessageLabs, the leader in SAS messaging security, in November 2008. Our integration is going smoothly and we plan to utilize our existing technology on the MessageLabs platform to create new SAS and hybrid offerings to include archiving, DOP, backup, and many other services. Our goal is to offer customers the flexibility to manage their business using online services, onsite software, or hybrid onsite and online solutions. This is especially attractive in the current macro economic environment, as SAS is a delivery method that enables many companies to improve IT spend.

In closing, I believe we have the leading position in key markets and customers see the value of our product portfolio and the benefits of our products and services. In addition to our focus areas, we will not lose sight of improving execution in the forms of maintaining our leading market share, improving customer and partner loyalty, and becoming more operationally efficient.

And with that, I will turn the call back to Helyn to take your questions.

Helyn Corcos Symantec - VP of IR

Thank you Enrique. Tom, we are, you can please begin polling for questions.

QUESTIONS AND ANSWERS

Operator

Yes, ma'am. The question-and-answer session will be conducted electronically. (Operator Instructions). We ask you limit yourself to two questions today to allow everyone a chance to ask a question.

Helyn Corcos Symantec - VP of IR

While Tom is following for questions I would like to update you on a few upcoming events. First, Symantec will be hosting our Financial Analyst Day on June 11 in San Francisco. We encourage you to register for the event by May 22 in order to capture the discounted hotel rate. Second, we will be presenting at the JPMorgan conference on May 19th, and finally we will be reporting our fiscal first quarter results on July 29th. For a complete list of all of the investor related events, visit our events calendar on the Investor Relations website. Tom, we are ready for the first question.

Operator

Our first question comes from Sarah Friar with Goldman Sachs.



Sarah Friar *Goldman Sachs - Analyst*

Great. Thanks for taking my question. If I can turn to the security and compliance division, clearly that is a little weaker than the rest. Enrique, aside from midmarket weakness, what else might be going on in there and is there any concern on headcount reductions actually starting to weigh on things like Endpoint pricing et cetera?

Enrique Salem *Symantec - CEO & President*

I think, Sarah, when I look at that segment I would say there's a couple of things going on there. One, you mentioned midmarket and we just shipped the new products on Monday which will help us there. I think the second area is we do have the currency headwind that Helyn outlined in the beginning, but in the high end of the market, we continue to see the same close rates we had seen in previous quarters. And I do believe that the demand for DLP, which is continuing to show double digit growth over the last five quarters, I expect that to continue because that's a product that our customers will continue to say is very important to what they're doing even in this tougher economic environment. But I would highlight the currency and midmarket as the two areas that I think have weighed on that segment.

Sarah Friar *Goldman Sachs - Analyst*

Got it. Okay. And then if I could just a follow up on the margins side. Your guidance looks like you are assuming margins will contract sequentially and even year-over-year. What would be the key driver of that? Are there any incremental costs that happen in June that we should be thinking about or is that just trying to allow for currency and some conservatism?

James Beer *Symantec - EVP & CFO*

Well, obviously year-over-year the cost base now includes the companies that we have acquired within the back half of the year. So MessageLabs and PC Tools being the primary items there. So sequentially for June versus March, we go back to our full accrual if you will on commissions. So there is an implied increase in the forecast for that line versus what we experienced in the March quarter in which we came in lighter than we had expected. So those are the primary drivers year-over-year and quarter over quarter.

Sarah Friar *Goldman Sachs - Analyst*

You are still thinking about a cost base that you have kept a tight rein on, given the headcount reduction?

James Beer *Symantec - EVP & CFO*

I think these results are quite reflective of the progress that we are making on the cost side of the ledger, and I am very pleased by that. And we are absolutely continuing our focus there to be able to build margin points 360 points year-over-year, very pleased with that. That's really more than we had initially expected we would be able to achieve when we started out this journey in FY 2009. And it is something that is just a part of the way we do business now at Symantec. I would not see us changing our emphasis here at all.

Operator

We will take our next question from Heather Bellini with UBS.

Heather Bellini *UBS - Analyst*

Hi. Thank you and good afternoon. I was wondering if I can follow up on Sarah's question about operating margins for a moment. As she was talking about Q1, I am interested in full-year to the extent that you can share with us anything there? Because in the past you did a great job expanding margin. This year in fiscal 2009, you have been talking about 100 basis points a year. Give the currency headwind that you face in particular in the first half of fiscal 2010, is that possible on a reported basis? Is there anything you can tell us there? The other would be just looking at gross margin, can you give us an idea of how should we be thinking about gross margin trending over the course of fiscal 2010 as well? Thank you.

James Beer *Symantec - EVP & CFO*

In terms of the operating margin goal, we are always talking about 100 basis points a year as being a long-term target, and clearly we overperformed that in fiscal 2009 which I think was very good particularly given the constraints around the top line. Now we have also said that obviously just mathematically it is easier to expand operating margins in an environment where you have a robust top line, and in this macro economic environment, that is going to be more of a challenge in any one particular year.



The other thing I would say though is something that Enrique was focusing on in his remarks. We are really looking to try to find that right blend between investing in the areas of our business where we think we can generate real growth and at the same time keeping a very sharp focus on cost effectiveness and efficiency. So it will be a blend of those themes as we proceed through fiscal 2010, but we will be working hard on margins just as we did in this past year.

As to gross margins, we have made some nice improvements there in the last couple of years as well, and I wouldn't expect there to be any particular movements one way or another. The biggest drivers of gross margin for us are support costs and services costs. And in the services arena, we have made nice progress in terms of margins in the last two years. Obviously, that rate of improvement becomes more difficult as the years go by.

Heather Bellini UBS - Analyst

Great. Thank you.

Operator

We will take our next question from Kash Rangan with Merrill Lynch.

Kash Rangan BAS-ML - Analyst

Hi. Thank you very much. One question for you, Enrique. On the storage side, you indicated that the Stop Buying Storage message is starting to resonate and produce results. Should we infer that the trajectory you started with this quarter, that gets better? In other words, the growth rate could potentially improve as a result of the campaign? If you could talk to that. And also, James, a question for you -- as MessageLabs gets reported in the services line item, how does that change the margin profile of services business going forward? Thanks.

Enrique Salem Symantec - CEO & President

When you think about the Stop Buying Storage marketing campaign, what's happening is customers are coming to us and saying they absolutely are trying to manage their capital expenditures one of the best areas for them to target is the area of storage. So I think what you can expect is customers try to take advantage of some of the concepts like intelligent archiving, thin provisioning, storage resource management, and data deduplication, that will benefit the various lines -- because as you look at the functionality I just mentioned, some of that is delivered by our net backup PureDisk capability, some of it's delivered by our Enterprise Vault product. So we see that the Stop Buying Storage campaign will allow those products to continue to perform at their current levels given this tougher environment. So I think that campaign is going to help us be able to continue to drive the performance we've seen in the last several quarters.

James Beer Symantec - EVP & CFO

As to the impact of MessageLabs on the services margins, I would expect them to improve the margins in that segment. You may recall we've had a lot of focus in the last couple of years on improving margins in the services segment anyway. But MessageLabs, as we increase scale there, which is obviously very much our intent, I think there will be the opportunity to expand its own operating margin. I would look for an continuing improvement trajectory on services margins.

Kash Rangan BAS-ML - Analyst

Great. Thank you very much.

Operator

We will take our next question from Adam Holt with Morgan Stanley.

Adam Holt Morgan Stanley - Analyst

Good afternoon. I had a couple of questions about the consumer business. I was hoping maybe you can talk about some of the key drivers of that business. Did 360 improve as a percentage in total bookings in the quarter? Were average selling prices up in the quarter? As you think about the next couple of quarters for the consumer business, you noted that the PC market had been weak, which it obviously was. Should we be thinking that a recovery in the PC market is key to getting growth in that business going forward? Or do you think that business will grow as you continue to expand the OEM relationships and drive some of the new products? Thanks.



Enrique Salem Symantec - CEO & President

So Adam, when you look at Norton 360, you are definitely continuing to see the mix shift toward 360 and it is -- we started out very quickly with 360 moving up, but that has moderated a little bit because customers who are using Norton Internet Security are very happy with that product. So while we continue to see the move toward 360, that mix rate has slowed down just a little bit. We do benefit from the higher price point of 360 over NIS.

To your question of the PC unit shipment, I think what we are doing is we are continuing to add other capabilities. I highlighted today we have now started shipping Norton Online Backup, so even with the slower number of PC units being shipped, I think we can maintain where we are today and even can see a positive given that we are seeing the mix shift and the addition of the new offering.

My sense though is the other thing that is benefiting us right now in just talking to the consumer team is given the reception of the new products, meaning Norton Internet Security with the very fast performance and great customer experience and now Norton 360 Version 3 -- while we don't break out the renewal rates, we are seeing some improvement in renewals as a result of the great products we have put into the marketplace. That's also helping us attract some of the new OEMs that I highlighted in the call because people are looking for that improved customer experience.

Adam Holt Morgan Stanley - Analyst

Great. Thank you.

Operator

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

Phil Winslow Credit Suisse - Analyst

Hey guys. I just wanted to touch on the storage business. When you look at the economic impact across your business, wonder if you can comment on storage -- historically, that's been a relatively [defensive] segment. Just curious what you see there when you look particularly across the two main products, the high end with NetBackup and Backup Exec.

Enrique Salem Symantec - CEO & President

We are seeing continued strength in both NetBackup and storage management. What is great is given that data volumes continue to grow, that's benefiting the NetBackup product line and we saw that perform very well through the entire fiscal year. When we look at storage, the storage management side, given the Stop Buying Storage campaign, what we have actually seen is that product also continues to be a part of what the customers are trying to do to improve storage utilization and basically help them get much better return on the storage they have already purchased. So we do believe that both NetBackup and Storage Foundation or storage management will continue to do well.

Phil Winslow Credit Suisse - Analyst

Great. Thank, guys.

Operator

We will go next to John DiFucci with JPMorgan.

John DiFucci JPMorgan Chase & Co. - Analyst

Thanks. First question is for James and one for Enrique. You said the focus by customers was to renew maintenance contracts here, but when I look at it, it looks to me as if may not nans declined both sequential and year-over-year. What I am doing is looking at your supplemental, and you give content, subscription, and maintenance, and I take out services, consumer and then add back the non-GAAP which is maintenance. I guess what would maintenance have done sequentially, excluding foreign exchange, or am I doing something wrong here?



James Beer Symantec - EVP & CFO

What I would say -- we can get into more of the specifics perhaps offline, but what I would say here is it clearly you saw the security and compliance part of the business was where we saw a currency adjusted decline, 9% or so. Now clearly, that is not helpful to the maintenance volume necessarily quarter to quarter. But stepping back from that, that is just one component of the enterprise business. I was very pleased with pricing around maintenance and I was very pleased with renewal rates around maintenance. So those really are the important themes, whereas we did see absolutely less license, new sales, customers really pulling back from longer-term investments if you will in favor of the short-term need.

John DiFucci JPMorgan Chase & Co. - Analyst

What is the renewal rate about for you?

James Beer Symantec - EVP & CFO

Well, we don't quote the renewal rates either for consumer business or the enterprise business. But we are very pleased with where they are.

Enrique Salem Symantec - CEO & President

We are not seeing any change in renewal rates, and one of the questions that Sarah asked at the beginning was around specifically is the unemployment having an impact on our total units. So we are not seeing a change in renewal rates or that unemployment rates are having an impact on business.

John DiFucci JPMorgan Chase & Co. - Analyst

Okay. Thanks. Enrique, a follow up for you, when I look -- we look at these goodwill impairment breakdowns over the last couple of quarters, I'm just curious. Is this going to have any influence on your acquisition strategy going forward? And I guess could you state what your strategy is going to be?

Enrique Salem Symantec - CEO & President

I am in no real rush to start doing acquisitions. Part of the focus I've given the team is we have a tremendous engineering capability. I want to drive internal innovation. Now, that doesn't mean that we will not do acquisitions. That's one of the advantages of having the cash flow direction on the balance sheet that we do. But I am going to stay focused inside the markets that we are in, John. I mean we clearly have a big position in security. I want to look at opportunities to strengthen our position there. I want to look for opportunities in some of the next generation data protection. I want to look for opportunities in what we are doing around data categorization. So as I look at the acquisition strategy, I am in no rush to go do a lot of acquisitions. There may be some small things that strengthen our position in a few of those markets. Then longer term, I will look for what makes sense as far as continuing to drive growth into the company. But right now we can afford to be patient.

John DiFucci JPMorgan Chase & Co. - Analyst

I'm sorry, one follow up, Enrique. Veritas, when it was independent, had a big push toward what it called utility computing and now people are talking about -- calling it cloud computing today. And they bought Ejasent and Jereva -- there seemed to be a big push internally. We just don't hear about it as much anymore. Is that still meaningful effort within Symantec or is that something that's gone a little sideways?

Enrique Salem Symantec - CEO & President

I would say that the focus areas are software as a service and not necessarily what historically utility computing -- which has morphed in title. What we would do is we'd see some of our core Veritas products, Storage Foundation, our new clustering VCS1 technology as helping build the infrastructure for utility computing, and then we see delivering on top of that infrastructure our software as a service capabilities. And so from our perspective, the priorities in investment areas are security, next generation data protection, and software as a service.

John DiFucci JPMorgan Chase & Co. - Analyst

Thank you very much.



Operator

We'll take our next question from Daniel Ives with FBR Capital Markets.

Daniel Ives *Friedman, Billings, Ramsey Group, Inc.* - Analyst

Thanks. Can you talk about the linearity in the quarter and talk about what trends you are seeing in month of April? Thanks.

Enrique Salem *Symantec* - CEO & President

I think when you look at linearity and we track close rates. We did some analysis on that, Daniel. What we are seeing is consistency in the close rates, nothing new from a linearity perspective. In the enterprise business or large enterprise business it still tends to be a good percentage of the business comes in the last two weeks of the quarter. In our midmarket business that's fairly, is steadier throughout the quarter. Our consumer business obviously both on a bookings and revenue recognition basis is fairly consistent across the entire quarter. So we haven't seen, we didn't see any real changes in the March quarter, and we didn't see, we haven't seen anything so far in the June quarter. It continues to be consistent along the percentages. We just finished the month of April and from the analysis James and I did seems to be on track similar to what we have seen in previous Aprils.

Operator

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

Rob Owens *Pacific Crest Securities* - Analyst

Good afternoon, everyone. So following on Daniel's question, with linearity on track, can you talk about where the surprise was in the quarter that drove FX adjusted revenue to the low end of the guidance. Was it more of the maintenance rather than license, or was there something else in there?

Enrique Salem *Symantec* - CEO & President

You are on track there, Rob, because what we saw was really a couple of things. Historically in our business, we have seen longer-term deals. We have seen terms that are three year deals. We saw that become folks buying what they need for the current year or next 12 months, not necessarily pre-buying for years two and three. That's one thing we saw. And I do think that when you look at the overall business, I think given that we have now shipped the new midmarket product, I think that will definitely help because that has been an area we have been successful with the large enterprise where we've gotten a number of competitive wins, but we have not the same success in the midmarket. So the combination of shorter terms and we have continued to see without having the new Symantec Endpoint Protection and the new suites, we haven't gotten the results reflected in the midmarket. I expect that to change now that we are in with the new products.

Rob Owens *Pacific Crest Securities* - Analyst

The followon to that -- now that you are shipping the new midmarket product and Protection Suite 3.0, when should that either stabilize the security business or again grow the security business?

Enrique Salem *Symantec* - CEO & President

My expectation is we are ramping up our partners right now. Partners are starting to understand the capabilities of the product, the simplicity of it. My sense is that units shipped on Monday of this week I would expect you will start seeing results from that capability -- probably in the September quarter will have a full quarter of having been in the channel. Because if we are putting it out at the beginning of this week, you probably won't get it in the channel next several weeks.

Rob Owens *Pacific Crest Securities* - Analyst

Thanks.

James Beer *Symantec* - EVP & CFO

Just to follow up on the first part of Enrique's answer, we were pleased to exceed on FX adjusted basis even, the consensus estimate for deferred revenue while we came in light on revenue versus consensus. So that's very much reinforcing the notion of more of the activity going to the balance sheet this quarter.

Operator

We will take our next question from Brent Thill with Citi.

Brent Thill Citigroup - Analyst

Enrique, your operating margin performance has really outpaced the top line performance. At a high level, do you feel like you are reshifting your focus back on top line growth, and you'd rather trade off lower operating margin or less operating margin expansion to get that revenue growth coming back over the next couple of year?

Enrique Salem Symantec - CEO & President

When I think about it, James commented earlier -- our long term goal is to drive 100 basis points of margin improvement and we still see an opportunity to stay on track to do that. I think that this year as I look at the combination of some of the investments that we need to make around the opportunities in consumer security and the enterprise SAS software to service and also our next generation data protection as customers move from tape to disk-based backup, I think it is going to be important that we put some investments in those areas. I do continue believe there are always opportunities for us to continue to manage our cost structure. So I think it will be a combination of yes, we will move dollars to the areas I just mentioned, but also continue to look for opportunities to reduce costs in other areas. I don't want to back off in any way from our long term goal of 100 basis points of margin improvement.

Brent Thill Citigroup - Analyst

Okay. We have seen other software companies achieve pretty good success with the suite based approach. Can you walk through what you hope to achieve? And have you had had history of doing this historically or do you consider this pretty much a brand new initiative?

Enrique Salem Symantec - CEO & President

The way with I look at it is, historically we have been shipping a suite, but I would call it a suite on malware protection. So we should ship Endpoint Security, Mail Base -- the mail server security, the gateway security. What we are doing now is adding the other applications that we have. So we've had market leading e-mail security for antispam protection. We acquired a small company called MI5 that adds to our web security capability.

So what we are doing is in an effort to serve the midmarket and the SMB segment better, we believe that bringing these products together in an integrated suite or extending the suites we had previously is the right way to go. So the suites are new from a capability perspective, but we have been delivering a suite that was focused on one particular type of product line. From our perspective, it is going interest something allows us just to go right back into our channel partners and go leverage our field organization just to have a new set of capabilities that I think will have a positive impact on our security business. And I expect to start seeing that as I mentioned in the September quarter.

Brent Thill Citigroup - Analyst

Thanks.

Operator

We will take our next question from Todd Raker with Deutsche Bank.

Todd Raker Deutsche Bank - Analyst

Hey guys. I just wanted to dig in on the consumer business further -- can you guys give us a sense, I know you talked about OEM partnerships coming on stream. But can you give us a sense in terms of where you think you stand on OEM boxes going out the door today versus a year ago? And can you also walk us through what happens to an OEM relationship when it does not renew -- what happens to that legacy customer base from an economic perspective?

Enrique Salem Symantec - CEO & President

So let me take the second part first. Every relationship is structured differently. So it depends, Todd on what we are doing. So for example some of our agreements are what I would call a replacement fee. We get everything into the future. Some deals are structured as rev shares and they have [pay] post termination. So it really depends on the overall structure of the OEM agreement.



Now to your first question. We are absolutely -- if you saw what we just talked about, if you heard what we just talked about -- we won a number of OEM deals in the last quarter. I mean working with the ThinkPad brand, working with some extensions with Dell around SMB and their gaming platforms, and so we definitely see that the numbers of units in the OEM market that we are associated with is definitely up. The other thing I commented on which I think is important -- we were already on the ASUS netbook and we are now on both the Dell and HP minis. And so we feel that on an overall basis, the numbers of units shipping with our product is moving up right now.

Todd Raker *Deutsche Bank - Analyst*

Thanks, guys.

Operator

We will take our next question from Walter Pritchard with Cowen and Company.

Walter Pritchard *Cowen & Company - Analyst*

Two questions -- first for James, on the segments, it looked like R&D was a bit above and sales and marketing was a bit below in terms of where we were thinking the expenses would come in. Wondering with Enrique talking about more focus organic development, should we expect this level of R&D spending is somewhat of a baseline going forward?

James Beer *Symantec - EVP & CFO*

Well, as he mentioned earlier, we will absolutely be targeting specific spend into some specific areas of R&D in line with those priorities that he was laying out. But at the same time, we are working hard to make more efficient the other elements of the R&D cost base. So it will be a mixture of those two themes going forward here.

Walter Pritchard *Cowen & Company - Analyst*

Then just -- Enrique, you talked about a few focus areas, mostly on the product side. I am wondering if that has any bearing on the go to market strategy, if there's any meaningful changes as you go into fiscal 2010 here, given you have sharpened the focus on the product side.

Enrique Salem *Symantec - CEO & President*

When I look at the go to market side, one of the things that I am most pleased with right now is I have been spending time with our channel partners. And what I see is there's a lot of enthusiasm for the new workflow technology that we shipped with our Altiris client management and server management suites. What it is enabling our partners to do is create their own intellectual property that they can take back into their customer base. The reason that is important for them is because they're really being [the V] in value to our customers using the workflow technology. That I think is going to be meaningful because as you know, given our renewed push in security and the efforts in the midmarket, partners are critical. So the effect of the suites and the workflow technology will bring a lot of partners or bring a lot of enthusiasm from our partner community. That's the feedback I am getting right now.

From an overall go to market, we are continuing to push our leadership around security and next generation data protection. So you can expect to see marketing pushing those campaigns, Stop Buying Storage campaign. We have also made some adjustments on the comp plan, but overall it is pretty consistent year to year with a little more emphasis on security as we go into fiscal year 2010.

Walter Pritchard *Cowen & Company - Analyst*

Thanks.

Operator

We will go next to Tim Klasell with Thomas Weisel Partners.

Tim Klasell *Thomas Weisel Partners - Analyst*

One question here -- can you give us an idea of the impact you are having the PC Tools acquisition? That was a new segment of the market you were going after, and what has been the success there to date?



Enrique Salem Symantec - CEO & President

What we are seeing with PC Tools is -- you have it exactly right. We are going after a couple of different target new markets. One is a different segment, so a more price sensitive buyer, and two is emerging markets where quite frankly, they're looking for probably again more price sensitive. We are pleased with the integration. That has been completed successfully. The leadership team -- we have got a leader who is running that, somebody who has been a long time Symantec employee. And I am pleased with the progress we have made. I expect to see that business continue to expand, because there's a number of segments that I believe are price sensitive we haven't yet tapped into. So I believe at this point that we've started to see the initial possibilities of PC Tools, and I think the brand strategy is absolutely going to serve us well, especially when we think about markets like Asia, the market in China. And so from my perspective, that strategy is on track and I expect to see it performing better as we go into fiscal year 2010.

Tim Klasell Thomas Weisel Partners - Analyst

Thank you.

Helyn Corcos Symantec - VP of IR

We are ready for one last question, please.

Operator

Yes, ma'am. Our final question comes from Robert Breza with RBC Capital Markets.

Robert Breza RBC Capital Markets - Analyst

Hi. Thanks for taking my questions. Enrique, in your comments you talked about netbook and the fact that it is more about the value of the information. Can you tell us or help us understand quantitatively what you are seeing? Are you seeing the OEM adoption rate stay the same on netbooks, or what gives you that confidence that netbooks won't hurt the consumer side? Thanks.

Enrique Salem Symantec - CEO & President

Absolutely. So ASUS was the first one we shipped. We getting to the end of the trial period. So we are starting to get a little data. We are comparing the data we get on the netbook or mini lines to the underlying adoption of the software, take rates on the software for the non-netbook lines. We don't have enough data yet to give you a conclusive answer.

But what I have seen is that absolutely, prices in hardware have been dropping for the last ten years, and prices of our software have increased over the last 10 years, or at least over the last couple of years where we have been able to move people to Norton 360. So that clearly highlights the point that it is not the price of the hardware that matters, it is what you are doing. When I talk to a lot of the manufacturers and they talk about the user scenarios, kids potentially using them to go online, people are very concerned about what the online usage is going to look like, and I think Norton Internet Security and Norton 360 will absolutely continue to do well in that lineup of netbooks and minis.

Robert Breza RBC Capital Markets - Analyst

Thank you.

Operator

That does conclude the question-and-answer session. At this time, I would like to turn the call back to Mr. Salem for closing remarks.

Enrique Salem Symantec - CEO & President

Thanks everyone for attending today's earnings call. I am excited about the opportunity to lead Symantec, and moving forward our focus is on investments that will extend our leadership, improve the product quality, and integrate our solutions to help our customers secure and manage their information. As we continue to focus, I want to make sure we improve execution and drive operational efficiencies as many of you have commented. And I definitely look forward to spending time with you over the next couple of weeks and look forward to seeing you at our analyst day in June. Thank you.



Operator

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time.

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