



Symantec Faces \$1 Billion in Additional Taxes From Transfer Pricing Adjustments

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Symantec Corporation announced on April 17 that the Internal Revenue Service is seeking over \$1 billion in proposed back taxes, excluding penalties and interest. An audit of the 2000 and 2001 fiscal years of VERITAS Software Corporation, a wholly owned subsidiary of Symantec, resulted in additional taxes of \$900 million, while an unrelated audit of Symantec for fiscal years 2003 and 2004 added another \$100 million.

The additional taxes from the VERITAS audit primarily relate to transfer pricing in connection with a technology license agreement between VERITAS and a foreign subsidiary. The proposed adjustments in the Symantec audit relate to transfer pricing matters between Symantec and a foreign subsidiary.

In general, the Symantec case underscores the importance of conducting transfer pricing due diligence prior to any merger or acquisition transaction. A transfer pricing due diligence review serves not only to reveal and quantify contingent liabilities, but can also help identify ways to maximize overall returns to the combined company if the deal proceeds.

Failure to identify and take into account transfer pricing risk during the due diligence process can prove costly, as the Symantec case demonstrates. A well conducted due diligence process, in conjunction with legal and financial reviews, has the potential to expose hidden liabilities and help to foster a successful merger or acquisition investment.

Symantec plans to file a petition with the Tax Court to protest both assessments. If Symantec does not prevail in litigation and is required to pay an amount in excess of its provision for this matter, the

incremental amounts due will be treated as additions to the VERITAS purchase price.

VERITAS was recently acquired by Symantec in July 2005 for approximately \$13 billion. The purchase price of \$13 billion included Symantec common stock valued at \$12 billion, assumed stock options and restricted stock units with a fair value of \$699 million. Also included in the purchase price were acquisition related costs of \$40 million consisting of \$32 million in accounting, legal, and other professional fees and \$8 million of restructuring costs for severance, associated benefits, outplacement services, and excess facilities.

At the time, Symantec felt that the VERITAS acquisition would allow the combined company to more effectively provide enterprise customers with solutions to secure and manage information, optimize performance, and recover from disruptions when they occur. However, according to a recent article by Standard & Poor's Equity Research Analyst Gary McDaniel, the market "continue[s] to question the strategic rationale of the VERITAS acquisition and believe[s] its integration continues to constitute a managerial distraction." McDaniel also states that the total tax bill from the assessment could cost Symantec 97 cents per share.¹

¹ Tomassi, Kate Dubose. "Symantec Socked With \$1 Billion Tax Bill -- Hold or Buy?". April 18, 2006. Retrieved from the Forbes web site on April 18, 2006 at: <http://www.forbes.com/markets/bonds/2006/04/18/symantec-0418markets08.html>.