SYMANTEC CORP
Form 10-Q
November 07, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended October 3, 2008

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 *(State or other jurisdiction of incorporation or organization)*	**77-0181864** *(I.R.S. employer identification no.)*
20330 Stevens Creek Blvd., Cupertino, California *(Address of principal executive offices)*	**95014-2132** *(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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

þ Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company

(Do not check if a smaller reporting company)

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 31, 2008: 836,013,435 shares.

SYMANTEC CORPORATION

FORM 10-Q

Quarterly Period Ended October 3, 2008

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SYMANTEC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 3, 2008 (Unaudited)	March 28, 2008 *
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,262,157	$ 1,890,225
Short-term investments	42,485	536,728
Trade accounts receivable, net	645,179	758,200
Inventories	26,590	34,138
Deferred income taxes	196,273	193,775
Other current assets	258,495	316,852
Total current assets	3,431,179	3,729,918
Property and equipment, net	942,754	1,001,750
Acquired product rights, net	526,143	648,950
Other intangible assets, net	1,141,443	1,243,524
Goodwill	11,323,506	11,207,357
Investment in joint venture	133,073	150,000
Other long-term assets	65,120	55,291
Long-term deferred income taxes	58,781	55,304
Total assets	$ 17,621,999	$ 18,092,094
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 210,027	$ 169,631
Accrued compensation and benefits	344,051	431,345
Current deferred revenue	2,337,237	2,661,515
Income taxes payable	50,196	72,263
Short-term borrowing		200,000
Other current liabilities	228,906	264,832
Total current liabilities	3,170,417	3,799,586
Convertible senior notes	2,100,000	2,100,000
Long-term deferred revenue	375,989	415,054

Long-term deferred tax liabilities	194,728	219,341
Long-term income taxes payable	491,612	478,743
Other long-term liabilities	95,961	106,187
Total liabilities	6,428,707	7,118,911
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	8,357	8,393
Additional paid-in capital	9,121,142	9,139,084
Accumulated other comprehensive income	182,580	159,792
Retained earnings	1,881,213	1,665,914
Total stockholders equity	11,193,292	10,973,183
Total liabilities and stockholders equity	$ 17,621,999	$ 18,092,094

* Derived from audited financials

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

SYMANTEC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	October 3, 2008	September 28, 2007	October 3, 2008	September 28, 2007
	(Unaudited) (In thousands, except earnings per share data)			
Net revenues:				
Content, subscriptions, and maintenance	$ 1,180,715	$ 1,117,165	$ 2,471,707	$ 2,203,683
Licenses	337,295	301,924	696,625	615,744
Total net revenues	1,518,010	1,419,089	3,168,332	2,819,427
Cost of revenues:				
Content, subscriptions, and maintenance	212,070	205,572	430,644	415,238
Licenses	10,398	9,892	18,845	21,130
Amortization of acquired product rights	86,602	89,062	171,563	178,422
Total cost of revenues	309,070	304,526	621,052	614,790
Gross profit	1,208,940	1,114,563	2,547,280	2,204,637
Operating expenses:				
Sales and marketing	596,983	595,162	1,259,802	1,163,692
Research and development	219,049	221,057	450,484	446,635
General and administrative	84,838	86,405	177,604	172,250
Amortization of other purchased intangible assets	55,651	56,926	111,030	113,851
Restructuring	9,790	9,578	26,795	28,578
Impairment of assets	26,204	86,546	26,204	86,546
Total operating expenses	992,515	1,055,674	2,051,919	2,011,552
Operating income	216,425	58,889	495,361	193,085
Interest income	12,302	19,179	30,290	40,000
Interest expense	(6,712)	(6,617)	(16,281)	(12,908)
Other income (expense), net	(8,782)	1,965	(8,843)	3,231
Income before income taxes and loss from joint venture	213,233	73,416	500,527	223,408
Provision for income taxes	62,414	23,048	156,835	77,834
Loss from joint venture	10,746		16,927	
Net income	$ 140,073	$ 50,368	$ 326,765	$ 145,574
Earnings per share basic	$ 0.17	$ 0.06	$ 0.39	$ 0.16
Earnings per share diluted	$ 0.16	$ 0.06	$ 0.38	$ 0.16

Weighted-average shares outstanding	basic	838,489	875,662	838,537	883,652
Weighted-average shares outstanding	diluted	852,334	892,759	853,174	901,683

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

SYMANTEC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	October 3, 2008	September 28, 2007
	(Unaudited) (In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 326,765	$ 145,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	411,567	417,493
Stock-based compensation expense	89,495	81,734
Impairment of assets	25,870	86,546
Deferred income taxes	(917)	(103,900)
Income tax benefit from the exercise of stock options	17,929	17,268
Excess income tax benefit from the exercise of stock options	(16,007)	(13,529)
Loss from joint venture	16,927	
Realized and other than temporary impairment loss on investments	2,330	
Other	11,235	3,076
Net change in assets and liabilities, excluding effects of acquisitions:		
Trade accounts receivable, net	99,884	118,986
Inventories	5,945	10,497
Accounts payable	(986)	7,647
Accrued compensation and benefits	(81,905)	(418)
Deferred revenue	(228,632)	(229,013)
Income taxes payable	(51,477)	131,436
Other assets	72,683	50,404
Other liabilities	(38,839)	(41,523)
Net cash provided by operating activities	661,867	682,278
INVESTING ACTIVITIES:		
Purchase of property and equipment	(125,339)	(138,029)
Proceeds from sales of property and equipment	39,547	
Cash payments for business acquisitions, net of cash and cash equivalents acquired	(186,826)	(852,286)
Purchases of available-for-sale securities	(172,891)	(640,570)
Proceeds from sales of available-for-sale securities	667,693	498,386
Net cash provided by (used in) investing activities	222,184	(1,132,499)
FINANCING ACTIVITIES:		
Repurchase of common stock	(399,894)	(899,984)
Net proceeds from sales of common stock under employee stock benefit plans	185,537	130,220
Repayment of short-term borrowing	(200,000)	
Excess income tax benefit from the exercise of stock options	16,007	13,529
Repayment of other long-term liability	(3,716)	(7,604)

Tax payments related to restricted stock issuance	(14,830)	(3,050)
Net cash used in financing activities	(416,896)	(766,889)
Effect of exchange rate fluctuations on cash and cash equivalents	(95,223)	46,440
Increase (decrease) in cash and cash equivalents	371,932	(1,170,670)
Beginning cash and cash equivalents	1,890,225	2,559,034
Ending cash and cash equivalents	$ 2,262,157	$ 1,388,364

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The condensed consolidated financial statements of Symantec Corporation (we, us, and our refer to Symantec Corporation and all of its subsidiaries) as of October 3, 2008 and March 28, 2008 and for the three and six months ended October 3, 2008 and September 28, 2007 have been prepared in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, except as otherwise noted, necessary for the fair presentation of our financial position and results of operations for the interim periods. The condensed consolidated balance sheet as of March 28, 2008 has been derived from the audited consolidated financial statements, however it does not include all disclosures required by generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 28, 2008. The results of operations for the three and six months ended October 3, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated.

We have a 52/53-week fiscal accounting year. Unless otherwise stated, references to three and six months ended in this report relate to fiscal periods ended October 3, 2008 and September 28, 2007. The three months ended October 3, 2008 and September 28, 2007 both consisted of 13 weeks. The six months ended October 3, 2008 consisted of 27 weeks while the six months ended September 28, 2007 consisted of 26 weeks.

Significant accounting policies

Effective July 4, 2008, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157 (SFAS No. 157). Fair Value Measurements for all of our financial assets and liabilities are recognized or disclosed at fair value on a recurring and nonrecurring basis (FASB Staff Position (FSP). FAS No 157-1 eliminates leasing transactions from scope and FSP FAS No. 157-2 defers the effective date for one year for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis). See Note 2 of the Notes to the Condensed Consolidated Financial Statements for further discussion.

Other than this change, there have been no changes in our significant accounting policies during the six months ended October 3, 2008 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 28, 2008.

Recent accounting pronouncements

In June 2008, the FASB issued Emerging Issues Task Force (EITF) Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity s Own Stock*. EITF Issue No. 07-5 provides guidance on evaluating whether an equity-linked financial instrument (or embedded feature) is indexed to the company s own stock, including evaluating the instrument s contingent exercise and settlement provisions. EITF Issue No. 07-5 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of EITF Issue No. 07-5 on our consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board (APB) No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. The FSP will require the issuer of convertible debt instruments with cash settlement features to separately account for the liability and equity components of the instrument. The debt will be recognized at the present value of its cash flows discounted using the issuer s nonconvertible debt borrowing rate at the time of issuance. The equity component will be recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The FSP will also require an accretion as interest expense of the resultant debt discount over

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the expected life of the debt. The transition guidance requires retrospective application to all periods presented, and does not grandfather existing instruments. The guidance will be effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption of the FSP, we expect the increase in non-cash interest expense recognized on our consolidated financial statements to be significant.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets.* The position amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets.* The position applies to intangible assets that are acquired individually or with a group of other assets and in business combinations and asset acquisitions. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We do not expect the adoption of FSP No. 142-3 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We do not expect the adoption of SFAS No. 161 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51.* The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, to identify earnings attributable to noncontrolling interests reported as part of consolidated earnings, and to measure the gain or loss on the deconsolidated subsidiary using the fair value of a noncontrolling equity investment. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We do not expect the adoption of SFAS No. 160 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This standard changes the accounting for business combinations by requiring that an acquiring entity measures and recognizes identifiable assets acquired and liabilities assumed at the acquisition date fair value with limited exceptions. The changes include the treatment of acquisition related transaction costs, the valuation of any noncontrolling interest at the acquisition date fair value, the recording of acquired contingent liabilities at acquisition date fair value and the subsequent re-measurement of such liabilities after acquisition date, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals subsequent to the acquisition date, and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. If the current level of acquisitions activity continues, we expect the implementation of SFAS No. 141R to have a material impact on our consolidated financial statements when it becomes effective. The accounting treatment related to pre-acquisition uncertain tax positions will change when SFAS No. 141R becomes effective, which will be in first quarter of our fiscal year 2010. At such time, any changes to the recognition or measurement of uncertain tax positions related to pre-acquisition periods will be recorded through income tax expense, where currently the accounting treatment would require any adjustment to be recognized through the purchase price.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP No. 157-2, *The Effective Date of FASB Statement No. 157*, which

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective March 29, 2008, we adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* FSP No. FAS 157-3 provides examples to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP No. FAS 157-3 is effective upon issuance. We do not expect the adoption of the FSP to have a material impact on our consolidated financial statements. See Note 2 for information and related disclosures regarding our fair value measurements.

Note 2. Financial Instruments

We measure financial assets and liabilities at fair value based upon exit price, representing the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. SFAS No. 157 (as impacted by FSP Nos. 157-1, 157-2 and 157-3) establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy:

	As of October 3, 2008			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents:				
Money market funds	$ 403,459	$	$	$ 403,459
Bank securities and deposits		39,578		39,578
Government notes		249,964		249,964
Commercial paper		482,574		482,574
Short-term investments:				
Asset-backed securities		21,985		21,985
Corporate notes		17,659		17,659
Equity investments(1)	2,841			2,841
Deferred compensation plan assets(2)		13,035		13,035
	$ 406,300	$ 824,795	$	$ 1,231,095

(1) Equity investments relate to our investments in the securities of other public companies. Such investments are included in Short-term investments.

(2) Deferred compensation plan assets are fund-of-funds and consist primarily of corporate equity securities. Such assets are included in Other current assets.

Certain financial assets and liabilities are not included in the table above because they are measured at fair value on a nonrecurring basis. These assets and liabilities include our non-public equity investments, convertible senior notes and bond hedge (including the derivative call option).

The effective date of FSP FAS No. 157-2 for measuring fair value of nonfinancial assets and liabilities which are recognized or disclosed at fair value on a nonrecurring basis is the fiscal year starting April 4, 2009 and interim periods within that fiscal year. This deferral applies to us for such items as nonfinancial assets and liabilities initially measured at fair value in a business combination but not measured at fair value in subsequent periods, nonfinancial long-lived and intangible asset groups measured at fair value for an impairment assessment, reporting units measured at fair value in the first step of a goodwill impairment test, and nonfinancial restructuring liabilities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Balance Sheet Information

	As of	
	October 3, 2008	March 28, 2008
	(In thousands)	
Property and equipment, net:		
Computer hardware and software	$ 979,678	$ 925,156
Office furniture and equipment	216,210	292,306
Buildings	417,159	492,857
Leasehold improvements	303,749	276,116
	1,916,796	1,986,435
Less: accumulated depreciation and amortization	(1,052,434)	(1,079,468)
	864,362	906,967
Land	78,392	94,783
Property and equipment, net	$ 942,754	$ 1,001,750

Note 4. Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended		Six Months Ended	
	October 3, 2008	September 28, 2007	October 3, 2008	September 28, 2007
	(In thousands)			
Net income	$ 140,073	$ 50,368	$ 326,765	$ 145,574
Other comprehensive income:				
Reclassification adjustment relating to the legal liquidation of foreign entities	(188)		(4,824)	
Change in cumulative translation adjustment, net of tax	25,144	4,207	28,339	12,301
Change in unrealized gain (loss) on available-for-sale securities, net of tax	(1,013)	1,882	(727)	580
Total other comprehensive income	23,943	6,089	22,788	12,881

Comprehensive income	$ 164,016	$ 56,457	$ 349,553	$ 158,455

The reclassification adjustment relates to the realization of a foreign exchange translation adjustment relating to the legal liquidation of foreign entities.

Accumulated other comprehensive income as of October 3, 2008 and March 28, 2008 primarily consisted of foreign currency translation adjustments, net of taxes.

Note 5. Acquisitions

nSuite Purchase

On August 8, 2008, we completed the acquisition of nSuite Technologies, Inc. (nSuite), a Massachusetts-based provider of connection broker technology. The acquisition complements our endpoint virtualization portfolio and strategy. The connection broker technology of nSuite is utilized in an endpoint virtualization platform to validate users, perform basic security functions, connect users with the correct applications and manage the transfer

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of virtual resources within the data center. In exchange for all voting equity interests, we purchased nSuite for $20 million, which included acquisition related costs. Cash was used to fund the transaction, and no equity interests were issued. Of the aggregate purchase price, $5 million was allocated to identified intangible assets, primarily developed technology, and the remaining $15 million resulted in goodwill. Goodwill, all of which was deductible for tax purposes, resulted primarily from our expectation of synergies from the integration of nSuite s product offerings with our product offerings. The results of operations for nSuite, since the date of acquisition, are included as part of the Security and Compliance segment. Supplemental proforma information for nSuite is not material and was therefore not included.

AppStream Purchase

On April 18, 2008, we completed the acquisition of AppStream, Inc. (AppStream), a Palo Alto, California-based provider of endpoint virtualization software. AppStream was acquired to complement our endpoint management and virtualization portfolio and strategy. AppStream s application streaming technology provides an on-demand delivery mechanism that leverages application virtualization to enable greater flexibility and control. In exchange for all voting equity interests, we purchased AppStream for $53 million, which included acquisition related costs. Cash was used to fund the transaction, and no equity interests were issued. Of the aggregate purchase price, $15 million was allocated to tangible assets, $11 million to identified intangible assets, primarily developed technology, and the remaining $27 million resulted in goodwill. Goodwill, none of which was deductible for tax purposes, resulted primarily from our expectation of synergies from the integration of AppStream s product offerings with our product offerings. The results of operations for AppStream, since the date of acquisition, are included as part of the Security and Compliance segment. Supplemental proforma information for AppStream is not material and is therefore not included.

SwapDrive Purchase

On June 6, 2008, we completed the acquisition of SwapDrive, Inc. (SwapDrive), a Washington D.C.-based provider of online storage products. SwapDrive was acquired to strengthen and expand the Norton consumer portfolio by leveraging online backup and storage platform technologies. In exchange for all voting equity interests, we purchased SwapDrive for $124 million, which included acquisition related costs. Cash was used to fund the transaction, and no equity interests were issued. Of the aggregate purchase price, $6 million was allocated to tangible assets and $40 million was allocated to identified intangible assets, primarily developed technology and customer relationships, and the remaining $78 million resulted in goodwill. Goodwill resulted primarily from our expectation of synergies from the integration of SwapDrive s product offerings with our product offerings. Goodwill is expected to be deductible in the State of California for tax purposes. The results of operations for SwapDrive, since the date of acquisition, are included as part of the Consumer Products segment. Supplemental proforma information for SwapDrive was not material and is therefore not included.

Note 6. Investment in Joint Venture

On February 5, 2008, Symantec formed Huawei-Symantec, Inc. (joint venture) with a subsidiary of Huawei Technologies Co., Ltd. (Huawei). The joint venture is domiciled in Hong Kong with principal operations in Chengdu, China. We contributed cash of $150 million, licenses related to certain intellectual property and other intangible assets in exchange for 49% of the outstanding common shares of the joint venture. The joint venture will develop, manufacture, market and support security and storage appliances to global telecommunications carriers and enterprise customers. Huawei contributed its telecommunications storage and security business assets, engineering, sales and marketing resources, personnel, and licenses related to intellectual property in exchange for a 51% ownership interest in the joint venture.

The contribution of assets to the joint venture was accounted for at its carrying value. The historical carrying value of the assets contributed by Symantec comprised a significant portion of the net assets of the joint venture. As

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a result, our carrying value of the investment in the joint venture exceeded our proportionate share in the underlying net assets of the joint venture by approximately $73 million upon formation of the joint venture. As the contributions for both Symantec and Huawei were recorded at historical carrying value by the joint venture, this basis difference is attributable to the contributed identified intangible assets. The basis difference is being amortized over a weighted-average period of 9 years, the estimated useful lives of the underlying identified intangible assets to which the basis difference is attributed.

We account for our investment in the joint venture under the equity method of accounting. Under this method, we record our proportionate share of the joint venture s net income or loss based on the quarterly financial statements of the joint venture. We record our proportionate share of net income or loss one quarter in arrears. In determining our share of the joint venture s net income or loss, we adjust the joint venture s reported results to recognize the amortization expense associated with the basis difference. For the six months ended October 3, 2008, we recorded a loss of approximately $17 million related to our share of the joint venture s net loss, including the amortization of the basis difference described above, for the joint venture s period ended June 30, 2008. This loss is included in the accompanying Condensed Consolidated Statements of Income under the caption Loss from joint venture. The carrying value of our investment in the joint venture as of October 3, 2008 was approximately $133 million.

Summarized unaudited statement of operations information for the joint venture and the calculation of our share of the joint venture s loss are as follows:

	Three Months Ended June 30, 2008	For the Period from February 5, 2008 to June 30, 2008
	(In thousands)	
Net revenues	$ 455	$ 469
Gross margin	(188)	(386)
Net loss, as reported by the joint venture	$ (17,780)	$ (27,598)
Symantec s ownership interest	49%	49%
Symantec s proportionate share of net loss	(8,712)	(13,523)
Adjustment for amortization of basis difference	(2,034)	(3,404)
Loss from joint venture	$ (10,746)	$ (16,927)

Note 7. Goodwill, Acquired Product Rights, and Other Intangible Assets

Goodwill

In accordance with SFAS No. 142, we allocate goodwill to our reporting units, which are the same as our operating segments. Goodwill is allocated as follows:

	Consumer Products	Security and Compliance	Storage and Server Management (In thousands)	Services	Total Company
Balance as of March 28, 2008	$ 102,810	$ 4,080,717	$ 6,665,734	$ 358,096	$ 11,207,357
Goodwill acquired through business combinations(1)	78,421	42,929			121,350
Goodwill adjustments(2)		(2,851)	(2,350)		(5,201)
Operating segment reclassification(3)		(84,376)		84,376	
Balance as of October 3, 2008	$ 181,231	$ 4,036,419	$ 6,663,384	$ 442,472	$ 11,323,506

SYMANTEC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Reflects goodwill of approximately $78 million in the Consumer Products segment resulting from the SwapDrive acquisition, and approximately $27 million and $15 million in the Security and Compliance segment resulting from the acquisition of AppStream and nSuite respectively. See Note 5 for further details.

(2) Reflects adjustments made to goodwill of prior acquisitions as a result of tax adjustments, primarily related to stock-based compensation.

(3) In the first quarter of fiscal year 2009, we moved Altiris services from the Security and Compliance segment to the Services segment. As a result of this reclassification, the above adjustment was made in accordance with SFAS No. 142.

Goodwill is tested for impairment on an annual basis during the March quarter, or earlier if indicators of impairment exist. Based on our review as of October 3, 2008, no indicators of impairment were identified for our Goodwill, Acquired Product Rights, or Other Intangible Assets.

Acquired product rights, net

Acquired product rights subject to amortization are as follows:

	As of October 3, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Life
		(In thousands)		
Developed technology	$ 1,705,025	$ (1,213,173)	$ 491,852	2 years
Patents	75,595	(41,304)	34,291	3 years
	$ 1,780,620	$ (1,254,477)	$ 526,143	2 years

	As of March 28, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Life
		(In thousands)		
Developed technology	$ 1,655,895	$ (1,045,383)	$ 610,512	2 years
Patents	71,313	(32,875)	38,438	3 years

	$ 1,727,208	$ (1,078,258)	$ 648,950	2 years

During the three months ended October 3, 2008 and September 28, 2007, amortization expense for acquired product rights was $87 million and $89 million, respectively. During the six months ended October 3, 2008 and September 28, 2007, amortization expense for acquired product rights was $172 million and $178 million, respectively. Amortization of acquired product rights is included in Cost of revenues in the Condensed Consolidated Statements of Income.

SYMANTEC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense for acquired product rights, based upon our existing acquired product rights and their current useful lives as of October 3, 2008, is estimated to be as follows *(in thousands)*:

Remainder of fiscal 2009	$ 173,955
2010	210,512
2011	79,657
2012	37,307
2013	13,198
Thereafter	11,514
Total	$ 526,143

Other intangible assets, net

Other intangible assets are as follows:

	As of October 3, 2008			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted-Average Remaining Life**
		(In thousands)		
Customer base	$ 1,670,523	$ (631,120)	$ 1,039,403	5 years
Trade name	125,310	(45,353)	79,957	7 years
Norton tradename	22,083		22,083	Indefinite
Partnership agreements	2,300	(2,300)		Fully amortized
	$ 1,820,216	$ (678,773)	$ 1,141,443	5 years

	As of March 28, 2008		
	Gross Carrying	**Accumulated**	**Net Carrying**