

SYMANTEC CORP
Form 10-K
May 22, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

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

For the Fiscal Year Ended April 3, 2015

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

(I.R.S. employer

incorporation or organization)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share

The NASDAQ Stock Market LLC

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒

Aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of Symantec common stock on October 3, 2014 as reported on the NASDAQ Global Select Market: \$16,119,850,545.

Number of shares outstanding of the registrant's common stock as of May 1, 2015: 680,727,932

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III will be included in an amendment to this Form 10-K or incorporated by reference from the registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A.

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For the Fiscal Year Ended April 3, 2015

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“Symantec,” “we,” “us,” “our,” and “the Company” refer to Symantec Corporation and all of its subsidiaries. Symantec, the Symantec Logo, Norton, and Veritas are trademarks or registered trademarks of Symantec in the United States (“U.S.”) and other countries. Other names may be trademarks of their respective owners.

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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 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, statements that refer to our plans to distribute shares of our information management business to shareholders, projections of our future financial performance, anticipated growth and trends in our businesses and in our industries, the anticipated impacts of acquisitions, 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 under Item 1A, Risk Factors. We encourage you to read that section carefully.

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PART I

Item 1. Business

Overview

Symantec Corporation is a global leader in security, backup and availability solutions. Our market leading products and services protect people and information in any environment – from the mobile device in your pocket, to the enterprise data center, to cloud-based systems. Founded in April 1982, Symantec operates one of the largest global threat-intelligence networks. The company has more than 19,000 employees in more than 50 countries. Our Internet home page is www.symantec.com.

Strategy

In our security business, we operate 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 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 security offerings. We are also pioneering new solutions in growing markets like cloud, advanced threat protection, information protection and cyber security services.

Our security strategy is to leverage our unique assets to provide best-in-class consumer and enterprise security products; deliver a unified security analytics platform that provides big data analytics, utilizes our vast telemetry, provides visibility into real-time global threats, and powers Symantec and third-party security analytics applications; and offer cyber security services that provide a full-suite of services from monitoring to incident response to threat intelligence supported by over 500 cyber security experts and nine global threat centers.

In our information management business, with a global installed customer base, we have a comprehensive portfolio that spans backup and recovery, storage management and archiving. Our information availability offerings help customers keep their data and systems available where they need them, when they need them, and irrespective of their location. Our information insight solutions help customers know what data they have and leverage that knowledge to help manage such data better and inform strategic decisions.

Our information management product strategy is to expand our best-in-class foundational portfolio across backup, storage management, business continuity, archiving and eDiscovery through software, integrated appliances and the cloud; deliver next-generation availability solutions through a coordinated orchestration architecture focused on managing and moving mission-critical data in a hybrid cloud world; and enable next-generation insight solutions that provide visibility, action, and automated control across an organization's information landscape through an intelligent information fabric that integrates our portfolio and third-party ecosystems.

In fiscal 2015, we focused on five priorities: running our businesses with a portfolio approach by managing certain businesses for operating margin; prioritizing investments for growth; further reducing costs and improving efficiencies; attracting top talent to our executive team; and continuing to return significant cash to shareholders. We are optimizing some of our businesses by methodically evaluating every product line to balance our profitability targets against our objectives. In order to prioritize investments for growth, we are realigning our research and development budgets to apply the best resources to the most promising market opportunities. To further reduce costs and improve efficiencies, we are consolidating our global footprint, data centers and product support capabilities as well as streamlining the way we run our businesses with initiatives to increase research and development efficiencies and sales productivity. We are focused on continuing to attract talented business and technology leaders to the company. We remain committed to returning significant cash to shareholders in the form of dividends and share buybacks.

The Planned Separation of Information Management from the Security Business

On October 9, 2014, we announced plans to separate our business into two independent publicly-traded companies: one focused on security and one focused on information management. The transaction is intended to take the form of a tax-free distribution to Symantec shareholders of all of the capital stock of our information management business. We expect to complete the legal separation on January 2, 2016, subject to market, regulatory and certain other conditions. John Gannon has been appointed as General Manager of the information management business, and Don Rath has

been appointed as acting Chief Financial Officer. After the transaction, Michael Brown and Thomas Seifert will continue to lead Symantec as Chief Executive Officer and Chief Financial Officer, respectively. For additional separation cost information, see Note 6 of the Notes to Consolidated Financial Statements included in this annual report.

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Business Highlights

During fiscal 2015, we took the following actions in support of our business:

- We announced plans to separate our business into two independent publicly-traded companies: one focused on security and one focused on information management.

- We released new products and services.

In Information Management, we launched our NetBackup 5330 appliance, which delivers twice the performance and capacity of our prior models, making the management of information simpler and less expensive; and we released Backup Exec 2014, which delivers powerful, flexible, and easy-to-use backup and recovery to protect a customer's physical, virtual, or hybrid environment for a mixture of applications and operating systems.

In Consumer Security, we simplified our product portfolio by streamlining our core products into a single Norton Security offering.

In Enterprise Security, we launched our managed advanced threat protection service, which helps customers triangulate threat indicators from our endpoint protection and third-party security products to provide more comprehensive threat detection. We also introduced our managed incident response service, which provides emergency on-demand service to help customers recover from a breach. In addition, we introduced our managed adversary and threat intelligence service, which offers customers a deeper understanding of specific threat actors and attacks.

- We hired five new executives, who bring valuable skills in analytics, backup and recovery software, sales, security, strategy, and human resources.

We remained committed to a capital allocation strategy pursuant to which we expect to return over time approximately 50% of free cash flow to stockholders through a combination of dividends and share repurchases, while still enabling our company to invest in its future. As part of this program we paid quarterly cash dividends of \$0.15 per share of common stock in fiscal 2015, paying out a total of \$413 million to shareholders.

Our Board of Directors approved an additional \$1.0 billion stock repurchase program in February 2015. This program does not have an expiration date. During fiscal 2015, we repurchased 21 million shares of our common stock for an aggregate amount of \$500 million, and \$1.2 billion remains authorized for future repurchases.

Operating Segments and Products

Our operating segments are significant strategic business units that offer different products and services distinguished by customer needs. In the second quarter of fiscal 2015, we modified our segment reporting structure to match our new operating structure. The three reporting segments, which are the same as our operating segments, are: Consumer Security, Enterprise Security, and Information Management.

Consumer Security

Our Consumer Security segment focuses on making it simple for customers to be productive and protected at home and at work. Our Norton-branded services 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.

Our Norton products help customers protect against increasingly complex threats and address the need for identity protection, while also managing the rapid increase in mobile and digital data, such as personal financial records, photos, music, and videos.

Enterprise Security

Our Enterprise Security segment protects organizations so they can securely conduct business while leveraging new platforms and data. These products include Secure Socket Layer ("SSL") Certificates, authentication, mail and web security, data center security, data loss prevention, information security services, endpoint security and management, encryption, and mobile security offerings.

These products and services help our customers secure their confidential information wherever it resides in the network path, from the user's device to the data's resting place. In doing so, these products protect customer data from sophisticated threats such as advanced protection threats, malicious spam and phishing attacks, malware, drive-by website infections, hackers, and cyber criminals. In addition, these products help to prevent the loss of confidential data by insiders, and help customers achieve compliance with laws and regulations. Our enterprise endpoint security

and management offerings support the evolving endpoint, 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.

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Information Management

Our Information Management segment focuses on backup and recovery, archiving and eDiscovery, storage and high availability solutions, helping to ensure that our customers' IT infrastructure and mission-critical applications are protected, managed and available.

Our products enable customers to reduce cost and complexity as we improve the way information is managed through the ever-evolving cloud and virtualized environments. Our products are designed to ensure successful backup, recovery, availability, eDiscovery and archiving of information, applications, and systems for organizations ranging from small businesses to large enterprises.

Financial Information by Segment and Geographic Region

For information regarding our revenue by segment, revenue by geographical area, and property and equipment by geographical area, see Note 9 of the Notes to Consolidated Financial Statements in this annual report. For information regarding the amount and percentage of our revenue contributed by each of our segments and our financial information, including information about geographic areas in which we operate, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 of the Notes to Consolidated Financial Statements in this annual report. For information regarding risks associated with our international operations, see Item 1A, Risk Factors.

Sales and Go-To-Market Strategy

Our go-to-market ("GTM") network includes direct sales forces and broad eCommerce capabilities, as well as indirect sales resources that support our global partner ecosystem. We also maintain important relationships with a number of Original Equipment Manufacturers ("OEMs"), Internet Service Providers ("ISPs"), and retail and online stores by which we market and sell our products.

Our dedicated renewals team remains focused on extending customer relationships and renewing our contracts. We also continued to streamline our indirect sales strategy to have fewer, more focused partners with specialized partner programs to enhance sales. We believe these changes provide customers with a high-quality sales and post-sales support experience, while also enabling us to expand our business.

Consumer and Small Business

We sell our consumer products and services to individuals, households and small businesses globally. We bring these products to market through our eCommerce platform, distributors, direct marketers, Internet-based resellers, system builders, ISPs, wireless carriers, and retailers worldwide. We also have a limited number of partnerships with OEMs globally to distribute our Internet security and online backup offerings.

Commercial

We sell and market our products and related services to small, medium and large enterprise customers through field sales and inside sales leveraging indirect sales partners around the world who are specifically trained and certified to sell our solutions. These partners include national solution providers, regional solution providers, national account resellers, global/federal system integrators and managed service providers. Our products are also available on our eCommerce platform, as well as through authorized distributors and OEMs who incorporate our technologies into their products, bundle our products with their offerings, or serve as authorized resellers of our products.

Enterprise

We sell and market our products and related services to large enterprises, including government and public sector customers, through our field sales force. This field sales team is responsible for approximately 2,000 named accounts around the world, leveraging our global partner ecosystem primarily targeting senior executives and IT department personnel responsible for managing a company's highest-order IT initiatives.

Research and Development

Symantec embraces a global research and development ("R&D") strategy to drive organic innovation. Engineers and researchers throughout the Company pursue advanced projects to translate R&D into customer solutions by creating new technologies and integrating our unique set of technology assets. Symantec focuses on short, medium, and long-term applied research, develops new products in emerging areas, participates in government-funded research projects, drives industry standards, and partners with universities to conduct research supporting Symantec's strategy.

Symantec's Security Technology and Response organization consists of a global team of security engineers, threat analysts, and researchers and provides the underlying functionality, content, and support for many of our consumer, small business and enterprise security products. Our security experts monitor malicious code reports collected through the Global Intelligence Network, one of the largest in the world, to provide insight into emerging attacks, malicious code activity, phishing, spam, and other threats. The team uses this vast amount of data and insights to develop new technologies and approaches, such as

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Symantec's reputation-based security technology and our forthcoming unified security analytics platform, to protect customer information.

Research and development expenses were \$1,144 million, \$1,039 million, and \$1,026 million in fiscal 2015, 2014, and 2013, respectively, representing approximately 18% of revenue in fiscal 2015 and 16% and 15% of revenue in fiscal 2014 and 2013, respectively. The percentage fluctuates between periods as a result of a variety of factors, including changes in sales level and foreign currency exchange rates. We believe that technical leadership is essential to our success and we expect to continue to commit substantial resources to R&D.

Support

Symantec has support facilities throughout the world, staffed by technical product experts knowledgeable in the operating environments in which our products are deployed. Our technical support experts assist customers with issue resolution and threat detection.

We provide consumers with various levels of support offerings. Consumers receive automatic downloads of the latest virus definitions, application bug fixes, and patches for most of our consumer products. Our consumer support program provides self-help online services and phone, chat, and email support to consumers worldwide, and our Norton Security products come with a "Virus Protection Promise," which in some markets provides free virus removal services to customers whose protected computers become infected.

We provide customers various levels of enterprise support offerings. Our enterprise security support program offers annual maintenance support contracts, including content, upgrades, and technical support. Our standard technical support includes: self-service options delivered by telephone or electronically during the contracted-for hours, immediate patches for severe problems, periodic software updates, and access to our technical knowledge base and frequently asked questions.

Customers

In fiscal 2015, 2014 and 2013, there were no customers that accounted for more than 10% of our total net revenue.

Acquisitions

Our strategy will be complemented by business combinations that fit strategically and meet specific profitability hurdles. Our acquisitions are designed to enhance the features and functionality of our existing products and extend our product leadership in core markets. We consider time-to-market, synergies with existing products, and potential market share gains when evaluating the economics of acquisitions of technologies, product lines, or companies. We may acquire or dispose of other technologies, products, and companies in the future.

We did not make any material acquisitions during fiscal 2015.

Competition

Our markets are consolidating, highly competitive, and subject to rapid changes in technology. The competitive landscape has changed significantly over the past few years, with new competition arising. Much of the market growth has come from startups whose focus is on solving a specific customer issue or delivering a specific niche-oriented product and from larger integration providers that increasingly are looking to put various types of protection, whether it is backup, high availability or security, into their platforms. We are focused on delivering comprehensive customer solutions, integrating across our broad product portfolio and partnering with other technology providers to differentiate ourselves from the competition. We believe that the principal competitive factors necessary to be successful in our industry include product quality and effectiveness, time-to-market, price, reputation, financial stability, breadth of product offerings, customer support, brand recognition, and effective sales and marketing efforts. In addition to the competition we face from direct competitors, we face indirect or potential competition from retailers, application providers, operating system providers, network equipment manufacturers, and other OEMs who may provide various solutions and functions in their current and future products. We also compete for access to retail distribution channels and for spending at the retail level and in corporate accounts. In addition, we compete with other software companies, operating system providers, network equipment manufacturers, and other OEMs to acquire technologies, products, or companies and to publish software developed by third parties. We also compete with other software companies in our effort to place our products on the computer equipment sold to consumers and enterprises by OEMs.

The competitive environments for our security and information management products are described below.

Security

Most of the channels in which our security products are offered are highly competitive. Some of our consumer competitors are intensely focused on customer acquisition, which has led competitors to offer their technology for free, engage in aggressive marketing, or enter into competitive partnerships. Our primary security competitors are Intel Corporation, Microsoft Corporation (“Microsoft”), and Trend Micro Inc. There are also several freeware providers and regional security companies

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that we compete against. For our consumer backup offerings, our primary competitors are Carbonite, Inc. and EMC Corporation ("EMC"). In the SSL market, our primary competitors are Comodo Group, Inc. and GoDaddy.com, Inc. In the Software-as-a-Service ("SaaS") security market, our primary competitors are Google Inc. and Microsoft. Our primary competitors in the managed security services business are Dell Inc., IBM Corporation ("IBM"), and Hewlett-Packard Company ("HP").

Information Management

The markets for storage management, backup, archiving, and eDiscovery are intensely competitive. Our primary competitors are CommVault Systems, Inc., EMC, HP and IBM.

Intellectual Property

Protective Measures

We regard some of the features of our internal operations, software, and documentation as proprietary and rely on copyright, patent, trademark and trade secret laws, confidentiality procedures, contractual arrangements, and other measures to protect our proprietary information. Our intellectual property is an important and valuable asset that enables us to gain recognition for our products, services, and technology and enhance our competitive position. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors, and corporate partners and we enter into license agreements with respect to our software, documentation, and other proprietary information. These license agreements are generally non-transferable and have either a perpetual or subscription based time limited term. We also educate our employees on trade secret protection and employ measures to protect our facilities, equipment, and networks.

Trademarks, Patents, Copyrights, and Licenses

Symantec and the Symantec logo are trademarks or registered trademarks in the U.S. and other countries. In addition to Symantec and the Symantec logo, we have used, registered, or applied to register other specific trademarks and service marks to help distinguish our products, technologies, and services from those of our competitors in the U.S. and foreign countries and jurisdictions. We enforce our trademark, service mark, and trade name rights in the U.S. and abroad. The duration of our trademark registrations varies from country to country, and in the U.S. we generally are able to maintain our trademark rights and renew any trademark registrations for as long as the trademarks are in use.

We have more than 2,700 patents, in addition to foreign patents and pending U.S. and foreign patent applications, which relate to various aspects of our products and technology. The duration of our patents is determined by the laws of the country of issuance and for the U.S. is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application resulting in the patent, which we believe is adequate relative to the expected lives of our products.

Our products are protected under U.S. and international copyright laws and laws related to the protection of intellectual property and proprietary information. We take measures to label such products with the appropriate proprietary rights notices, and we actively enforce such rights in the U.S. and abroad. However, these measures may not provide sufficient protection, and our intellectual property rights may be challenged. In addition, we license some intellectual property from third parties for use in our products, and generally must rely on the third party to protect the licensed intellectual property rights. While we believe that our ability to maintain and protect our intellectual property rights is important to our success, we also believe that our business as a whole is not materially dependent on any particular patent, trademark, license, or other intellectual property right.

Seasonality

As is typical for many large technology companies, our business is seasonal. License and maintenance orders are generally higher in our third and fourth fiscal quarters and lower in our first and second fiscal quarters. A decline in license and maintenance orders is typical in the first quarter of our fiscal year as compared to license and maintenance orders in the fourth quarter of the prior fiscal year. In addition, we generally receive a higher volume of license and maintenance orders in the last month of a quarter, with orders concentrated in the latter part of that month. We believe that this seasonality primarily reflects customer spending patterns and budget cycles, as well as the impact of compensation incentive plans for our sales personnel. Revenue generally reflects similar seasonal patterns but to a lesser extent than orders because revenue is not recognized until an order is shipped or services are performed and

other revenue recognition criteria are met, and because a significant portion of our in-period revenue comes from our deferred revenue balance.

Employees

As of April 3, 2015, we employed more than 19,000 people worldwide, approximately 44% of whom reside in the U.S. Approximately 6,100 employees work in sales and marketing, 6,700 in research and development, 4,900 in support and services, and 1,900 in management, manufacturing, and administration.

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Available Information

Our Internet address is www.symantec.com. We make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission (“SEC”) on our investor relations website located at www.symantec.com/invest. The information contained, or referred to, on our website is not part of this annual report unless expressly noted. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings at <http://www.sec.gov>. In addition, you may read and copy any filing that we make with the SEC at the public reference room maintained by the SEC, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room.

Item 1A. Risk Factors

A description of the risk factors associated with our business is set forth below. The list is not exhaustive and you should carefully consider these risks and uncertainties before investing in our common stock.

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

For the last few years, we have experienced a number of transitions as we have attempted to revitalize our business model, improve execution, and innovate new products and services. These transitions have involved significant turnover in management and other key personnel, changes in our strategic direction and, more recently, our decision to separate into two independent publicly-traded companies. Transitions of the order we have experienced or are experiencing can be disruptive and result in loss of institutional focus and employee morale, making execution of business strategies more difficult. We are also in the process of seeking to address the challenges of dynamic and accelerating market trends, such as the decline in the PC market, the market shift towards tablets within mobility and architectural shifts in the provision of security and storage solutions, all of which has made it more difficult for us to compete effectively and requires us to improve our product and service offerings. We may experience delays in the anticipated timing of activities related to our efforts to address these challenges and higher than expected or unanticipated execution costs. In addition, we are vulnerable to increased risks associated with these efforts given our multiple business units, the proposed separation and the broad range of geographic regions in which we and our customers and partners operate. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

We are pursuing a plan to separate our information management business into a new, independent publicly-traded company. The proposed separation may not be completed on the currently contemplated timeline or at all and, if completed, may not achieve the intended benefits.

In October 2014, we announced a plan to separate into two independent publicly-traded companies through a tax-free distribution to Symantec stockholders of 100% of the capital stock of our information management business (the “spin-off”). We could be delayed or prevented from completing the proposed separation, or be forced to complete it on terms or conditions that are less favorable and/or different than expected, for a variety of reasons, including unanticipated developments, such as delays in obtaining regulatory approvals or clearances, uncertainty of the financial markets. Furthermore, any significant delays or complications in our implementation of a new enterprise resource management system and IT infrastructure for our stand-alone information management business would adversely affect our ability to effect the separation in a timely manner and could result in significant business disruption, increased costs, or both. In addition, if other opportunities were to arise for the disposition of the information business that we believe are superior to the spin-off, we may elect not to complete the spin-off. Even if the transaction is completed, we may not realize some or all of the anticipated benefits from the proposed separation. Moreover, following the proposed separation, the combined value of the common stock of the two publicly-traded companies may not be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred. In addition, we expect to spend substantial time, money and effort on completing the proposed separation without any assurance that it will be completed. Our investments in terms of financial and management resources may be significantly higher than expected, which could limit our ability to pursue other

business opportunities and distract us from operating our businesses as currently conducted. Our focus on completing the separation, and resource constraints resulting from that focus, could also adversely affect the execution of our business strategy.

If we are unable to attract and retain qualified employees, lose key personnel, fail to integrate replacement personnel successfully, or fail to manage our employee base effectively, we may be unable to develop new and enhanced products and services, effectively manage or expand our business, or increase our revenues.

Our future success depends upon our ability to recruit and retain key management, technical, sales, marketing, finance, and other personnel. Our officers and other key personnel are employees-at-will, and we cannot assure you that we will be able to retain them. Competition for people with the specific skills that we require is significant, and we face difficulties in attracting,

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retaining and motivating employees as a result. These difficulties may increase during the pendency of the proposed separation and following its completion. In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash and equity-based compensation. The volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. In addition, we may be unable to obtain required stockholder approvals of future increases in the number of shares available for issuance under our equity compensation plans, and accounting rules require us to treat the issuance of equity-based compensation as compensation expense. As a result, we may decide to issue fewer equity-based incentives and may be impaired in our efforts to attract and retain necessary personnel. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. From time to time, key personnel leave our company and the incidence of this increased in recent periods due to the transitions we have experienced over the last few years. While we strive to reduce the negative impact of such changes, the loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, and our results of operations. In addition, hiring, training, and successfully integrating replacement sales and other personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenues. These risks may be exacerbated by the uncertainty associated with the transitions we have experienced over the last few years, including the proposed separation.

Fluctuations in demand for our products and services are driven by many factors, and a decrease in demand for our products could adversely affect our financial results.

We are subject to fluctuations in demand for our products and services due to a variety of factors, including general economic conditions, competition, product obsolescence, technological change, shifts in buying patterns, financial difficulties and budget constraints of our current and potential customers, awareness of security threats to IT systems, and other factors. While such factors may, in some periods, increase product sales, fluctuations in demand can also negatively impact our product sales. If demand for our products and solutions declines, whether due to general economic conditions or a shift in buying patterns, our revenues and margins would likely be adversely affected. If we are unable to develop new and enhanced products and services that achieve widespread market acceptance, or if we are unable to continually improve the performance, features, and reliability of our existing products and services or adapt our business model to keep pace with industry trends, our business and operating results could be adversely affected.

Our future success depends on our ability to respond to the rapidly changing needs of our customers by developing or introducing new products, product upgrades, and services on a timely basis. We have in the past incurred, and will continue to incur, significant research and development expenses as we strive to remain competitive. Additionally, we are in the process of addressing the challenges of dynamic and accelerating market trends, such as the emergence of advanced persistent threats in the security space, the decline in the PC market, and the market shift towards tablets and handheld devices, all of which have made it more difficult for us to compete effectively. Customers may require features and capabilities that our current solutions do not have. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and to create or increase demand for our solutions, and may adversely impact our operating results. New product development and introduction involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- Managing the length of the development cycle for new products and product enhancements, which has frequently been longer than we originally expected;
- Adapting to emerging and evolving industry standards and to technological developments by our competitors and customers;
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Extending the operation of our products and services to new and evolving platforms, operating systems and hardware products, such as mobile devices;

Entering into new or unproven markets with which we have limited experience;

Managing new product and service strategies for the markets in which we operate;

Addressing trade compliance issues affecting our ability to ship our products;

Developing or expanding efficient sales channels; and

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Obtaining sufficient licenses to technology and technical access from operating system software vendors on reasonable terms to enable the development and deployment of interoperable products, including source code licenses for certain products with deep technical integration into operating systems.

If we are not successful in managing these risks and challenges, or if our new products, product upgrades and services are not technologically competitive or do not achieve market acceptance, our business and operating results could be adversely affected. We may also experience increased difficulties in managing these risks and challenges during the pendency of the separation and following its completion.

We operate in a highly competitive environment, and our competitors may gain market share in the markets for our products that could adversely affect our business and cause our revenues to decline.

We operate in intensely competitive markets that experience rapid technological developments, changes in industry standards, changes in customer requirements, and frequent new product introductions and improvements. If we are unable to anticipate or react to these competitive challenges or if existing or new competitors gain market share in any of our markets, our competitive position could weaken and we could experience a decline in our sales that could adversely affect our business and operating results. To compete successfully, we must maintain an innovative research and development effort to develop new products and services and enhance existing products and services, effectively adapt to changes in the technology or product rights held by our competitors, appropriately respond to competitive strategies, and effectively adapt to technological changes and changes in the ways that our information is accessed, used, and stored within our enterprise and consumer markets. If we are unsuccessful in responding to our competitors or to changing technological and customer demands, our competitive position and our financial results could be adversely affected.

Our competitors include software vendors that offer software products that directly compete with our product offerings. In addition to competing with these vendors directly for sales to end-users of our products, we compete with them for the opportunity to have our products bundled with the product offerings of our strategic partners such as computer hardware OEMs and ISPs. Our competitors could gain market share from us if any of these strategic partners replace our products with the products of our competitors or if these partners more actively promote our competitors' products than our products. In addition, software vendors who have bundled our products with theirs may choose to bundle their software with their own or other vendors' software or may limit our access to standard product interfaces and inhibit our ability to develop products for their platform. In the future, further product development by these vendors could cause our software applications and services to become redundant, which could significantly impact our sales and financial results.

We face growing competition from network equipment, computer hardware manufacturers, large operating system providers and other technology companies. These firms are increasingly developing and incorporating into their products data protection and storage and server management software that competes at some levels with our product offerings. Our competitive position could be adversely affected to the extent that our customers perceive the functionality incorporated into these products as replacing the need for our products.

Security protection is also offered by some of our competitors at prices lower than our prices or, in some cases is offered free of charge. Some companies offer the lower-priced or free security products within their computer hardware or software products that we believe are inferior to our products and SaaS offerings. Our competitive position could be adversely affected to the extent that our customers perceive these security products as replacing the need for more effective, full featured products and services such as those that we provide. The expansion of these competitive trends could have a significant negative impact on our sales and financial results by causing, among other things, price reductions of our products, reduced profitability and loss of market share.

Many of our competitors have greater financial, technical, sales, marketing, or other resources than we do and consequently may have the ability to influence customers to purchase their products instead of ours. Further consolidation within our industry or other changes in the competitive environment, such as Intel Corporation's acquisition of McAfee, could result in larger competitors that compete with us on several levels. We also face competition from many smaller companies that specialize in particular segments of the markets in which we compete. If the separation, together with certain related transactions, is determined to be taxable for U.S. federal income tax purposes, we, our stockholders that are subject to U.S. federal income tax and/or the independent information

management business could incur significant income tax liabilities.

Receipt of opinions from outside tax counsel and from a national accounting firm (together, the “tax opinions”) substantially to the effect that, for U.S. federal income tax purposes, the proposed separation and certain related internal transactions (collectively the "separation") will qualify under Sections 355 and 368 of the Internal Revenue Code (the “Code”), will be a condition to the completion of the separation. In addition, we will seek a private letter ruling from the IRS to the effect that, among other things, certain aspects of the spin-off and certain other related transactions will not disqualify the spin-off or the related transactions from receiving the generally tax-free treatment that we are anticipating for U.S. federal income tax purposes under the same Code sections. The tax opinions and private letter ruling will rely on certain facts, assumptions,

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representations and undertakings, including those regarding the past and future conduct of certain of our businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, we and our stockholders may not be able to rely on the tax opinions and could be subject to significant tax liabilities. Notwithstanding the tax opinions and private letter ruling, the IRS could determine on audit that the separation and certain other related transactions are taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the tax opinions, or for other reasons. The tax opinions will not be binding on the IRS or the courts. Accordingly, the IRS or the courts may challenge the conclusions stated in the tax opinions and such challenge could prevail.

If the separation is determined to be taxable for U.S. federal income tax purposes, we and those of our stockholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities. For example, if the spin-off fails to qualify for tax-free treatment, the transactions would, for U.S. federal income tax purposes, be treated as if the stock of the information management business was sold in a taxable sale for its fair market value, and our stockholders who are subject to U.S. federal income tax would be treated as receiving a taxable distribution in an amount equal to the fair market value of the stock received in the spin-off. Additionally, the parties and their respective affiliates could incur significant U.S. and foreign income tax liabilities if it is ultimately determined that certain related internal transactions undertaken in connection with the separation are taxable.

The parties might not be able to engage in desirable strategic transactions and equity issuances following the separation because of restrictions relating to U.S. federal income tax requirements for tax-free distributions.