SYMANTEC CORP
Form 10-Q/A
February 08, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q/A
Amendment No. 1

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2005.

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission file number 000-17781
Symantec Corporation
(Exact name of the registrant as specified in its charter)

Delaware	**77-0181864**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification no.)*
20330 Stevens Creek Blvd., Cupertino, California	**95014-2132**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(408) 517-8000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Shares of Symantec common stock, $0.01 par value per share, outstanding as of October 28, 2005: 1,081,475,654 shares

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SYMANTEC CORPORATION
FORM 10-Q/A
Amendment No. 1
Quarterly Period Ended September 30, 2005
EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Symantec Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 is to correct a misclassification in our Condensed Consolidated Statement of Cash Flows for the six months ended September 30, 2005 and to reclassify certain revenue items in the Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2005 and 2004.

In the Condensed Consolidated Statement of Cash Flows, we have reclassified $145 million from Other accrued expenses within Net cash provided by operating activities to Repurchases of common stock within Net cash used in financing activities. This reclassification does not have an impact on Ending cash and cash equivalents, or on the Increase in cash and cash equivalents, for the impacted period. In the Condensed Consolidated Statements of Operations, we have reclassified revenue between Content, subscriptions, and maintenance revenue and Licenses revenue. This reclassification does not have an impact on Total net revenues, Net income (loss) or Net income (loss) per share for the impacted periods. The nature and impact of these adjustments are described more fully in Note 2 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q/ A.

For ease of reference, this Form 10-Q/ A restates the Form 10-Q for the fiscal quarter ended September 30, 2005 in its entirety. This Form 10-Q/ A does not reflect events after the filing of the original Form 10-Q with the Securities and Exchange Commission on November 9, 2005 and does not modify or update disclosures as originally filed, except in Part I Item 4, and as required to reflect the effects of the reclassifications described above. Specifically, the following items have been amended:

Part I Item 1 Financial Statements

Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

Part II Item 6 Exhibits

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PART I. FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

SYMANTEC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2005	March 31, 2005
	(Unaudited)	
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,806,406	$ 1,091,433
Short-term investments	2,626,926	2,115,154
Trade accounts receivable, net	444,120	285,325
Inventories	14,024	19,118
Current deferred income taxes	146,305	97,279
Other current assets	196,160	79,973
Total current assets	5,233,941	3,688,282
Property and equipment, net	863,216	382,689
Acquired product rights, net	1,294,374	127,619
Other intangible assets, net	1,496,517	30,739
Goodwill	9,933,776	1,365,213
Other long-term assets	45,588	19,679
	$ 18,867,412	$ 5,614,221
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Convertible subordinated notes	$ 502,000	$
Accounts payable	162,688	74,685
Accrued compensation and benefits	248,331	140,543
Current deferred revenue	1,379,403	1,215,537
Other accrued expenses	321,161	91,033
Income taxes payable	283,031	179,225
Total current liabilities	2,896,614	1,701,023
Long-term deferred revenue	132,606	114,724
Long-term deferred tax liabilities	708,910	88,613
Other long-term obligations	40,867	4,408
Commitments and contingencies		
Stockholders equity:		
Preferred stock (par value: $0.01, authorized: 1,000; issued and outstanding: none)		
	11,171	7,105

Common stock (par value: $0.01, authorized: 3,000,000; issued and outstanding: 1,117,074 and 710,522 shares, respectively)				
Capital in excess of par value		13,967,035		2,412,947
Accumulated other comprehensive income		160,364		191,938
Deferred stock-based compensation		(62,312)		(21,070)
Retained earnings		1,012,157		1,114,533
Total stockholders equity		15,088,415		3,705,453
	$	18,867,412	$	5,614,221

The accompanying Notes to Condensed Consolidated Financial Statements
are an integral part of these financial statements.

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SYMANTEC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited) (In thousands, except per share data) (As restated)			
Net revenues:				
Content, subscriptions, and maintenance	$ 717,155	$ 466,339	$ 1,286,009	$ 877,196
Licenses	338,709	151,974	469,797	297,751
Total net revenues	1,055,864	618,313	1,755,806	1,174,947
Cost of revenues:				
Content, subscriptions, and maintenance	173,347	83,492	272,027	159,781
Licenses	10,623	12,523	17,725	25,245
Amortization of acquired product rights	129,472	13,204	140,485	24,454
Total cost of revenues	313,442	109,219	430,237	209,480
Gross profit	742,422	509,094	1,325,569	965,467
Operating expenses:				
Sales and marketing	401,674	201,886	612,783	389,818
Research and development	187,313	83,816	278,546	156,700
General and administrative	59,379	27,578	89,767	51,863
Amortization of other intangible assets from acquisitions	48,309	1,142	50,048	2,034
Amortization of deferred stock-based compensation(1)	13,389	639	16,174	639
Acquired in-process research and development	284,000		284,000	2,262
Restructuring	1,452	1,916	4,926	2,776
Integration planning	5,253		13,154	
Patent settlement			2,200	
Total operating expenses	1,000,769	316,977	1,351,598	606,092
Operating income (loss)	(258,347)	192,117	(26,029)	359,375
Interest and other income, net	39,963	10,723	62,721	21,161
Interest expense	(7,503)	(5,291)	(7,503)	(10,582)
Income (loss) before income taxes	(225,887)	197,549	29,189	369,954
Provision for income taxes	25,441	61,926	81,884	117,054

Net income (loss)	$ (251,328)	$ 135,623	$ (52,695)	$ 252,900
Net income (loss) per share basic	$ (0.21)	$ 0.22	$ (0.06)	$ 0.40
Net income (loss) per share diluted	$ (0.21)	$ 0.19	$ (0.06)	$ 0.35
Shares used to compute net income (loss) per share basic	1,172,130	629,730	941,727	627,124
Shares used to compute net income (loss) per share diluted	1,172,130	736,538	941,727	735,644

(1) Amortization of deferred stock-based compensation is allocated as follows:

Sales and marketing	$ 4,457	$ 246	$ 5,263	$ 246
Research and development	6,763	337	7,868	337
General and administrative	2,169	56	3,043	56
	$ 13,389	$ 639	$ 16,174	$ 639

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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SYMANTEC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30,	
	2005	2004
	(Unaudited) (In thousands)	
	(As restated)	
OPERATING ACTIVITIES		
Net income (loss)	$ (52,695)	$ 252,900
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	80,830	43,438
Accretion of fair market value adjustment related to convertible subordinated notes	5,400	1,582
Amortization of investments, net	(20,485)	(14,053)
Amortization and write-off of acquired product rights	140,485	27,229
Amortization of other intangible assets from acquisitions	50,048	2,034
Impairment of equity investments	236	284
Write-off of property and equipment	1,332	2,477
Amortization of deferred stock-based compensation	16,174	639
Write-off of acquired in-process research and development	284,000	2,262
Deferred income taxes	(103,384)	(612)
Income tax benefit from stock options	61,621	59,996
Net changes in assets and liabilities, excluding effects of acquisitions:		
Trade accounts receivable, net	109,547	(56,866)
Inventories	4,632	(5,347)
Other current assets	(55,874)	(19,689)
Other long-term assets	4,600	1,669
Accounts payable	49,806	17,034
Accrued compensation and benefits	(44,296)	(14,859)
Deferred revenue	47,702	156,827
Other accrued expenses	(17,766)	319
Income taxes payable	(17,884)	12,591
Other long-term obligations	(14,760)	(558)
Net cash provided by operating activities	529,269	469,297
INVESTING ACTIVITIES:		
Capital expenditures	(81,733)	(39,040)
Cash acquired in (payments for) business acquisitions, net	1,122,854	(328,602)
Purchase of equity investments	(6,483)	(1,100)
Purchases of marketable securities	(1,651,282)	(1,046,685)
Proceeds from sales of marketable securities	2,918,020	719,349
Net cash provided by (used in) investing activities	2,301,376	(696,078)

FINANCING ACTIVITIES:				
Repurchases of common stock		(1,680,205)		(119,953)
Net proceeds from sales of common stock under employee stock benefit plans		80,655		91,270
Repayment of line of credit		(491,462)		
Net cash used in financing activities		(2,091,012)		(28,683)
Effect of exchange rate fluctuations on cash and cash equivalents		(24,660)		4,876
Increase (decrease) in cash and cash equivalents		714,973		(250,588)
Beginning cash and cash equivalents		1,091,433		839,162
Ending cash and cash equivalents	$	1,806,406	$	588,574
Supplemental schedule of non-cash transactions:				
Issuance of common stock and stock options for business acquisitions	$	13,196,850	$	22,578
Payable for repurchases of common stock	$	144,838		

The accompanying Notes to Condensed Consolidated Financial Statements
are an integral part of these financial statements.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(As restated)

Note 1. Basis of Presentation

The condensed consolidated financial statements of Symantec Corporation, or Symantec, as of September 30, 2005 and for the three and six-month periods ended September 30, 2005 and 2004 are unaudited and, in the opinion of management, contain all adjustments, consisting only of normal recurring items, except as otherwise indicated, necessary for the fair presentation of the financial position and results of operations for the interim periods. All significant intercompany accounts and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to the current presentation.

On July 2, 2005, we completed our acquisition of VERITAS Software Corporation, or VERITAS, a leading provider of software and services to enable utility computing. As a result of the acquisition, we issued approximately 483 million shares of Symantec common stock based on an exchange ratio of 1.1242 shares of Symantec common stock for each outstanding share of VERITAS common stock as of July 2, 2005. In addition, we assumed each outstanding option to purchase VERITAS common stock with an exercise price equal to or less than $49.00 as well as each additional option required to be assumed by applicable law, and we also assumed each restricted stock unit, or RSU, to purchase VERITAS common stock based on the same exchange ratio. The results of operations of VERITAS have been included in our results of operations beginning on July 2, 2005. See Note 5 of the Condensed Consolidated Financial Statements for pro forma results of operations of Symantec and VERITAS.

The results of operations for the three and six-month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with (1) the audited Consolidated Financial Statements and Notes thereto included in the Symantec Annual Report on Form 10-K for the year ended March 31, 2005, (2) the audited Consolidated Financial Statements of VERITAS, including the consolidated balance sheets at December 31, 2004 and 2003, and the consolidated statements of operations, cash flows and stockholders equity for each of the three years in the period ended December 31, 2004, included in Amendment No. 1 to Symantec s Registration Statement on Form S-4, filed on May 18, 2005, and (3) the unaudited Condensed Consolidated Financial Statements of VERITAS, including the condensed consolidated balance sheet at March 31, 2005, and the condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2005 and 2004, included in Amendment No. 1 to Symantec s Registration Statement on Form S-4, filed on May 18, 2005.

We have a 52/53-week accounting fiscal year. Accordingly, all references as of and for the periods ended September 30, 2005, March 31, 2005, and September 30, 2004 reflect amounts as of and for the periods ended September 30, 2005, April 1, 2005, and October 1, 2004, respectively. The three-month periods ended September 30, 2005 and 2004 each comprised 13 weeks of activity. The six-month periods ended September 30, 2005 and 2004 each comprised 26 weeks of activity.

All Symantec share and per share amounts in this Form 10-Q/A retroactively reflect the two-for-one stock split, effected as a stock dividend, which occurred on November 30, 2004.

Use of Estimates

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

SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant Accounting Policies

Foreign Currency Translation

The functional currency of our foreign subsidiaries is generally the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet dates. The translation adjustments resulting from this process are included as a component of Stockholders equity in Accumulated other comprehensive income. Revenues and expenses are translated using monthly average exchange rates during the year. Foreign currency transaction gains and losses are included in the determination of net income. Deferred tax assets (liabilities) are established on the cumulative translation adjustment attributable to unremitted foreign earnings that are not intended to be indefinitely reinvested.

Revenue Recognition

We market and distribute our software products both as standalone software products and as integrated product suites. We recognize revenue when the following conditions have been met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or services have been rendered
- Collection of a fixed and determinable amount is considered probable
- If appropriate, reasonable estimates of future product returns can be made

We derive revenue primarily from sales of content, subscriptions and maintenance and licenses.

Content, subscriptions and maintenance revenue includes arrangements for software maintenance and technical support for our products, content and subscription services primarily related to our security products, revenue from arrangements where vendor-specific objective evidence, or VSOE, of the fair value of undelivered elements does not exist, and managed security services. These arrangements are generally offered to our customers over a specified period of time and we recognize the related revenue ratably over the maintenance, subscription, or service period.

Content, subscriptions and maintenance revenue also includes professional services revenue, which consists primarily of the fees we earn related to consulting, education, and training services. We generally recognize revenue from professional services as the services are performed or upon written acceptance from customers, if applicable, assuming all other conditions for revenue recognition noted above have been met.

License revenue is derived primarily from the licensing of our various products and technology. We generally recognize license revenue upon delivery of the product, assuming all other conditions for revenue recognition noted above have been met.

We enter into perpetual software license agreements through direct sales to customers and indirect sales with distributors and resellers. The license agreements generally include product maintenance agreements, for which the related revenue is included with content, subscriptions and maintenance and is deferred and recognized ratably over the period of the agreements.

In arrangements that include multiple elements, including perpetual software licenses and maintenance and/or services and packaged products with content updates, we allocate and defer revenue for the undelivered items based on VSOE of fair value of the undelivered elements, and recognize the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. Our deferred revenue consists primarily of the unamortized balance of enterprise product maintenance and consumer product content update subscriptions.

SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VSOE of each element is based on the price for which the undelivered element is sold separately. We determine fair value of the undelivered elements based on historical evidence of our stand-alone sales of these elements to third parties. When VSOE does not exist for undelivered items such as maintenance, the entire arrangement fee is recognized ratably over the performance period.

Indirect Channel Sales

For our Consumer Products segment, we sell packaged software products through a multi-tiered distribution channel. We also sell electronic download and packaged products via the Internet. We separately sell annual content update subscriptions directly to end-users primarily via the Internet. We do not recognize package product revenue on distribution and reseller channel inventory in excess of specified inventory levels in these channels. We defer the portion of revenue from package and electronic download products related to content updates subscriptions and recognize this revenue ratably over the term of the subscription. We offer the right of return of our products under various policies and programs with our distributors, resellers, and end-user customers. We estimate and record reserves for end-user product returns as an offset to revenue.

For our Enterprise Security, Data Protection, and Storage and Server Management segments, we generally recognize revenue from licensing of software products through our indirect sales channel upon sell-through or with evidence of an end user. For licensing of our software to original equipment manufacturers, or OEMs, royalty revenue is recognized when the OEM reports the sale of the software products to an end-user customer, generally on a quarterly basis. In addition to license royalties, some OEMs pay an annual flat fee and/or support royalties for the right to sell maintenance and technical support to the end user. We recognize revenue from OEM support royalties and fees ratably over the term of the support agreement.

We offer channel and end-user rebates for products within our Enterprise Security, Storage and Server Management, and Consumer Products segments. Our estimated reserves for channel volume incentive rebates are based on distributors and resellers actual performance against the terms and conditions of volume incentive rebate programs, which are typically entered into quarterly. Our reserves for end-user rebates are estimated based on the terms and conditions of the promotional program, actual sales during the promotion, amount of actual redemptions received, historical redemption trends by product and by type of promotional program, and the value of the rebate. We estimate and record reserves for channel and end-user rebates, and we account for these reserves as an offset to revenue.

Cash Equivalents and Short-Term Investments

We classify all of our short-term investments in accordance with Statement of Financial Accounting Standards, or SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Our short-term investments do not include strategic investments. We classify our short-term investments as available-for-sale, and all short-term investments consist of securities with original maturities in excess of 90 days. We consider investments in instruments purchased with an original maturity of 90 days or less to be cash equivalents. Our short-term investments are reported at fair value with unrealized gains and losses, net of tax, included in Accumulated other comprehensive income within Stockholders equity on the Condensed Consolidated Balance Sheets. The amortization of premiums and discounts on the investments and realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in Interest and other income, net, in the Condensed Consolidated Statements of Operations. The cost of securities sold is based upon the specific identification method.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and are not interest bearing. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. We also review our trade receivables by aging category to identify specific customers with known disputes or collectibility

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

issues. We exercise judgment when determining the adequacy of these reserves as we evaluate historical bad debt trends, general economic conditions in the United States and internationally, and changes in customer financial conditions.

Equity Investments

We have equity investments in privately held companies for business and strategic purposes. These investments are included in Other long-term assets on the Condensed Consolidated Balance Sheets and are accounted for under the cost method as we do not have significant influence over these investees. Under the cost method, the investment is recorded at its initial cost and is periodically reviewed for impairment. Each quarter we assess our compliance with accounting guidance, including the provisions of Financial Accounting Standards Board Interpretation No., or FIN, 46R, *Consolidation of Variable Interest Entities-An Interpretation of ARB No. 51*, and any impairment issues. Under FIN 46R, we must consolidate a variable interest entity if we have a variable interest (or combination of variable interests) in the entity that will absorb a majority of the entity s expected losses, receive a majority of the entity s expected residual returns, or both. Currently, our equity investments are not subject to consolidation under FIN 46R as we do not have significant influence over these investees and we do not receive a majority of the returns. During our review for impairment, we examine the investees actual and forecasted operating results, financial position, and liquidity, as well as business/industry factors in assessing whether a decline in value of an equity investment has occurred that is other-than-temporary. When such a decline in value is identified, the fair value of the equity investment is estimated based on the preceding factors and an impairment loss is recognized in Interest and other income, net, in the Condensed Consolidated Statements of Operations. During the three and six-month periods ended September 30, 2005 and 2004, we recognized an insignificant amount of impairment losses on our equity investments.

Derivative Financial Instruments

We utilize some natural hedging to mitigate our foreign currency exposures and we manage certain residual exposures through the use of one-month forward foreign exchange contracts. We enter into forward foreign exchange contracts with high-quality financial institutions primarily to minimize currency exchange risks associated with certain balance sheet positions denominated in foreign currencies. We do not utilize derivative instruments for trading or speculative purposes. Gains and losses on the contracts are included in Interest and other income, net, in the Condensed Consolidated Statements of Operations in the period that gains and losses on the underlying transactions are recognized. The gains and losses on the contracts generally offset the gains and losses on the underlying transactions. The fair value of forward foreign exchange contracts are adjusted through earnings. As of September 30, 2005, the notional amount of our forward exchange contracts was $544 million, all of which matures in 35 days or less. We do not hedge our foreign currency translation risk.

Inventories

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

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

Computer hardware and software	two to five years
Office furniture and equipment	three to five years
Leasehold improvements	the shorter of the lease term or seven years
Buildings	twenty-five to thirty years

Acquired Product Rights

Acquired product rights are comprised of purchased product rights, technologies, databases and revenue-related order backlog, and contracts from acquired companies. Acquired product rights are stated at cost less accumulated amortization. Amortization of acquired product rights is provided on a straight-line basis over the estimated useful lives of the respective assets, generally one to five years, and is included in Cost of revenues in the Condensed Consolidated Statements of Operations.

Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* We test goodwill annually for impairment or more frequently if events and circumstances warrant.

Long-Lived Assets

We account for long-lived assets in accordance with SFAS No. 144, which requires that long-lived and intangible assets, including Property, equipment, leasehold improvements, and Acquired product rights, be evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We would recognize an impairment loss when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Income Taxes

The provision for income taxes is computed using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, net operating loss carryforwards, and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We also account for any income tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies.*

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the periods. Diluted net income per share is computed using the weighted average number of common shares outstanding and potentially dilutive common shares outstanding during the periods. Potentially dilutive common shares include the assumed exercise of stock options using the treasury stock method and conversion of debt, if dilutive in the period. Potentially dilutive common shares are excluded in net loss periods, as their effect would be antidilutive.

Stock-Based Compensation

We account for stock-based compensation awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*, and to non-employees using the fair value method in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation.* In addition, we apply applicable provisions of FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25.* As discussed in Note 5 of the Condensed Consolidated Financial Statements, in connection with the acquisition of VERITAS, we assumed outstanding options to purchase shares of VERITAS common stock and converted them into options to purchase 66 million shares of Symantec common stock.

Pro forma information regarding net income and net income per share is required by SFAS No. 123. This information is required to be determined as if we had accounted for our employee stock options, including shares issued under the Employee Stock Purchase Plan, or ESPP, granted subsequent to March 31, 1995, under the fair value method of that statement. The following table illustrates the effect on net income (loss) and net income (loss) per share as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation using the Black-Scholes option-pricing model for the three and six-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands, except per share data)			
Net income (loss), as reported	$ (251,328)	$ 135,623	$ (52,695)	$ 252,900
Add: Amortization of deferred stock-based compensation included in reported net income (loss), net of tax	9,716	435	11,945	435
Less: Stock-based employee compensation expense excluded from reported net income (loss), net of tax	(49,242)	(29,194)	(98,593)(1)	(56,441)
Pro forma net income (loss)	$ (290,854)	$ 106,864	$ (139,343)	$ 196,894
Basic net income (loss) per share				
As reported	$ (0.21)	$ 0.22	$ (0.06)	$ 0.40
Pro forma	$ (0.25)	$ 0.18	$ (0.15)	$ 0.33
Diluted net income (loss) per share				
As reported	$ (0.21)	$ 0.19	$ (0.06)	$ 0.35
Pro forma	$ (0.25)	$ 0.15	$ (0.15)	$ 0.28

(1) Includes a charge of $18 million resulting from the inclusion of unamortized expense for ESPP offering periods that were cancelled as a result of a plan amendment to eliminate the two-year offering period effective July 1, 2005.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Concentrations of Credit Risk

A significant portion of our revenues and net income is derived from international sales and independent agents and distributors. Fluctuations of the United States dollar against foreign currencies, changes in local regulatory or economic conditions, piracy, or nonperformance by independent agents or distributors could adversely affect operating results.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, short-term investments, and trade accounts receivable. Our investment portfolio is diversified and consists of investment grade securities. Our investment policy limits the amount of credit risk exposure to any one issuer and in any one country. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the Consolidated Balance Sheets. The credit risk in our trade accounts receivable is substantially mitigated by our credit evaluation process, reasonably short collection terms, and the geographical dispersion of sales transactions. We maintain reserves for potential credit losses and such losses have been within management s expectations.

Legal Expenses

We accrue estimated legal expenses when the likelihood of the incurrence of the related costs is probable and management has the ability to estimate such costs. If both of these conditions are not met, management records the related legal expenses when incurred. Amounts that we accrue are not discounted. The material assumptions used to estimate the amount of legal expenses include:

The monthly legal expense incurred by our external attorneys on the particular case being evaluated

Communication between us and our external attorneys on the expected duration of the lawsuit and the estimated expenses during that time

Our strategy regarding the lawsuit

Deductible amounts under our insurance policies

Past experiences with similar lawsuits

Accumulated Other Comprehensive Income

We report comprehensive income or loss in accordance with the provisions of SFAS No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting comprehensive income and its components in the financial statements. The components of other comprehensive income (loss) consist of unrealized gains and losses on marketable securities, net of tax, and foreign currency translation adjustments, net of tax. Unrealized gains and losses on short-term investments, net of taxes, are insignificant for all periods presented.

Recent Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, FAS 143-1, *Accounting for Electronic Equipment Waste Obligations*, which provides guidance on the accounting for certain obligations associated with the Directive on Waste Electrical and Electronic Equipment, or the Directive, which was adopted by the European Union, or the EU. Under the Directive, the waste management obligation for historical equipment, defined as products put on the market on or prior to August 13, 2005, remains with the commercial user until the equipment is replaced. FSP FAS 143-1 is required to be applied to the later of the first fiscal period ending after June 8, 2005 or the date of the Directive s adoption into law by the applicable EU member countries in which we have significant operations. We are currently evaluating the impact of FSP FAS 143-1 on our financial position and results of operations. The effects will depend on the respective laws adopted by the EU member countries.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28.* SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material impact on our consolidated financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS No. 123R is effective for annual periods beginning after June 15, 2005 and, thus, will be effective for us beginning with the first quarter of fiscal 2007. We are currently evaluating the impact of SFAS No. 123R on our financial position and results of operations. See Stock-Based Compensation above for information related to the pro forma effects on our reported net income and net income per share when applying the fair value recognition provisions of the previous SFAS No. 123 to stock-based employee compensation.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions.* SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In December 2004, the FASB issued FSP FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004.* The American Jobs Creation Act introduces a special tax deduction on qualified production activities. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with SFAS No. 109. We do not expect FSP FAS 109-1 to have a material impact on our consolidated financial position, results of operations, or cash flows.

Note 2. Restatement of Condensed Consolidated Financial Statements

Subsequent to the filing of our Form 10-Q for the quarter ended September 30, 2005, we identified a classification error in our Condensed Consolidated Statement of Cash Flows for the six months ended September 30, 2005 and determined to reclassify certain items within Net revenues in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2005 and 2004. As a result, we have restated the accompanying Condensed Consolidated Financial Statements for the three and six months ended September 30, 2005 and 2004 to reflect the correction of this error and the reclassifications. The restatement has no impact on our previously reported Net income (loss), Net income (loss) per share, Cash and cash equivalents, or the Condensed Consolidated Balance Sheets.

Condensed Consolidated Statements of Operations

We have reclassified certain components of Net revenues previously reported as Licenses to Content, subscriptions, and maintenance within Net revenues in our Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2005. As a result, Licenses has decreased and Content, subscriptions, and maintenance has increased for the three and six months ended September 30, 2005 and 2004.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the impact of the reclassification adjustments on our previously reported Condensed Consolidated Statements of Operations.

	Three Months Ended					
	September 30, 2005			September 30, 2004		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(In thousands)					
Net revenues:						
Content, subscriptions, and maintenance	$ 709,006	$ 8,149	$ 717,155	$ 445,531	$ 20,808	$ 466,339
Licenses	346,858	(8,149)	338,709	172,782	(20,808)	151,974
Total net revenues	$ 1,055,864	$	$ 1,055,864	$ 618,313	$	$ 618,313

	Six Months Ended					
	September 30, 2005			September 30, 2004		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(In thousands)					
Net revenues:						
Content, subscriptions, and maintenance	$ 1,267,059	$ 18,950	$ 1,286,009	$ 813,329	$ 63,867	$ 877,196
Licenses	488,747	(18,950)	469,797	361,618	(63,867)	297,751
Total net revenues	$ 1,755,806	$	$ 1,755,806	$ 1,174,947	$	$ 1,174,947

Condensed Consolidated Statement of Cash Flows

For the six months ended September 30, 2005, the change in Other accrued expenses within Net cash provided by operating activities included amounts payable for repurchases of common stock of $145 million. This amount should have been reflected as a reduction to Repurchases of common stock within Net cash used in financing activities. In addition, we determined that a clerical error had occurred in reporting the Issuance of common stock and stock options for business combination included in the Supplemental schedule of non-cash transactions.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the impact of the adjustments on our previously reported Condensed Consolidated Statements of Cash Flows.

	Six Months Ended September 30, 2005		
	As Previously Reported	Adjustments	As Restated
		(In thousands)	
OPERATING ACTIVITIES			
Net income (loss)	$ (52,695)	$	$ (52,695)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	80,830		80,830
Accretion of fair market value adjustment related to convertible subordinated notes	5,400		5,400
Amortization of investments, net	(20,485)		(20,485)
Amortization and write-off of acquired product rights	140,485		140,485
Amortization of other intangible assets from acquisitions	50,048		50,048
Impairment of equity investments	236		236
Write-off of property and equipment	1,332		1,332
Amortization of deferred stock-based compensation	16,174		16,174
Write-off of acquired in-process research and development	284,000		284,000
Deferred income taxes	(103,384)		(103,384)
Income tax benefit from stock options	61,621		61,621
Net changes in assets and liabilities, excluding effects of acquisitions:			
Trade accounts receivable, net	109,547		109,547
Inventories	4,632		4,632
Other current assets	(55,874)		(55,874)
Other long-term assets	4,600		4,600
Accounts payable	49,806		49,806
Accrued compensation and benefits	(44,296)		(44,296)
Deferred revenue	47,702		47,702
Other accrued expenses	127,072	(144,838)	(17,766)
Income taxes payable	(17,884)		(17,884)
Other long-term obligations	(14,760)		(14,760)
Net cash provided by operating activities	674,107	(144,838)	529,269
INVESTING ACTIVITIES			
Capital expenditures	(81,733)		(81,733)
	1,122,854		1,122,854

Cash acquired in (payments for) business combinations			
Purchase of equity investments	(6,483)		(6,483)
Purchases of marketable securities	(1,651,282)		(1,651,282)
Proceeds from sale of marketable securities	2,918,020		2,918,020
Net cash provided by investing activities	2,301,376		2,301,376
FINANCING ACTIVITIES			
Repurchases of common stock	(1,825,043)	144,838	(1,680,205)
Net proceeds from sales of common stock under employee benefit plans	80,655		80,655
Repayment of line of credit	(491,462)		(491,462)
Net cash used in financing activities	(2,235,850)	144,838	(2,091,012)
Effect of exchange rate fluctuations on cash and cash equivalents	(24,660)		(24,660)
Increase in cash and cash equivalents	714,973		714,973
Beginning cash and cash equivalents	1,091,433		1,091,433
Ending cash and cash equivalents	$ 1,806,406	$	$ 1,806,406
Supplemental schedule of non-cash transactions:			
Issuance of common stock and stock options for business combination	$ 13,197	$ 13,183,653	$ 13,196,850
Payable for repurchases of common stock	$	$ 144,838	$ 144,838

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Balance Sheet Information

	September 30, 2005	March 31, 2005
	(In thousands)	
Trade accounts receivable, net:		
Receivables	$ 450,101	$ 289,993
Less: allowance for doubtful accounts	(5,981)	(4,668)
	$ 444,120	$ 285,325
Property and equipment, net:		
Computer hardware and software	$ 577,816	$ 419,127
Office furniture and equipment	138,292	82,310
Buildings	351,652	156,472
Leasehold improvements	178,271	100,881
	1,246,031	758,790
Less: accumulated depreciation and amortization	(508,387)	(433,265)
	737,644	325,525
Land	125,572	57,164
	$ 863,216	$ 382,689

Note 4. Accumulated Other Comprehensive Income

The components of comprehensive income (loss), net of tax, were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)			
Net income (loss)	$ (251,328)	$ 135,623	$ (52,695)	$ 252,900
Other comprehensive income (loss):				
Change in unrealized loss on available-for-sale securities, net of tax	(4,317)	(1,005)	(4,568)	(940)
Change in cumulative translation adjustment, net of tax	1,473	16,895	(27,006)	25,971
Total other comprehensive income (loss)	(2,844)	15,890	(31,574)	25,031
Comprehensive income (loss)	$ (254,172)	$ 151,513	$ (84,269)	$ 277,931

Accumulated other comprehensive income as of September 30, 2005 and 2004 consists primarily of foreign currency translation adjustments, net of taxes. Unrealized gains and losses on available-for-sale securities, net of taxes, are insignificant for all periods presented.

Note 5. Business Combinations

Acquisition of VERITAS Software Corporation

On July 2, 2005, we completed our acquisition of VERITAS, a leading provider of software and services to enable utility computing, whereby VERITAS became a wholly owned subsidiary of Symantec in a transaction accounted for using the purchase method of accounting. The total estimated purchase price of

SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately $13 billion includes Symantec common stock valued at $12 billion, assumed stock options and RSUs with a fair value of $699 million, and estimated acquisition related expenses of $40 million. The acquisition of VERITAS will enable us to provide enterprise customers with a more effective way to secure and manage their most valuable asset, their information. The combined company offers customers a broad portfolio of leading software and solutions across all tiers of the infrastructure. In addition, bringing the market leading capabilities of Symantec and VERITAS together improves our ability to continuously optimize performance and help companies recover from disruptions when they occur.

As a result of the acquisition, we issued approximately 483 million shares of Symantec common stock, net of treasury stock retained, based on an exchange ratio of 1.1242 shares of Symantec common stock for each outstanding share of VERITAS common stock as of July 2, 2005. The common stock issued had a fair value of $12 billion and was valued using the average closing price of our common stock of $25.87 over a range of trading days (December 14, 2004 through December 20, 2004, inclusive) around the announcement date (December 16, 2004) of the transaction.

Under the terms of the agreement, we also assumed each outstanding option to purchase VERITAS common stock with an exercise price equal to or less than $49.00 as well as each additional option required to be assumed by applicable law. Each option assumed was converted into an option to purchase Symantec common stock after applying the exchange ratio. All other options to purchase shares of VERITAS common stock not exercised prior to the acquisition were cancelled immediately prior to the acquisition and were not converted or assumed by Symantec. In total, we assumed and converted VERITAS options into options to purchase 66 million shares of Symantec common stock. In addition, we assumed and converted all outstanding VERITAS RSUs into approximately 425,000 Symantec RSUs, based upon the exchange ratio.

Acquisition related costs of $40 million consist of $32 million for accounting, legal, and other professional fees and $8 million of restructuring costs for severance, associated benefits, outplacement services, and excess facilities. Total cash outlays as of September 30, 2005 were approximately $32 million for accounting, legal, and other professional fees and $1 million of restructuring costs for severance, associated benefits, outpl