

SYMANTEC CORP
Form 10-Q
February 03, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the Quarterly Period Ended December 30, 2016

or

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.)

350 Ellis Street,

Mountain View, California

94043

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code:

(650) 527-8000

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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):

Large accelerated filer Accelerated filer Non-accelerated filer 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 No

The number of shares of Symantec common stock, \$0.01 par value per share, outstanding as of January 27, 2017 was 618,834,453 shares.

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SYMANTEC CORPORATION

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Quarterly Period Ended December 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SYMANTEC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in millions, except share amounts which are reflected in thousands, and par value per share amounts)

	December 30, 2016	April 1, 2016 ⁽¹⁾
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,575	\$5,983
Accounts receivable, net	557	556
Other current assets	379	420
Total current assets	6,511	6,959
Property and equipment, net	893	957
Intangible assets, net	1,867	443
Goodwill	7,227	3,148
Equity investments	158	157
Other long-term assets	104	103
Total assets	\$ 16,760	\$11,767
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 143	\$175
Accrued compensation and benefits	240	219
Current portion of long-term debt	780	—
Deferred revenue	2,075	2,279
Income taxes payable	15	941
Other current liabilities	352	419
Total current liabilities	3,605	4,033
Long-term debt	6,358	2,207
Long-term deferred revenue	398	359
Long-term deferred tax liabilities	2,164	1,235
Long-term income taxes payable	203	160
Other long-term obligations	83	97
Total liabilities	12,811	8,091
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 1,000 shares authorized; 21 shares issued; 0 outstanding	—	—
Common stock and additional paid-in capital, \$0.01 par value: 3,000,000 shares authorized; 618,535 and 612,266 shares issued and outstanding, respectively	4,564	4,309
Accumulated other comprehensive income	3	22
Accumulated deficit	(618) (655)
Total stockholders' equity	3,949	3,676
Total liabilities and stockholders' equity	\$ 16,760	\$11,767

(1) Derived from audited financial statements.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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SYMANTEC CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited, in millions, except per share amounts)

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
Net revenues	\$1,041	\$ 909	\$2,904	\$ 2,727
Cost of revenues	235	150	594	468
Gross profit	806	759	2,310	2,259
Operating expenses:				
Sales and marketing	377	308	1,006	984
Research and development	204	174	574	571
General and administrative	131	68	360	218
Amortization of intangible assets	43	13	91	41
Restructuring, separation, transition, and other	67	50	201	116
Total operating expenses	822	613	2,232	1,930
Operating income (loss)	(16)	146	78	329
Interest income	5	1	14	6
Interest expense	(55)	(17)	(134)	(56)
Other income (expense), net	5	(1)	28	(3)
Income (loss) from continuing operations before income taxes	(61)	129	(14)	276
Income tax expense (benefit)	(5)	15	45	84
Income (loss) from continuing operations	(56)	114	(59)	192
Income from discontinued operations, net of income taxes	102	56	96	251
Net income	\$46	\$ 170	\$37	\$ 443
Income (loss) per share - basic:				
Continuing operations	\$(0.09)	\$ 0.17	\$(0.10)	\$ 0.28
Discontinued operations	\$0.16	\$ 0.08	\$0.16	\$ 0.37
Net income per share - basic	\$0.07	\$ 0.26	\$0.06	\$ 0.65
Income (loss) per share - diluted:				
Continuing operations	\$(0.09)	\$ 0.17	\$(0.10)	\$ 0.28
Discontinued operations	\$0.16	\$ 0.08	\$0.16	\$ 0.37
Net income per share - diluted	\$0.07	\$ 0.25	\$0.06	\$ 0.65
Weighted-average shares outstanding:				
Basic	620	665	618	677
Diluted	620	671	618	683
Cash dividends declared per common share	\$0.075	\$ 0.15	\$0.225	\$ 0.45

Note: Net income per share amounts may not add due to rounding.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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SYMANTEC CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited, in millions)

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
Net income	\$ 46	\$ 170	\$ 37	\$ 443
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments:				
Translation adjustments	6	(11)	(16)	(33)
Reclassification adjustments for loss included in net income	—	—	—	1
Net foreign currency translation adjustments	6	(11)	(16)	(32)
Unrealized gain (loss) on available-for-sale securities	(2)	(2)	(3)	3
Other comprehensive income (loss), net of taxes	4	(13)	(19)	(29)
Comprehensive income	\$ 50	\$ 157	\$ 18	\$ 414

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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SYMANTEC CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited, in millions)

	Nine Months Ended	
	December 31, 2016	February 1, 2016
OPERATING ACTIVITIES:		
Net income	\$37	\$ 443
Income from discontinued operations, net of income taxes	(96)	(251)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) continuing operating activities:		
Depreciation and amortization	356	227
Stock-based compensation expense	231	118
Deferred income taxes	33	63
Excess income tax benefit from the exercise of stock options	(9)	(6)
Other	43	14
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	114	26
Accounts payable	(72)	61
Accrued compensation and benefits	(10)	(23)
Deferred revenue	(71)	(175)
Income taxes payable	(981)	(94)
Other assets	16	(39)
Other liabilities	(60)	(48)
Net cash provided by (used in) continuing operating activities	(469)	316
Net cash provided by (used in) discontinued operating activities	(104)	230
Net cash provided by (used in) operating activities	(573)	546
INVESTING ACTIVITIES:		
Purchases of property and equipment	(57)	(225)
Payments for acquisitions, net of cash acquired	(4,533)	(4)
Purchases of short-term investments	—	(377)
Proceeds from maturities of short-term investments	31	1,038
Proceeds from sales of short-term investments	—	299
Other	9	—
Net cash provided by (used in) continuing investing activities	(4,550)	731
Net cash used in discontinued investing activities	—	(57)
Net cash provided by (used in) investing activities	(4,550)	674
FINANCING ACTIVITIES:		
Repayments of debt and other obligations	(62)	(368)
Proceeds from issuance of debt, net of issuance costs	4,993	—
Net proceeds from sales of common stock under employee stock benefit plans	53	63
Excess income tax benefit from the exercise of stock options	9	6
Tax payments related to restricted stock units	(50)	(35)
Dividends and dividend equivalents paid	(173)	(312)
Repurchases of common stock	—	(868)
Proceeds from other financing	10	—
Net cash provided by (used in) continuing financing activities	4,780	(1,514)
Net cash used in discontinued financing activities	—	(17)

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Net cash provided by (used in) financing activities	4,780	(1,531)
Effect of exchange rate fluctuations on cash and cash equivalents	(65)	(51)
Change in cash and cash equivalents	(408)	(362)
Beginning cash and cash equivalents	5,983	2,874
Ending cash and cash equivalents	\$5,575	\$ 2,512
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net of refunds	\$1,044	\$ 199

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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SYMANTEC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Description of Business and Significant Accounting Policies

Business

Symantec Corporation (“Symantec,” “we,” “us,” “our,” and the “Company” refer to Symantec Corporation and all of its subsidiaries) is a global leader in cybersecurity.

On August 1, 2016 (the “close date”), we completed our acquisition of Blue Coat, Inc. (“Blue Coat”). Blue Coat’s results of operations have been included in our Condensed Consolidated Statements of Operations beginning August 1, 2016.

See Note 3 for more information on the Blue Coat acquisition.

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”) for interim financial information. In the opinion of management, the unaudited 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, results of operations, and cash flows for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 1, 2016. The results of operations for the three and nine months ended December 30, 2016 are not necessarily indicative of the results expected for the entire fiscal year.

We have a 52/53-week fiscal year ending on the Friday closest to March 31. Unless otherwise stated, references to three and nine month ended periods in this report relate to fiscal periods ended December 30, 2016 and January 1, 2016. The three and nine months ended December 30, 2016 and January 1, 2016 both consisted of 13 and 39 weeks, respectively. Our 2017 fiscal year consists of 52 weeks and ends on March 31, 2017.

Certain prior year period amounts have been reclassified to conform with the current fiscal year presentation.

There have been no material changes in our significant accounting policies as compared to those described in our Annual Report on Form 10-K for the fiscal year ended April 1, 2016, except as noted below.

Stock-based compensation

The acquisition of Blue Coat has significantly increased the number of outstanding Symantec stock options, unvested restricted stock units (“RSUs”) and unvested performance-based restricted stock units (“PRUs”). Stock-based compensation expense is measured at the grant date based on the fair value of the award and is generally recognized on a straight-line basis over the requisite service period, which is generally the vesting period of the respective award. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited. We estimate forfeitures based on historical experience. Our granted stock-based awards principally consist of RSUs. The fair value of each RSU and PRU that does not contain a market condition is equal to the market value of our common stock on the date of grant. The fair value of each PRU that contains a market condition is estimated using the Monte Carlo simulation option pricing model. The fair values of RSUs and PRUs are not discounted by the dividend yield because our RSUs and PRUs include dividend-equivalent rights. We use the Black-Scholes model to determine the fair value of stock options which incorporates various subjective variables, including our expected stock price volatility over the expected life of the options, actual and projected employee stock option exercise and forfeiture behaviors, risk-free interest rates, and expected dividends.

Recent accounting guidance not yet adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new authoritative guidance for revenue from contracts with customers. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration that the company expects to receive in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In March 2016, the FASB clarified implementation guidance on principal

versus agent considerations. In April 2016, the FASB issued guidance related to identifying performance obligations and licensing which reduces the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. As currently issued and amended, the new guidance will be effective for us in our first quarter of fiscal 2019. Early adoption is permitted for annual reporting periods beginning after December 15, 2016 but we do not intend to adopt the provisions of the new guidance early. We are currently evaluating the impact of the adoption of this guidance on our Consolidated Financial Statements.

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In January 2016, the FASB issued new authoritative guidance on financial instruments. The new guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The new guidance will be effective for us in our first quarter of fiscal 2019, with early adoption permitted under limited circumstances. Early adoption is permitted but we do not intend to adopt the provisions of the new guidance early. We are currently evaluating the impact of the adoption of this guidance on our Consolidated Financial Statements.

In February 2016, the FASB issued new guidance on lease accounting which will require lessees to recognize assets and liabilities on their balance sheet for the rights and obligations created by operating leases and will also require disclosures designed to give users of financial statements information on the amount, timing, and uncertainty of cash flows arising from leases. We do not expect that the adoption of the new guidance will have a material impact on our operating results. The new guidance will be effective for us in our first quarter of fiscal 2020. Early adoption is permitted but we do not plan to adopt the provisions of the new guidance early.

In March 2016, the FASB issued new guidance on accounting for employee stock-based compensation, which requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled, as well as revising guidance related to classification of awards as either equity or liabilities, accounting for forfeitures and classification of excess tax benefits on the statement of cash flows. We believe the most significant impacts of this standard will be increased volatility in our effective tax rate and a change in the classification of excess tax benefits on the Consolidated Statements of Cash Flows. The new guidance will be effective for us in our first quarter of fiscal 2018. Early adoption is permitted but we do not intend to adopt the provisions of the new guidance early.

In June 2016, the FASB issued new authoritative guidance on credit losses which changes the impairment model for most financial assets and certain other instruments. For trade receivables and other instruments, we will be required to use a new forward-looking “expected loss” model. Additionally, for available-for-sale debt securities with unrealized losses, we will measure credit losses in a manner similar to today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will be effective for us in our first quarter of fiscal 2021. We are currently evaluating the impact of the adoption of this guidance on our Consolidated Financial Statements.

In October 2016, the FASB issued new authoritative guidance that requires entities to immediately recognize the tax consequences of intercompany asset transfers, excluding inventory, at the transaction date, rather than deferring the tax consequences under current U.S. GAAP. The standard will be effective for us in our first quarter of fiscal 2019, and requires a modified retrospective transition method. We are currently evaluating the impact of the adoption of this guidance on our Consolidated Financial Statements and related disclosures.

Note 2. Fair Value Measurements

We account for certain assets at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than quoted prices included in Level 1 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value.

Assets measured and recorded at fair value on a recurring basis

Our cash equivalents consist primarily of money market funds with original maturities of three months or less at the time of purchase, and the carrying amount is a reasonable estimate of fair value. Our short-term investments consist of investment securities with original maturities greater than three months and marketable equity securities.

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The following table summarizes our assets measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	December 30, 2016			April 1, 2016		
	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Fair Value	Cash and Cash Equivalents	Short-Term Investments
	(In millions)					
Cash	\$ 1,239	\$ 1,239	\$ —	\$ 1,072	\$ 1,072	\$ —
Non-negotiable certificates of deposit	494	494	—	1	—	1
Level 1:						
Money market	1,293	1,293	—	2,905	2,905	—
U.S. government securities	305	305	—	335	310	25
Marketable equity securities	7	—	7	11	—	11
	1,605	1,598	7	3,251	3,215	36
Level 2:						
Corporate bonds	—	—	—	45	43	2
U.S. agency securities	744	744	—	526	523	3
Commercial paper	1,500	1,500	—	1,121	1,121	—
Negotiable certificates of deposit	—	—	—	9	9	—
	2,244	2,244	—	1,701	1,696	5
Total	\$ 5,582	\$ 5,575	\$ 7	\$ 6,025	\$ 5,983	\$ 42

There were no transfers between fair value measurements levels during the nine months ended December 30, 2016.

Fair value of debt

As of December 30, 2016 and April 1, 2016, the total fair value of our debt was \$7.2 billion and \$2.3 billion, respectively, based on Level 2 inputs.

Assets measured and recorded at fair value on a non-recurring basis

Our non-financial assets, which primarily consist of goodwill, other intangible assets, property and equipment and equity investments, are measured at fair value on a non-recurring basis, generally when there is a transaction involving those assets such as a purchase transaction, a business combination or if any indicators for impairment exist. On a periodic basis whenever events or changes in circumstances indicate their carrying value may not be fully recoverable, and at least annually for goodwill and indefinite-lived intangible assets, non-financial assets are assessed for impairment. If applicable, these non-financial assets are written-down to and recorded at fair value. No such events or changes occurred during the nine months ended December 30, 2016.

Note 3. Acquisition

On August 1, 2016, we acquired all of the outstanding common stock of Blue Coat, a provider of advanced web security solutions for global enterprises and governments. The addition of Blue Coat's suite of network and cloud security products to our innovative Enterprise Security product portfolio has enhanced our threat protection and information protection products while providing us with complementary products, such as advanced web and cloud security solutions, that address the network and cloud security needs of enterprises. This augmentation of our product portfolio, together with the integration of Blue Coat's large threat database with our global civilian cyber intelligence threat network, allows us to provide an integrated cyber defense platform, addressing both endpoint and network security, and offer differentiated security solutions. It also positions us well to introduce new cybersecurity solutions that address the ever-evolving threat landscape, the changes introduced by the shift to mobile and cloud along with the adoption of Internet of Things (IoT) devices. Our enhanced portfolio also positions us well to address the challenges created by regulatory and privacy concerns.

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The total consideration for the acquisition of Blue Coat was approximately \$4.67 billion, net of cash acquired, and consisted of the following:

	August 1, 2016 (In millions)
Cash and equity consideration for outstanding Blue Coat common shares and restricted stock awards	\$ 2,006
Cash consideration for outstanding Blue Coat debt	1,910
Issuance of Symantec 2.0% convertible debt to Bain Capital Funds (selling shareholder)	750
Fair value of vested assumed Blue Coat stock options	102
Cash consideration for acquiree acquisition-related expenses	51
Total consideration	4,819
Cash acquired	(146)
Net consideration transferred	\$ 4,673

The cash consideration for the retirement of Blue Coat debt included the repayment of the associated principal, accrued interest, premiums and other costs.

We funded a portion of the total purchase price through debt financing, including borrowings of an aggregate principal amount of \$2.8 billion under an amended and restated credit facility and a new term loan facility. On August 1, 2016, we also issued 2.0% Convertible Senior Notes due 2021 for an aggregate principal amount of \$1.25 billion, \$750 million of which was to a selling shareholder. See Note 5 for more information on these debt instruments.

Our preliminary allocation of the purchase price, based on the estimated fair values of the assets acquired and liabilities assumed on the close date, were as follows:

	August 1, 2016 (In millions)
Assets:	
Accounts receivable	\$ 125
Other current assets	65
Property and equipment	54
Intangible assets	1,608
Goodwill	4,086
Other long-term assets	9
Total assets acquired	5,947
Liabilities:	
Deferred revenue	144
Other current liabilities	111
Long-term deferred revenue	76
Long-term deferred tax liabilities	924
Other long-term obligations	19
Total liabilities assumed	1,274
Total purchase price	\$ 4,673

The allocation of the purchase price was based upon a preliminary valuation, and our estimates and assumptions are subject to refinement within the measurement period (up to one year from the close date). Adjustments to the purchase price allocation may require adjustments to goodwill prospectively. The primary areas of the preliminary purchase price allocation that are not yet finalized are certain tax matters, intangible assets, and identification of contingencies. The preliminary goodwill of \$4.1 billion arising from the acquisition is attributed to the expected synergies, including future cost efficiencies, and other benefits that are expected to be generated by combining Symantec and Blue Coat. Substantially all of the goodwill recognized is not expected to be deductible for tax purposes. See Note 4 for more

information on goodwill.

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Preliminary identified intangible assets and their respective useful lives were as follows:

	Fair Value (In millions)	Weighted-Average Estimated Useful Life
Customer relationships	\$ 844	7 years
Developed technology and patents	739	4.3 years
Finite-lived trade names	4	2 years
Product backlog	2	4 months
Total identified finite-lived intangible assets	1,589	
In-process research and development	19	N/A
Total identified intangible assets	\$ 1,608	

The fair value of in-process research and development was determined using the relief-from-royalty method. A key assumption of this method is a hypothetical technology licensing rate applied to forecasted revenue. The premise associated with this valuation method is that, in lieu of ownership of the asset, a market participant would be willing to pay a licensing fee for the use of that asset.

Impact on operating results

Our results of continuing operations for the three and nine months ended December 30, 2016 include \$160 million and \$248 million, respectively, of net revenues attributable to Blue Coat products beginning August 1, 2016. It is impracticable to determine the amounts of net income attributable to Blue Coat for the periods presented as we have been integrating Blue Coat with our ongoing operations. Net revenues and costs related to the Blue Coat products are included in our Enterprise Security segment results. Transaction costs of \$6 million and \$46 million, respectively, incurred by Symantec in connection with the Blue Coat acquisition are included in general and administrative expense in our Condensed Consolidated Statements of Operations for the three and nine months ended December 30, 2016. See Note 9 for more information on our segments.

Unaudited pro forma information

The unaudited pro forma financial results combine the historical results of Symantec and Blue Coat for the three and nine months ended December 30, 2016 and January 1, 2016. The results include the effects of pro forma adjustments as if Blue Coat were acquired at the beginning of our 2016 fiscal year. The pro forma results for the three and nine months ended December 30, 2016 and January 1, 2016 include adjustments for amortization of acquired intangible assets, stock-based compensation, commissions, interest on debt used to finance the acquisition, and acquisition-related transaction costs, as well as for the income tax effect of these pro forma adjustments.

The unaudited pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisition. These pro forma results are presented for informational purposes only and are not indicative of future operations or results that would have been achieved had the acquisition been completed as of the beginning of our 2016 fiscal year. The following table summarizes the pro forma financial information:

	Three Months Ended December 31, 2016		Nine Months Ended January 1, 2016	
	2016	2016	2016	2016
Net revenues	\$1,041	\$ 1,074	\$3,127	\$ 3,152
Net income (loss)	\$55	\$ 57	\$(64)	\$ 57

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Note 4. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by segment are as follows:

	Consumer Security (In millions)	Enterprise Security (In millions)	Total (In millions)
Net balance as of April 1, 2016	\$1,231	\$ 1,917	\$3,148
Acquisition of Blue Coat	—	4,086	4,086
Translation adjustments	(1)	(6)	(7)
Net balance as of December 30, 2016	\$1,230	\$ 5,997	\$7,227

See Note 3 for more information on the Blue Coat acquisition.

Intangible assets, net

	December 30, 2016			April 1, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Customer relationships	\$1,111	\$ (268)	\$ 843	\$406	\$ (320)	\$ 86
Developed technology	883	(175)	708	144	(84)	60
Finite-lived trade names	19	(5)	14	2	(2)	—
Patents	21	(19)	2	21	(18)	3
Total finite-lived intangible assets	2,034	(467)	1,567	573	(424)	149
Indefinite-lived trade names	281	—	281	294	—	294
In-process research and development	19	—	19	—	—	—
Total intangible assets	\$2,334	\$ (467)	\$ 1,867	\$867	\$ (424)	\$ 443

As a result of our acquisition of Blue Coat, we recorded \$1.6 billion of acquired intangible assets during the nine months ended December 30, 2016. See Note 3 for more information on the Blue Coat acquisition.

As of December 30, 2016, future amortization expense related to intangible assets that have finite lives is as follows by fiscal year:

	December 30, 2016 (In millions)
Remainder of 2017	\$ 90
2018	352
2019	325
2020	305
2021	193
Thereafter	302
Total future amortization expense	\$ 1,567

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Note 5. Debt

The following table summarizes components of our debt:

	December 30, 2016		April 1, 2016		
	Amount	Effective Interest Rate	Amount	Effective Interest Rate	
	(In millions, except percentages)				
2.75% Senior Notes due June 15, 2017	\$600	2.79	% \$600	2.79	%
Senior Term Loan A-1 due May 10, 2019	1,000	LIBOR plus ⁽¹⁾	—	—	%
Senior Term Loan A-2 due August 1, 2019	800	LIBOR plus ⁽¹⁾	—	—	%
Senior Term Loan A-3 due August 1, 2019	200	LIBOR plus ⁽¹⁾	—	—	%
4.2% Senior Notes due September 15, 2020	750	4.25	% 750	4.25	%
2.5% Convertible Senior Notes due April 1, 2021	500	3.76	% 500	3.76	%
Senior Term Loan A-5 due August 1, 2021	1,755	LIBOR plus ⁽¹⁾	—	—	%
2.0% Convertible Senior Notes due August 15, 2021	1,250	2.66	% —	—	%
3.95% Senior Notes due June 15, 2022	400	4.05	% 400	4.05	%
Total principal amount	7,255		2,250		
Less: Unamortized discount and issuance costs	(117)		(43)		
Total debt	7,138		2,207		
Less: Current portion	(780)		—		
Total long-term debt	\$6,358		\$2,207		

⁽¹⁾ The senior term facilities bear interest at a rate equal to the London Interbank Offered Rate (“LIBOR”) plus a margin based on the debt rating of our non-credit-enhanced, senior unsecured long-term debt.

The future maturities of debt by fiscal year are as follows as of December 30, 2016:

	December 30, 2016
	(In millions)
Remainder of 2017	\$ 45
2018	780
2019	180
2020	2,180
2021	1,430
Thereafter	2,640
Total future maturities of debt	\$ 7,255

Senior Term Facilities and Revolving Credit Facility

On May 10, 2016, we terminated our previous \$1.0 billion senior revolving credit facility and entered into a senior unsecured credit facility (the “Credit Agreement”). The Credit Agreement provided for a 5-year revolving credit facility in an amount up to \$1.0 billion (the “Revolving Credit Facility”), which is set to expire on May 10, 2021, and a 3-year term loan in an amount of \$1.0 billion (the “Senior Term Loan A-1”), which is set to expire on May 10, 2019. On August 1, 2016, in connection with the Blue Coat acquisition, we amended and restated the Credit Agreement (the “Amended and Restated Credit Agreement”) to provide for, among other things, an additional \$800 million 3-year term loan (the “Senior Term Loan A-2”) which is set to expire on August 1, 2019. See Note 3 for more information on the Blue Coat acquisition. Interest on any loans drawn under the Revolving Credit Facility as well as the Senior Term Loan A-1 and the Senior Term Loan A-2 are payable according to the terms of the Amended and Restated Credit Agreement. As of December 30, 2016, no amounts were outstanding under the Revolving Credit Facility. The loans under the Amended and Restated Credit Agreement are guaranteed by certain of Symantec’s material domestic subsidiaries.

On August 1, 2016, we entered into a Term Loan Agreement (the “Term Loan Agreement”) with a group of lenders that allows us to borrow an aggregate amount of \$2.0 billion, consisting of a \$1.8 billion 5-year term loan (the “Senior Term Loan A-5”), with a maturity date of August 1, 2021, and a \$200 million 3-year term loan (the “Senior Term Loan A-3”), with a maturity date of August 1, 2019. The Term Loan Agreement closed concurrently with the Blue Coat acquisition on August 1, 2016. Interest on borrowings under the Term Loan Agreement is payable according to the terms of the Term Loan Agreement.

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On October 3, 2016, the term loans under the Term Loan Agreement were assumed by a foreign subsidiary of Symantec and guaranteed by Symantec and certain of its material domestic and foreign subsidiaries. We utilized the proceeds of the Senior Term Loan A-2, Senior Term Loan A-3 and Senior Term Loan A-5 (collectively the “Acquisition Term Loans”), to pay a portion of the purchase price for the Blue Coat acquisition. Across each of the facilities which were either amended and restated, or entered into in connection with the close of the Blue Coat acquisition, we paid a total of \$52 million of issuance costs. The issuance costs are being amortized over the respective periods of the Acquisition Term Loans and Amended and Restated Credit Facility using the effective interest method. The Amended and Restated Credit Agreement and the Term Loan Agreement include a consolidated leverage ratio covenant. As of December 30, 2016, we were in compliance with all covenants in the indentures governing the credit facilities.

Convertible Senior Notes

On August 1, 2016, we issued 2.0% Convertible Senior Notes due August 15, 2021 (the “Notes”) for an aggregate principal amount of \$1.25 billion. An aggregate of \$750 million of the Notes were issued to Bain Capital Fund XI, L.P. and Bain Capital Europe Fund IV, L.P. (collectively with their affiliates, “Bain”) and \$500 million were issued to Silver Lake Partners IV Cayman (AIV II), L.P. The Notes were issued concurrently on the close date of the Blue Coat acquisition and the proceeds were used to pay a portion of the purchase price for Blue Coat. The fair value of the equity component of the Notes at their issuance date, using level 2 inputs, was \$39 million, and is included in additional paid-in capital on our Condensed Consolidated Balance Sheet as of December 30, 2016.

The Notes are convertible into cash, shares of our common stock or a combination of cash and common stock, at our option, at a conversion rate of 48.9860 per \$1,000 principal amount (which represents an initial conversion price of approximately \$20.41 per share), subject to customary anti-dilution adjustments. If holders of the Notes convert them in connection with a fundamental change, we may be required to provide a make-whole premium in the form of an increased conversion rate, subject to a maximum amount. As of December 30, 2016, the conversion price of the Notes remained approximately \$20.41 per share.

With certain exceptions, upon a change in control of Symantec, the holders of the Notes may require that we repurchase all or part of the principal amount of the Notes at a purchase price equal to the principal amount plus accrued and unpaid interest. The Notes are not redeemable by us. The indenture of the Notes includes customary events of default, which may result in the acceleration of the maturity dates of the Notes. In accordance with the provisions of the investment agreement with the holders of the Notes, dated June 12, 2016 and as amended on July 31, 2016, we appointed a designee of Bain to our Board of Directors (the “Board”) on August 1, 2016. Bain’s rights to Board representation will terminate under certain circumstances, including if Bain and its affiliates beneficially own less than 4% of all our outstanding common stock (on an as-converted basis). There are no financial covenants that would trigger an event of default under either of the Notes.

Note 6. Discontinued Operations

On January 29, 2016, we completed the sale of our former information management business (“Veritas”). The results of Veritas are presented as discontinued operations in our Condensed Consolidated Statements of Operations and thus have been excluded from continuing operations and segment results for all reported periods.

In connection with the divestiture, Symantec and Veritas entered into Transition Service Agreements (“TSA”) pursuant to which we provide Veritas certain limited services including financial support services, information technology services, and access to facilities, and Veritas provides us certain limited financial support services. The TSAs commenced with the close of the transaction and expire at various dates through fiscal 2019. During the nine months ended December 30, 2016, we recorded income of \$21 million for all services provided to Veritas, which is presented as part of other income (expense), net in the Condensed Consolidated Statements of Operations.

We also have retained various customer relationships and contracts that were reported historically as a part of the Veritas business. Approximately \$80 million related to these relationships and contracts have been reported as part of our deferred revenue in the Condensed Consolidated Balance Sheet as of December 30, 2016, along with a \$48 million asset representing the service and maintenance rights we have under an agreement with Veritas. These balances will be amortized to discontinued operations through the remaining term of the underlying contracts.

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The following table presents information regarding certain components of income from discontinued operations, net of income taxes:

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
	(In millions)			
Net revenues	\$22	\$ 570	\$145	\$ 1,749
Cost of revenues	(3)	(92)	(12)	(292)
Operating expenses	(2)	(377)	(26)	(1,135)
Gain on sale of Veritas	—	—	38	—
Other expense, net	—	8	—	2
Income from discontinued operations before income taxes	17	109	145	324
Income taxes expense (benefit)	(85)	53	49	73
Income from discontinued operations, net of income taxes	\$102	\$ 56	\$96	\$ 251

During the first quarter of fiscal 2017, we received an additional payment of \$38 million, which represented a purchase price adjustment for the sale of Veritas.

Note 7. Restructuring, Separation, Transition, and Other Costs

Our restructuring, separation, transition, and other costs and liabilities consist primarily of severance, facilities, separation, transition, and other related costs. Severance costs generally include severance payments, outplacement services, health insurance coverage, and legal costs. Facilities costs generally include rent expense and lease termination costs, less estimated sublease income. Separation and related costs include advisory, consulting and other costs incurred in connection with the separation of Veritas. Transition costs primarily consist of consulting charges associated with the implementation of new enterprise resource planning systems and costs to automate business processes. Other costs primarily consist of asset write-offs and advisory fees incurred in connection with restructuring events. Restructuring, separation, transition, and other costs are managed at the corporate level and are not allocated to our reportable segments. See Note 9 for information regarding the reconciliation of total segment operating income to total consolidated operating income (loss).

Fiscal 2017 Plan

We initiated a restructuring plan in the first quarter of fiscal 2017 to reduce complexity by means of long-term structural improvements (the “Fiscal 2017 Plan”). We expect to reduce headcount and close certain facilities in connection with the restructuring plan. We expect total costs incurred in connection with the Fiscal 2017 Plan to range between \$230 million and \$280 million, of which approximately \$90 million to \$100 million is expected to be for severance and termination benefits and \$90 million to \$130 million is expected to be for other exit and disposal costs primarily consisting of contract termination and relocation costs and advisory fees. The remainder is expected to be in the form of asset write-offs. These actions are expected to be completed in fiscal 2018. Additionally, we expect continuing significant transition costs associated with the implementation of a new enterprise resource planning system and costs to automate business processes. As of December 30, 2016, liabilities for excess facility obligations at several locations around the world are expected to be paid throughout the respective lease terms, the longest of which extends through fiscal 2023.

Fiscal 2015 Plan

In fiscal 2015, we initiated a restructuring plan primarily to align personnel with our plans to separate Veritas (the “Fiscal 2015 Plan”). These actions were substantially completed in the fourth quarter of fiscal 2016 with the sale of Veritas on January 29, 2016. See Note 6 for more information on the sale of Veritas.

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Restructuring, separation, transition, and other costs summary

	Three Months Ended December 30, 2016	Nine Months Ended December 30, 2016
	(In millions)	
Fiscal 2017 Plan:		
Severance and termination costs	\$ 19	\$ 57
Other exit and disposal costs	17	52
Asset write-offs	2	16
Fiscal 2017 Plan total	38	125
Fiscal 2015 Plan total	3	5
Transition and other related costs	26	71
Restructuring, separation, transition, and other from continuing operations	67	201
Restructuring, separation, transition, and other from discontinued operations	1	11
Total restructuring, separation, transition, and other	\$ 68	\$ 212

Restructuring and separation liabilities summary

	Balance as of April 1, 2016	Costs, Net of Adjustments	Cash Payments	Non-Cash Charges	Balance as of December 30, 2016	Cumulative Incurred to Date
	(In millions)					
Fiscal 2017 Plan:						
Severance and termination costs	\$—	\$ 57	\$ (42)	\$ —	\$ 15	\$ 57
Other exit and disposal costs	4	52	(38)	(1)	17	56
Asset write-offs	—	16	—	(16)	—	16
Fiscal 2017 Plan total	4	125	(80)	(17)	32	\$ 129
Fiscal 2015 Plan total	29	16	(34)	(5)	6	\$ 472
Restructuring and separation plans total	\$ 33	\$ 141	\$ (114)	\$ (22)	\$ 38	

As of December 30, 2016 and April 1, 2016, the restructuring and separation liabilities are included in accounts payable, other current liabilities and other long-term obligations in our Condensed Consolidated Balance Sheets.

Note 8. Commitments and Contingencies

LifeLock acquisition commitment

On November 20, 2016, we entered into a definitive agreement to acquire LifeLock, Inc. (“LifeLock”), for \$24.00 per share or approximately \$2.3 billion in enterprise value (the “Merger Agreement”). We plan to finance the acquisition with cash and a new debt financing of \$1.0 billion. The Merger Agreement has been unanimously approved by the Boards of Directors of both companies and the stockholders of LifeLock. In January 2017, the parties amended the Merger Agreement to waive all other conditions to the closing of the acquisition after January 31, 2017. As such, the acquisition is expected to close in the fourth quarter of fiscal 2017.

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us. In addition, our bylaws contain indemnification obligations to our directors, officers, employees and agents, and we have entered into indemnification agreements with our directors and certain of our officers to give such directors and officers

additional contractual assurances regarding the scope of the indemnification set forth in our bylaws and to provide additional procedural protections. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements might not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements and we have not accrued any liabilities related to such indemnification obligations in our Condensed Consolidated Financial Statements.

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In connection with the sale of Veritas, we assigned several leases to Veritas Technologies LLC or its related subsidiaries. As a condition to consenting to the assignments, certain lessors required us to agree to indemnify the lessor under the applicable lease with respect to certain matters, including, but not limited to, losses arising out of Veritas Technologies LLC or its related subsidiaries' breach of payment obligations under the terms of the lease. As with our other indemnification obligations discussed above and in general, it is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. As with our other indemnification obligations, such indemnification agreements might not be subject to maximum loss clauses and to date, generally under our real estate obligations, we have not incurred material costs as a result of such obligations under our leases and have not accrued any liabilities related to such indemnification obligations in our Condensed Consolidated Financial Statements.

We provide limited product warranties and the majority of our software license agreements contain provisions that indemnify licensees of our software from damages and costs resulting from claims alleging that our software infringes on the intellectual property rights of a third party. Historically, payments made under these provisions have been immaterial. We monitor the conditions that are subject to indemnification to identify if a loss has occurred.

Litigation contingencies

GSA

During the first quarter of fiscal 2013, we were advised by the Commercial Litigation Branch of the Department of Justice's ("DOJ") Civil Division and the Civil Division of the U.S. Attorney's Office for the District of Columbia that the government is investigating our compliance with certain provisions of our U.S. General Services Administration ("GSA") Multiple Award Schedule Contract No. GS-35F-0240T effective January 24, 2007, including provisions relating to pricing, country of origin, accessibility, and the disclosure of commercial sales practices.

As reported on the GSA's publicly-available database, our total sales under the GSA Schedule contract were approximately \$222 million from the period beginning January 2007 and ending September 2012. We have fully cooperated with the government throughout its investigation and in January 2014, representatives of the government indicated that their initial analysis of our actual damages exposure from direct government sales under the GSA schedule was approximately \$145 million; since the initial meeting, the government's analysis of our potential damages exposure relating to direct sales has increased. The government has also indicated they are going to pursue claims for certain sales to California, Florida, and New York as well as sales to the federal government through reseller GSA Schedule contracts, which could significantly increase our potential damages exposure.

In 2012, a sealed civil lawsuit was filed against Symantec related to compliance with the GSA Schedule contract and contracts with California, Florida, and New York. On July 18, 2014, the Court-imposed seal expired, and the government intervened in the lawsuit. On September 16, 2014, the states of California and Florida intervened in the lawsuit, and the state of New York notified the Court that it would not intervene. On October 3, 2014, the DOJ filed an amended complaint, which did not state a specific damages amount. On October 17, 2014, California and Florida combined their claims with those of the DOJ and the relator on behalf of New York in an Omnibus Complaint, and a First Amended Omnibus Complaint was filed on October 8, 2015; the state claims also do not state specific damages amounts.

It is possible that the litigation could lead to claims or findings of violations of the False Claims Act, and could be material to our results of operations and cash flows for any period. Resolution of False Claims Act investigations can ultimately result in the payment of somewhere between one and three times the actual damages proven by the government, plus civil penalties in some cases, depending upon a number of factors. Our current estimate of the low end of the range of the probable estimated loss from this matter is \$25 million, which we have accrued. This amount contemplates estimated losses from both the investigation of compliance with the terms of the GSA Schedule contract as well as possible violations of the False Claims Act. There is at least a reasonable possibility that a loss may have been incurred in excess of our accrual for this matter, however, we are currently unable to determine the high end of the range of estimated losses resulting from this matter.

EDS & NDI

On January 24, 2011, a class action lawsuit was filed against us and our previous e-commerce vendor Digital River, Inc.; the lawsuit alleged violations of California's Unfair Competition Law, the California Legal Remedies Act and unjust enrichment related to prior sales of Extended Download Service ("EDS") and Norton Download Insurance ("NDI"). On March 31, 2014, the U.S. District Court for the District of Minnesota certified a class of all people who purchased these products between January 24, 2005 and March 10, 2011. In August 2015, the parties executed a settlement agreement pursuant to which we would pay the plaintiffs \$30 million, which we accrued. On October 8, 2015, the Court granted preliminary approval of the settlement, which was subsequently paid into escrow by us. The Court granted final approval on April 22, 2016, and entered judgment in the case. Objectors to the settlement have appealed to the Eighth Circuit Court of Appeals, challenging the Court's approval of the settlement.

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Finjan

On August 28, 2013, Finjan, Inc. filed a complaint against Blue Coat Systems, Inc. in the U.S. District Court for the Northern District of California alleging that certain Blue Coat products infringe six of Finjan’s U.S. patents. On August 4, 2015, a jury returned a verdict that certain Blue Coat products infringe five of the Finjan patents-in-suit and awarded Finjan lump-sum damages of \$40 million. On November 20, 2015, the trial court entered a judgment in favor of Finjan on the jury verdict and certain non-jury legal issues. On July 28, 2016, in its ruling on post-trial motions the trial court denied Blue Coat’s motions seeking a new trial or judgment as a matter of law and denied Finjan’s request for enhanced damages and attorneys’ fees. In August 2016, we completed our acquisition of Blue Coat. We intend to vigorously contest the judgment and have filed an appeal with the Federal Circuit Court of Appeals. Our current best estimated loss and related interest with respect to the jury verdict is \$40 million, which was accrued by Blue Coat and assumed by us as a part of the acquisition of Blue Coat.

Other

We are involved in a number of other judicial and administrative proceedings that are incidental to our business. Although adverse decisions (or settlements) may occur in one or more of the cases, it is not possible to estimate the possible loss or losses from each of these cases. The final resolution of these lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our business, results of operations, financial condition or cash flows.

Note 9. Segment Information

We operate in the following two reporting segments, which are the same as our operating segments:

Consumer Security. Our Consumer Security segment focuses on providing a Digital Safety platform to protect information, devices, networks, and the identity of consumers. This platform includes our Norton-branded services, which provide multi-layer security and identity protection on major desktop and mobile operating systems, to defend against increasingly complex online threats to individuals, families and small businesses. With the proposed acquisition of LifeLock, a leader in identity protection services, we are accelerating our leadership in Consumer Security to protect all aspects of the consumer’s digital life.

Enterprise Security. Our Enterprise Security segment protects organizations so they can securely conduct business while leveraging new platforms and data. Our Enterprise Security segment includes our threat protection products, information protection products, cyber security services, website security, and advanced web and cloud security offerings. Our enterprise endpoint and network security and management offerings support evolving endpoints and networks, providing advanced threat protection while helping reduce cost and complexity. These solutions are delivered through various methods, such as software, appliance, SaaS and managed services.

Operating segments are based upon the nature of our business and how our business is managed. Our Chief Operating Decision Makers (“CODM”), comprised of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), use operating segment financial information to evaluate our performance and to assign resources. Despite the CODM changes during fiscal 2017, we did not change the way we report and evaluate segments.

There were no inter-segment sales for the periods presented. The following table summarizes the operating results of our reporting segments:

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	(In millions)			
Total Segments:				
Net revenues	\$1,041	\$ 909	\$2,904	\$ 2,727
Operating income	\$271	\$ 254	\$773	\$ 812
Consumer Security:				
Net revenues	\$397	\$ 414	\$1,205	\$ 1,264
Operating income	\$213	\$ 230	\$662	\$ 707
Enterprise Security:				

Net revenues	\$644	\$ 495	\$1,699	\$ 1,463
Operating income	\$58	\$ 24	\$111	\$ 105

We do not allocate to our operating segments certain operating expenses that we manage separately at the corporate level and are not used in evaluating the results of, or in allocating resources to, our segments. These unallocated expenses consist of stock-based compensation expense, amortization of intangible assets, restructuring, separation, transition and other charges, and

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acquisition and integration costs. In addition, corporate charges previously allocated to Veritas prior to its operational separation in the third quarter of fiscal 2016, but not reclassified within discontinued operations, were not reallocated to our segments. See Note 6 for more information on our discontinued operations.

The following table provides a reconciliation of our total reportable segments' operating income to our total operating income (loss):

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
	(In millions)			
Total segment operating income	\$271	\$ 254	\$ 773	\$ 812
Reconciling items:				
Unallocated corporate charges related to Veritas	—	—	—	186
Stock-based compensation	97	38	231	118
Amortization of intangible assets	94	20	183	63
Restructuring, separation, transition, and other	67	50	201	116
Acquisition and integration costs	29	—	80	—
Total operating income (loss)	\$(16)	\$ 146	\$ 78	\$ 329

Note 10. Stockholders' Equity

Dividends

The following table summarizes dividends declared and paid and dividend equivalents paid for the periods presented:

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
	(In millions, except per share data)			
Dividends declared and paid	\$46	\$ 98	\$139	\$ 303
Dividend equivalents paid	7	4	34	9
Total dividends and dividend equivalents paid	\$53	\$ 102	\$173	\$ 312
Cash dividends declared per common share	\$0.075	\$ 0.15	\$0.225	\$ 0.45

Our RSUs and PRUs are entitled to dividend equivalents to be paid in the form of cash upon vesting for each share of the underlying unit.

On February 1, 2017, we declared a cash dividend of \$0.075 per share of common stock to be paid on March 15, 2017, to all stockholders of record as of the close of business on February 20, 2017. All shares of common stock issued and outstanding, and unvested restricted stock and performance-based stock, as of the record date will be entitled to the dividend and dividend equivalents, respectively. Any future dividends and dividend equivalents will be subject to the approval of our Board.

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Stock repurchase program

On November 20, 2016, our Board approved an increase of \$510 million in authorized share repurchases to a total of \$1.3 billion. Up to \$500 million of the authorized repurchases may be completed on or prior to March 31, 2017. Our share repurchase authorization does not have an expiration date.

Accelerated stock repurchase agreement

In March 2016, we entered into an accelerated stock repurchase (“ASR”) agreement with financial institutions to repurchase an aggregate of \$1.0 billion of our common stock. During the fourth quarter of fiscal 2016, we made an upfront payment of \$1.0 billion to the financial institutions pursuant to the ASR agreement, and received and retired an initial delivery of 42.4 million shares of our common stock. In November 2016, we completed the repurchase and received an additional 6.5 million shares of our common stock. The total shares received and retired under the terms of the ASR agreement were approximately 48.9 million, with an average price paid per share of \$20.44.

Changes in accumulated other comprehensive income by component

Components of accumulated other comprehensive income, on a net of tax basis, were as follows:

	Foreign Currency Translation Adjustments (In millions)	Unrealized Gain on Available-For-Sale Securities	Total
Balance as of April 1, 2016	\$ 15	\$ 7	\$ 22
Other comprehensive loss before reclassifications	(16)	(3)	(19)
Balance as of December 30, 2016	\$(1)	\$ 4	\$ 3

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Note 11. Stock-Based Compensation

Stock-based compensation expense

The following table presents the stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations:

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
	(In millions)			
Cost of revenues	\$6	\$ 3	\$14	\$ 7
Sales and marketing	25	12	63	39
Research and development	25	14	64	41
General and administrative	41	9	90	31
Total stock-based compensation expense	97	38	231	118
Tax benefit associated with stock-based compensation expense	(34)	(14)	(74)	(37)
Net stock-based compensation expense from continuing operations	63	24	157	81
Net stock-based compensation expense from discontinued operations	—	12	—	49
Total net stock-based compensation expense	\$63	\$ 36	\$157	\$ 130

The following table summarizes additional information related to our stock-based compensation:

	Nine Months Ended December 31, 2016	
	2016	2016
	(In millions, except per grant data)	
Restricted stock units:		
Weighted-average fair value per grant	\$18.80	\$ 23.32
Awards granted and assumed in acquisition	14.2	13.7
Total fair value of awards vested	\$138	\$ 191
Total unrecognized compensation expense	\$257	\$ 389
Weighted-average remaining vesting period	2.0 years	2.1 years
Performance-based restricted stock units:		
Weighted-average fair value per grant	\$19.99	\$ 27.03
Awards granted and assumed in acquisition	5.0	0.9
Total fair value of awards released	\$13	\$ 6
Total unrecognized compensation expense	\$63	\$ 21
Weighted-average remaining vesting period	1.2 years	1.5 years
Stock options:		
Weighted-average exercise price of options assumed in acquisition	\$7.39	\$ —
Total intrinsic value of stock options exercised	\$57	\$ 3
Total unrecognized compensation expense	\$116	\$ —
Weighted-average remaining vesting period	1.6 years	—

Blue Coat acquisition

In connection with the Blue Coat acquisition, we assumed the outstanding equity awards under two of Blue Coat's equity incentive plans (the Blue Coat, Inc. 2016 Equity Incentive Plan and the Batman Holdings, Inc. 2015 Amended

and Restated Equity Incentive Plan (collectively, the “Plans”), including 7.5 million vested and 12.5 million unvested stock options, 4.8 million unvested RSUs, and 3.0 million unvested PRUs. The total fair value of options assumed was \$265 million and the total fair value of RSUs and PRUs assumed was \$162 million. Upon vesting, these assumed options will be exercisable into, and these assumed RSUs and PRUs will settle into shares of our common stock. The assumed RSUs and PRUs generally retained the terms and

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conditions under which they were originally granted. We will not grant additional options or shares under the Plans. Future equity awards by Symantec will be made under Symantec's 2013 Equity Incentive Plan, as amended. See Note 3 for more information on the Blue Coat acquisition.

Note 12. Income Taxes

The following table summarizes our effective tax rate for income (loss) from continuing operations for the periods presented:

	Three Months Ended December 31, 2016		Nine Months Ended December 31, 2016	
	2016	2016	2016	2016
	(In millions, except percentages)			
Income (loss) from continuing operations before income taxes	\$(61)	\$ 129	\$(14)	\$ 276
Income tax expense (benefit)	\$(5)	\$ 15	\$ 45	\$ 84
Effective tax rate	8 %	12 %	(32) %	30 %

Our effective tax rate for loss from continuing operations for the three months ended December 30, 2016 differs from the federal statutory income tax rate primarily due to the benefits of lower-taxed international earnings and the research and development credit, partially offset by various permanent differences. Our effective tax rate for loss from continuing operations for the nine months ended December 30, 2016 differs from the federal statutory income tax rate primarily due to the benefits of lower-taxed international earnings and the research and development credit, partially offset by various permanent differences and tax expense related to the loss of tax attributes due to restructuring activities as noted below. Additionally, as pre-tax income (loss) approaches break even, small changes can produce significant variability in the effective tax rate.

Our effective tax rate for income from continuing operations for the three and nine months ended January 1, 2016 differs from the federal statutory income tax rate primarily due to the benefits of lower-taxed international earnings, domestic manufacturing incentives and the research and development credit, partially offset by state income taxes.

For the three and nine months ended December 30, 2016, we recorded an income tax benefit of \$85 million and income tax expense of \$49 million on discontinued operations, respectively. For the three and nine months ended January 1, 2016, we recorded an income tax expense on discontinued operations of \$53 million and \$73 million, respectively. See Note 6 for further details regarding discontinued operations.

For the three and nine months ended December 30, 2016, our tax provision was reduced by tax benefits primarily resulting from settlements with certain taxing authorities and lapses of statutes of limitations of \$9 million and \$18 million, respectively. For the nine months ended December 30, 2016, our tax provision increased due to a deferred tax expense of \$52 million related to the loss of tax attributes as a result of restructuring activities.

For the nine months ended January 1, 2016, our tax provision was reduced by \$8 million in tax benefits related to certain foreign operations.

We are a U.S.-based multinational company subject to tax in multiple U.S. and international tax jurisdictions. A substantial portion of our international earnings were generated from subsidiaries organized in Ireland and Singapore. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Although potential resolution of uncertain tax positions involve multiple tax periods and jurisdictions, it is reasonably possible that the gross unrecognized tax benefits related to these audits could decrease, whether by payment, release, or a combination of both, in the next 12 months by \$6 million, which could reduce our income tax provision and therefore benefit the resulting effective tax rate.

We continue to monitor the progress of ongoing income tax controversies and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

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Note 13. Net Income Per Share

Basic and diluted net income per share are computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share also includes the incremental effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include the dilutive effect of the shares' underlying outstanding stock options, restricted stock, employee stock purchase plan and Convertible Senior Notes.

The components of net income per share are as follows:

	Three Months Ended		Nine Months Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions, except per share data)			
Income (loss) from continuing operations	\$ (56)	\$ 114	\$ (59)	\$ 192
Income from discontinued operations, net of income taxes	102	56	96	251
Net income	\$ 46	\$ 170	\$ 37	\$ 443
Income (loss) per share - basic:				
Continuing operations	\$ (0.09)	\$ 0.17	\$ (0.10)	\$ 0.28
Discontinued operations	\$ 0.16	\$ 0.08	\$ 0.16	\$ 0.37
Net income per share - basic	\$ 0.07	\$ 0.26	\$ 0.06	\$ 0.65
Income (loss) per share - diluted:				
Continuing operations	\$ (0.09)	\$ 0.17	\$ (0.10)	\$ 0.28
Discontinued operations	\$ 0.16	\$ 0.08	\$ 0.16	\$ 0.37
Net income per share - diluted	\$ 0.07	\$ 0.25	\$ 0.06	\$ 0.65
Weighted-average shares outstanding - basic	620	665	618	677
Dilutive potential shares	—	6	—	6
Weighted-average shares outstanding - diluted	620	671	618	683

Note: The total amounts may not add due to rounding.

The following convertible shares, stock options and RSUs have been excluded from the computation of diluted net income per share because their effect would have been anti-dilutive:

	As of	
	December 30, 2016	January 1, 2016
	(In millions)	
Convertible shares	91	—
Stock options	17	—
Restricted and performance-based restricted stock units	29	1
Undelivered accelerated stock repurchase shares	—	5
Total	137	6

Under the treasury stock method, the Convertible Senior Notes will generally have a dilutive impact on earnings when our average stock price for the period exceeds approximately \$16.77 per share for the 2.5% Convertible Senior Notes and \$20.41 per share for the 2.0% Convertible Senior Notes. During the three and nine months ended December 30, 2016, the conversion feature of both notes was anti-dilutive due to a loss from continuing operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-looking statements and factors that may affect future results

The discussion below contains forward-looking statements, which are subject to safe harbors under the Securities Act of 1933, as amended (the “Securities Act”) and the Exchange Act of 1934, as amended (the “Exchange Act”).
Forward-looking

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statements include references to our ability to utilize our deferred tax assets, as well as statements including words such as “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” and similar expressions. In addition, projections of our future financial performance, anticipated growth and trends in our businesses and in our industries, the anticipated impacts of acquisitions, and of our restructurings, our intent to pay quarterly cash dividends in the future, the actions we intend to take as part of our new strategy, the expected impact of our new strategy and other characterizations of future events or circumstances are forward-looking statements. These statements are only predictions, based on our current expectations about future events and may not prove to be accurate. We do not undertake any obligation to update these forward-looking statements to reflect events occurring or circumstances arising after the date of this report. These forward-looking statements involve risks and uncertainties, and our actual results, performance, or achievements could differ materially from those expressed or implied by the forward-looking statements on the basis of several factors, including those that we discuss in Risk Factors, set forth in Part I, Item 1A, of our annual report on Form 10-K for the fiscal year ended April 1, 2016 and in Part II Item 1A, of this quarterly report on Form 10-Q. We encourage you to read those sections carefully.

OVERVIEW**Our business**

Symantec Corporation is a global leader in cybersecurity. We operate our business on a global civilian cyber intelligence threat network and track a vast number of threats across the Internet from hundreds of millions of mobile devices, endpoints, and servers across the globe. We believe one of our competitive advantages is our database of threat indicators, which we have strengthened through our acquisition of Blue Coat, Inc. (“Blue Coat”). This database allows us to reduce the number of false positives and provide faster and better protection for customers through our products. We are leveraging our capabilities in threat protection and data loss prevention and extending them into our core endpoint and network security offerings. We are also pioneering solutions in growing markets like cloud, advanced threat protection, information protection and cyber security services.

On August 1, 2016 (the “close date”), we acquired all of the outstanding common stock of Blue Coat, a provider of advanced web security solutions for global enterprises and governments. The addition of Blue Coat’s suite of network and cloud security products to our innovative Enterprise Security product portfolio has enhanced our threat protection and information protection products while providing us with complementary products, such as advanced web and cloud security solutions, that address the network and cloud security needs of enterprises. This augmentation of our product portfolio, together with the integration of Blue Coat’s large threat database with our global civilian cyber intelligence threat network, allows us to provide an integrated cyber defense platform, addressing both endpoint and network security, and offer differentiated security solutions. It also positions us well to introduce new cybersecurity solutions that address the ever-evolving threat landscape, the changes introduced by the shift to mobile and cloud along with the adoption of Internet of Things (IoT) devices. Our enhanced portfolio also positions us well to address the challenges created by regulatory and privacy concerns. All information related to Blue Coat discussed in the financial results and trends, results of operations and liquidity and capital resources sections relates to the inclusion as of the close date.

On November 20, 2016, we announced that we entered into a definitive agreement to acquire LifeLock, Inc. (“LifeLock”), a provider of proactive identity theft protection services for consumers and consumer risk management services for enterprises, for approximately \$2.3 billion in cash. LifeLock’s services are provided on a monthly or annual subscription basis and primarily consist of identifying and notifying users of identity-related and other events and assisting users in remediating their impact. The addition of LifeLock’s identity and fraud protection offerings to our leading Consumer Security product portfolio will allow us to provide a comprehensive digital safety platform designed to protect information across devices, customer identities and the connected home and family. We intend to fund the purchase price through a combination of debt and existing cash on hand. LifeLock obtained stockholder approval of the transaction on January 26, 2017. The parties have amended the definitive acquisition agreement to waive all other conditions to the closing of the acquisition after January 31, 2017 and provide that the earliest that we are required to consummate the closing is February 9, 2017. We expect the acquisition to close in the fourth quarter of fiscal 2017.

Fiscal calendar

We have a 52/53-week fiscal year ending on the Friday closest to March 31. The three and nine months ended December 30, 2016 and January 1, 2016, both consisted of 13 and 39 weeks, respectively. Our 2017 fiscal year consists of 52 weeks and ends on March 31, 2017.

Strategy

Our strategy is to deliver an integrated cyber defense platform for enterprises and a consumer Digital Safety Platform to protect all aspects of the consumer's digital life.

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Divestiture of Veritas

On January 29, 2016, we sold our former information business (“Veritas”). The results of Veritas are presented as discontinued operations in our Condensed Consolidated Statements of Operations and thus have been excluded from continuing operations and segment results for all reported periods. The following discussion relates to our continuing operations unless stated otherwise.

Our operating segments

Our current operating segments are significant strategic segments that offer different products and services distinguished by customer needs. We operate in the following two reporting segments, which are the same as our operating segments:

Consumer Security. Our Consumer Security segment focuses on providing a Digital Safety platform to protect information, devices, networks, and the identity of consumers. This platform includes our Norton-branded services, which provide multi-layer security and identity protection on major desktop and mobile operating systems, to defend against increasingly complex online threats to individuals, families and small businesses. With the proposed acquisition of LifeLock, a leader in identity protection services, we are accelerating our leadership in Consumer Security to protect all aspects of the consumer’s digital life.

Enterprise Security. Our Enterprise Security segment protects organizations so they can securely conduct business while leveraging new platforms and data. Our Enterprise Security segment includes our threat protection products, information protection products, cyber security services, website security, and advanced web and cloud security offerings. Our enterprise endpoint and network security and management offerings support evolving endpoints and networks, providing advanced threat protection while helping reduce cost and complexity. These solutions are delivered through various methods, such as software, appliance, SaaS and managed services.

For further description of our operating segments see Note 9 of the Notes to Condensed Consolidated Financial Statements.

Financial results and trends

The following table provides an overview of key financial metrics for the periods indicated below:

	Three Months Ended		Nine Months Ended	
	December 30,	January 1,	December 30,	January 1,
	2016	2016	2016	2016
	(In millions, except percentages)			
Condensed Consolidated Statements of Operations data:				
Net revenues	\$1,041	\$ 909	\$2,904	\$ 2,727
Gross profit	\$806	\$ 759	\$2,310	\$ 2,259
Operating income (loss)	\$(16)	\$ 146	\$78	\$ 329
Operating margin percentage	(2)	% 16	% 3	% 12 %
Condensed Consolidated Statements of Cash Flows data:				
Net cash provided by (used in) continuing operating activities			\$(469)	\$ 316

Condensed Consolidated Statements of Cash Flows data:

Net cash provided by (used in) continuing operating activities

Net revenues for the three and nine months ended December 30, 2016 increased \$132 million and \$177 million, respectively, compared to the same periods last year. The increase was primarily due to net revenues from sales of acquired Blue Coat network protection products, partly offset by a decline in our consumer security revenue.

Our gross margin was 77% for the three months ended December 30, 2016 compared to 83% for the three months ended January 1, 2016. Our gross margin was 80% for the nine months ended December 30, 2016 compared to 83% for the nine months ended January 1, 2016. The decreases in our gross margin for the three and nine months ended December 30 2016, compared to the same periods last year, were primarily due to the impact of the assumed deferred revenue fair value write-down of \$47 million and \$83 million, increased amortization expense related to acquired intangible assets of \$44 million and \$74 million, and acquired inventory write-up related to the Blue Coat acquisition of \$13 million and \$24 million, in each case, respectively.

Operating loss for the three months ended December 30, 2016 was \$16 million compared to operating income of \$146 million for the same period last year. Operating income for the nine months ended December 30, 2016 was \$78 million compared to \$329 million for the same period last year. The changes were primarily due to increased expenses

as a result of the Blue Coat acquisition, including stock-based compensation expense from assumed equity awards, amortization of intangible

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assets and transaction and integration expenses. The operating income decrease for the nine months ended December 30, 2016, was partly offset by the absence of unallocated corporate charges in the nine months ended December 30, 2016, compared to \$186 million of unallocated corporate charges previously allocated to Veritas in the same period last year. See Note 9 of the Notes to Condensed Consolidated Financial Statements for more information about our unallocated corporate charges. We expect our operating margin to fluctuate in future periods as a result of a number of factors, including our operating results and the timing and amount of expenses incurred.

Net cash used in continuing operating activities was \$469 million for the nine months ended December 30, 2016, compared to net cash provided by continuing operating activities of \$316 million for the nine months ended January 1, 2016. This change was primarily due to an increase in the cash payments for taxes of \$845 million driven by the gain on sale from the divestiture of Veritas and a decrease in income from continuing operations adjusted for non-cash items of \$13 million. The increase in net cash used was partially offset by decreased payments for restructuring and separation liabilities of \$135 million.

Critical accounting policies and estimates

There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our Condensed Consolidated Financial Statements during the three and nine months ended December 30, 2016, as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended April 1, 2016, except as noted below.

Stock options

In connection with the Blue Coat acquisition, we assumed options to purchase common stock with a fair value of \$265 million. Determining the fair value of options requires judgment. We use the Black-Scholes model to determine the fair value of stock options. The determination of the fair value of options using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected life of the options, actual and projected employee stock option exercise and forfeiture behaviors, risk-free interest rates, and expected dividends. Because the options assumed in the Blue Coat acquisition were all at- or in-the-money and Blue Coat lacks sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term, we estimated the expected life of assumed options using the "simplified method". For vested options, this represents the midpoint between the valuation date and the contractual term. For unvested options, this represents the midpoint between the average vesting time and full contractual term. Expected volatility is based on the average of historical volatility over the most recent period commensurate with the expected life of the option and the implied volatility of traded options. The risk-free interest rate is equal to the U.S. Treasury constant maturity rates for the period equal to the expected life. The options assumed are without dividend-equivalents rights and their fair values are discounted by our dividend yield.

Recently issued authoritative accounting guidance

See Note 1 of the Notes to Condensed Consolidated Financial Statements for recently issued authoritative accounting guidance, including the expected dates of adoption and the effects on our results of operations and financial condition.

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RESULTS OF OPERATIONS

The following table sets forth certain Condensed Consolidated Statements of Operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	December 31, 2016	January 1, 2016	December 31, 2016	January 1, 2016
Net revenues	100 %	100 %	100 %	100 %
Cost of revenues	23 %	17 %	20 %	17 %
Gross profit	77 %	83 %	80 %	83 %
Operating expenses:				
Sales and marketing	36 %	34 %	35 %	36 %
Research and development	20 %	19 %	20 %	21 %
General and administrative	13 %	7 %	12 %	8 %
Amortization of intangible assets	4 %	1 %	3 %	2 %
Restructuring, separation, transition, and other	6 %	6 %	7 %	4 %
Total operating expenses	79 %	67 %	77 %	71 %
Operating income (loss)	(2) %	16 %	3 %	12 %
Non-operating expense, net	4 %	2 %	3 %	2 %

Note: The total percentages may not add due to rounding.

Net revenues and operating income by segment

	Three Months Ended			Nine Months Ended		
	December 31, 2016	January 1, 2016	Change	December 31, 2016	January 1, 2016	Change
(In millions, except percentages)						
Net revenues:						
Consumer Security	\$ 397	\$ 414	(4) %	\$ 1,205	\$ 1,264	(5) %
Enterprise Security	644	495	30 %	1,699	1,463	16 %
Total net revenues	\$ 1,041	\$ 909	15 %	\$ 2,904	\$ 2,727	6 %
Percentage of total net revenues:						
Consumer Security	38 %	46 %		41 %	46 %	
Enterprise Security	62 %	54 %		59 %	54 %	
Operating income:						
Consumer Security	\$ 213	\$ 230	(7) %	\$ 662	\$ 707	(6) %
Enterprise Security	\$ 58	\$ 24	142 %	\$ 111	\$ 105	6 %
Operating margin:						